



*1986
Annual
Report*

*The Many
Faces of
Service*



Mutual Service Insurance Companies

Highlights



Lunchtime nature walk behind MSI corporate offices, Arden Hills, Minnesota.

1986 Financial Summary

Assets	\$592,784,000
Surplus	71,721,000
Premium	205,120,000
Net Investment Income	50,415,000
Gain from Operations before Federal Income Tax	20,018,000
Life Insurance in Force	2,559,124,000

Corporate Description

MSI Insurance is a group of four insurance companies: Mutual Service Life, Mutual Service Casualty, Modern Service and MSI Insurance.

One or more of the companies is licensed in 42 states and the District of Columbia. Insurance and financial services are provided by approximately 1,500 agents, brokers and business sales representatives.

*Message to
Policyowners*



Gordon E. Lindquist

1986 was a good year for all the companies included in the MSI Insurance group.

Combined income from premium and investments was \$256 million, yielding an operating gain of more than \$20 million. After taxes and miscellaneous adjustments, we were able to strengthen our policyowner surplus by \$14.7 million.

Most noteworthy, 1986 represented a major change in the fortunes of Mutual Service Casualty. After several years of heavy underwriting losses, claims dropped dramatically, and was the major reason results improved. Corrective steps taken over the last several years produced much improved loss ratios which were sustained throughout the

year. The lack of summer storms and a relatively mild winter in much of our operating area also helped significantly. Our plan to contain premium growth was also achieved. In addition, we made great progress in restructuring our investment portfolio, reducing the amount invested in low-yielding tax exempt bonds from 61 percent of our portfolio to less than 40 percent. This improved the quality of our investments and also increased the yield. With the improved results, we were able to strengthen our claims reserves and accelerate the amortization of expenses.

Modern Service Insurance, our special risk casualty company, had excellent earnings. However, the company's

growth was less than planned, paralleling our premium in Mutual Service Casualty.

Mutual Service Life had another record earnings year in each of the three business units. Growth was below goal for different reasons in each unit. The curtailment of sales activity in Mutual Service Casualty depressed individual life sales. In the Group Life and Health unit, our revised marketing strategy was not fully implemented until mid-year. Additionally, intense competition in the marketplace slowed our growth. In our Pension unit, the decline in interest rates slowed investment contract sales. During the latter part of the year, sales activity in both Group Life and Health and Pension improved significantly,

and the benefit will be realized in 1987.

In addition to excellent earnings during 1986, the year saw progress that will contribute substantially to the future of MSI.

Our corporate strategic plan was updated and our long-term financial goals were reviewed and revised. A significant change was raising our surplus ratio goal to 65-75 percent of net written premium in Mutual Service Casualty. Increased exposures and "long tail" liability risks require greater surplus protection provided by a higher ratio. We made significant progress moving toward this goal in 1986, increasing our ratio to nearly 47 percent.

A number of programs were implemented that are designed to strengthen the delivery of excellent service to our customers. The casualty companies were organized around three major customer groups: farm supply cooperatives, agents in Minnesota and the Dakotas, and agents in Wisconsin, California and the other states. Service standards were revised. Incoming WATS lines were installed in several high service units to enable us to respond quickly to the needs of our customers.

Expense control received a great deal of attention in all our companies. Modern technology has enabled us to extend laser printing of policies to more of our product lines. Work Effectiveness, a program designed to improve efficiency and reduce expenses has been extended to our entire organization.

To improve the quality of our business, underwriting

standards were revised in all our Casualty Company operations. More selective underwriting will enable us to be more competitive for policyowners who represent good risks.

We continued to have strong sales to the cooperative market, which resulted in another record year. A patron program was introduced in Minnesota and Wisconsin via selected local MSI agents marketing life and health coverage to patrons of local cooperatives.

In an effort to strengthen our individual life and health sales, we launched a new venture offering our individual life and health products through selected brokers in markets outside areas where exclusive MSI agents are located. Licensing and contracting of these agents began late in 1986 and we expect this to be an important source of new business for us.

First Fund Administrators, a third party administration firm, was acquired as a wholly owned subsidiary of Mutual Service Life. This represents a potential source of considerable new business for the Life Company. In addition, we entered into a sales agreement with First Fund Marketing.

It was also a year when we gained increased support of our insurance organization by GROWMARK, a large regional farm supply cooperative, which became a sponsor of MSI during 1986. GROWMARK joins Universal Cooperatives and Land O'Lakes, all highly respected coop-

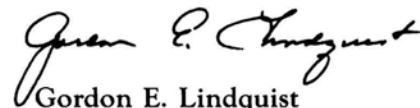
erative organizations sponsoring MSI.

With the changing needs of our employees, we completed development and implemented a flexible benefit plan which took effect at the end of the year. This provides a greater choice of benefits and retirement options for our employees and helps contain costs for the companies in future years.

Although 1986 was a good year financially for all our companies, we cannot assume it was a normal year. It was not an easy year for our agents and I wish to specifically thank them for their support during the difficult transitions that were necessary.

Our employees and management team assumed greater responsibility and also coped with much stress. I'm proud of how well they responded.

1987 will continue to be a challenging year for agents, employees and management at MSI. Increasing our policyowner base, strengthening delivery of excellent service, and managing our expenses to competitive levels, all represent significant challenges for us in 1987. But with the good financial results of 1986 and the number of programs we have underway, MSI is in a strong position to take advantage of the opportunities available to us.



Gordon E. Lindquist
President and Chief Executive Officer

*Life
Company
Review of
Operations*

In 1986, the Life Company had earnings of \$7.8 million, a return on equity of 27.3 percent before tax and a surplus to asset ratio of 8.9 percent. All were substantially ahead of objectives. Total premium was \$91 million, down slightly from 1985. New sales were down in each of our business units.

To take advantage of its strong financial position and respond to an ever-shifting marketplace, the Life Company implemented a number of changes in 1986—in products, in distribution systems, and in methods to service new business. 1986 was a year of transition, preparing for strong growth in 1987 for all three Life Company business units, or profit centers: Group Operations, Individual Operations and Pension Operations.

Group Operations

Group Operations was divided into two business units, combining sales and underwriting functions, with each unit assuming accountability for profitability and

growth. The new units are Group Corporate Accounts, which serves cooperatives and Third Party Administrators (TPAs) with small-business customers, and Group Brokerage, which focuses on the small- to medium-employer market written through group brokers.

Access to the group brokerage market was enhanced by the introduction of EASI (Easily Administered Self Insurance), a competitively designed and priced product for employers of 50 to 250 persons. EASI completes our three-product offering which also includes the MSE Trust for three to 15 lives, and a Custom Major Medical product for 15 to 50 lives. Fourth quarter sales were particularly strong largely due to key brokers and administrators providing business in Louisiana, Texas, Missouri and Utah. Earnings of \$1.7 million compared favorably with the two previous years.

In 1986 Group Conversion Trust was established which allows the company to manage its conversions bet-

ter. The company also continued to improve its group medical products through expanded use of preferred provider organizations, improved prescription drug benefits and hospital pre-admission certification.

Early in the year, the Life Company implemented an "at home" claims processing unit. This was made possible by linking terminals at home with the central processing unit at the home office. Several claims approvers took advantage of this opportunity to become independent contractors.

In December, First Fund Insurance Administrators Inc. of Irvine, California, a third party administrator, was acquired as a wholly owned subsidiary of Mutual Service Life. This firm administers approximately 120 employer plans, covering about 22,000 employees and their dependents. Administration fee revenue is expected to be about \$2.2 million in 1987. In addition, a marketing agreement was completed with a spinoff company, First

Individual Operations	1986
premium	\$ 19,002,827
net investment income	9,620,130
benefits	16,636,997
gain before taxes	4,719,884
<hr/>	
Group Operations	
premium	37,335,097
net investment income	1,932,837
benefits	27,760,894
gain before taxes	1,761,639
<hr/>	
Pension Operations	
premium	31,522,019
net investment income	24,356,038
benefits	52,095,081
gain before taxes	503,247

Fund Insurance Marketing Inc. It has approximately \$7 million of insured premium on those same 120 employer plans Mutual Service Life is now administering.

Individual Operations

The combined earnings for individual life, health and annuity lines were \$4.7 million. Premium was down 14 percent, largely due to agent terminations. Distributing individual life products through independent brokers in areas not serviced by our agency force began in September. By year-end, 103 brokers were licensed in Colorado, Ohio, Illinois and Michigan.

The company expects to have more than 700 brokers licensed by the end of 1987. The premium from this source planned at \$890,000 in 1987, is expected to increase to \$8 million by 1990.

New products developed during 1986 included Annual Renewable Term, Five Year Renewable and Convertible Term, Mortgage Term and Universal Life II. Also, a Short Term Major Medical policy was developed, providing temporary coverage for persons between jobs.

A strong emphasis on service continued in 1986. The company installed an automated claims system

handling 16,000 to 18,000 claims annually, a WATS line was added to help agents provide better service and steps were taken to refine the company's pricing based on its own experience.

Pension Operations

Pension Operations had excellent earnings of approximately \$500,000.

Strong sales were recorded in both the Investment Only and Direct Marketed 401(k) products. More than \$16 million of new investment contracts were written and 27 new 401(k) plans were installed. Among the new MSI pension customers are the Meridian Trust Company, the Minnesota Museum of Art, Cowles Media and Illsbruck/USA Inc. Addi-

tionally, more than \$3 million of pension assets on existing local cooperatives were converted to 401(k) defined contribution plans.

Both business units began cross-training efforts in 1986 to provide stronger sales and customer service support. Through these efforts, responsibilities of account administrators have been expanded to include full-service administration for all products rather than specialization in a single product area.

1987 will be a challenging year for Pension Operations, which has implemented programs and increased sales staff to support strong premium growth and excellent financial performance.

Nancy Meyers, senior pension account administrator, is responsible for all the products of her clients. One phone call takes care of it all.



Casualty Company Review of Operations

Product manager Warren Pakulski, standing, discusses product improvements designed to meet customers' changing needs with his colleagues Michelle Johnson and Tim Fisber.



1986 was a significant year for the casualty companies.

After several years of high losses, loss ratios improved dramatically in 1986, resulting in strong earnings and an addition to policyowner surplus. Mutual Service Casualty Insurance Company finished the year with a nearly \$10 million contribution to surplus; Modern Service Insurance Company's earnings were \$1.5 million. These favorable results were slightly better than those of the casualty industry as a whole, which rebounded in 1986.

The favorable loss ratios were in large measure the fruition of corrective actions taken over the last two or three years—tightened underwriting standards, more selective marketing to classes

of business which represented good risks, withdrawal from other markets, rate increases.

A favorable weather pattern also helped, characterized by a lack of summer storms and a mild winter.

A number of programs were instituted during 1986 to further strengthen the companies' position and help sustain improved results in the years ahead. These included:

- rate actions in all lines of business throughout the companies' territories, aimed at pricing products in accordance with their risk. The overall rate increase in 1986 amounted to 15.6 percent.
- reunderwriting programs with agents having higher than normal loss ratios, and with particular classes of businesses that

had been unprofitable.

- closely monitored underwriting rules to insure that quality customers were sought and retained.
- management of claims payments, a major focus in 1986. MSI's philosophy is to fairly adjust losses for policyowners and claimants. However, there is a concern about the increased costs of claims. Much of it is related to expensive repair of automobiles and homes and high cost bodily injury and medical payments. The companies were able to manage the overall claims payments increase to a 4 percent inflationary level,

- while maintaining and improving customer service.
- holding premium growth to a slower rate than surplus growth.

1986 was also a year in which there was increased emphasis on providing excellent service. Service standards were updated and tracking systems were developed to measure timeliness and quality. Monitoring feedback is now provided to service units and individual service representatives.

Casualty Operations was organized to align its operating units with customer groups. Two regional units were put into place with assigned territories matching customers and agents. Team Co-op, formed around cooperative marketing, now includes sales, customer service, underwriting, and loss control functions.

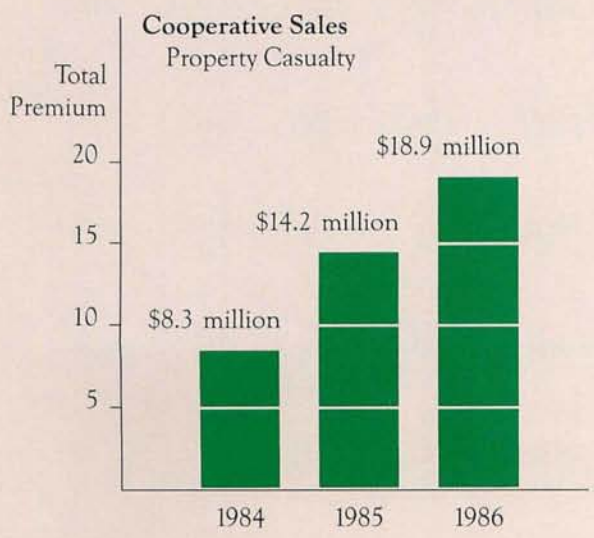
In a continuing effort to

attract and retain good business, longevity discounts were applied to Ultimate Auto policies. Homeowners products were updated introducing a Preferred and Select Homeowners to better serve a broader array of customers in the company's marketing territories.

It was an exceptionally strong sales year in the cooperative market, which continues to strengthen MSI's position as the largest insurer of farm supply cooperatives in the U.S.

1987 will see emphasis on sales growth, but in accordance with the measures taken over the past few years to return profitability to Casualty Operations.

A number of programs were instituted during 1986 to further strengthen the companies' position and help sustain improved results in the years ahead.



The Many Faces of Service

People Helping People[®] is more than a motto. At MSI, it's a way of life.

People Helping People[®] translates directly into good service: courtesy, careful listening, hard work, attention to detail, friendliness and concern. But it's more than that. To its many disciples at MSI, service is an absolute commitment to excel at what they do—with the customer first and foremost in mind.

MSI's commitment to service is exemplified by its company-wide educational training program. In 1986, more than 600 MSI employees took classes on listening, customer relations and telephone communications. As a result, employees al-

ready skilled at serving their customers learned how to serve them even better.

Why all this attention to service? Because MSI understands that good products are not enough. To keep its policyowners, the company must consistently serve their changing needs—promptly, courteously and competently. People remember good service. They appreciate the care with which they're treated. And they talk about it with their families, friends and neighbors.

That's why MSI's real strength is its employees and agents, the kind of people who do a good job even on a bad day. After all, policyowners relate to people, not to a company; the person who explains the premium

notice or handles the claim becomes MSI to the policyowner. MSI wants its employees and agents to truly represent the company's values—and its tradition of People Helping People[®].

Our feature section, which begins on the following page, profiles a sampling of MSI representatives. All are devoted to the company's philosophy of service and to the customers they serve. Like so many others at MSI, they not only practice good service, they constantly practice *at* it. They are People Helping People[®].

*"Working together
presents some
unique challenges."*

*MSI representatives
Rick and Debbie
Clements, left, visit
with Wausau client
Bob Rybarczyk.*



Rick Clements

A spouse is a friend, partner and confidante for life. In some relationships, where there is a special degree of communication and security, a spouse can also be a business partner.

Rick and Debbie Clements, married 13 years, are partners at the Clements Insurance Agency in Wausau, Wis. He's the MSI agent; she's the office manager.

"Working together presents some unique challenges but we wouldn't have it any other way," says Rick. "Debbie pretty much runs the office. She takes care of the advertising, handles prospective clients' data, our computer system, just about everything. As a licensed solicitor, she also quotes auto

and homeowner rates. She's very good at what she does."

Rick does the selling. He's very good at his job too. Typical of the MSI agency force, Rick is an assertive, yet low-key salesperson—concerned about doing things the right way, carrying his strong sense of personal ethics into his professional life. "The community expects that of us," he says, "because in many cases we're handling their financial security."

That's why the Clements are so dedicated to providing only the best in service. "I remember spending hours with a fellow reviewing his coverages," says Rick. "He was having a claim problem with another company and I volunteered to help him get

the claim filed. The man had a home, two businesses, three or four different life policies and two mobile home parks. It turns out he had 15 different policies with four non-MSI agencies—and in all the confusion his own home wasn't covered.

"We not only helped him save money by bringing all his business to one company—MSI—but he was able to go from 15 policies to just five."

The man is now one of many Wausau residents who sleep securely because of the efforts of Rick and Debbie Clements, a People Helping People® couple—and agency team.

Howard Olson

Windstorms in Fresno, woodburning stoves in northern Minnesota, theft losses in the cities—they're all part of Howard Olson's beat. An associate actuary in Mutual Service Casualty, Howard must keep attuned to developments in these areas and countless others to perform his duties—"to provide rates that are not excessive, inadequate or unfairly discriminatory"—promptly and efficiently.

MSI has changed in many ways during Howard's 30-plus years with the company. "When I began my career, we had only one fire policy contract with few product or price options," he explains. "Now we have at

least three different types of homeowners, each written for homeowners or renters, in addition to separate packages for mobile homes, apartments, businesses and farms. In those days, we relied on information developed by the Fire Underwriters Inspection Bureau to establish our rates. Now, to be competitive and to remain financially sound, we gather and analyze our own loss experience data to base our rates on, along with that of the industry."

MSI policyowners aren't the only beneficiaries of Howard's concern. For several years he has served on the FAIR Plan of Minnesota board of directors. The FAIR Plan provides fire insurance

for individuals and businesses unable to obtain coverage.

Howard's greatest satisfaction is to see positive results from his rate recommendations—for example, to see a line of business that had been losing money begin a profitable trend. It's hardly a case of instant gratification, because it takes a year to 18 months for rate changes to appreciably show in loss statistics. But the results are nonetheless satisfying for Howard—and for policyowners who will be able to obtain a quality product at a competitive price.

Howard Olson

"My greatest satisfaction is to see positive results from my rate recommendations."





"Ours is a business of people and relationships."

Group Corporate Accounts members, left to right, front row: Sue Gand, Kathy Frischmon, Tim Gust and Connie Peterson. Middle row: Wayne Johnson, Karen Sandstrom and Lorraine Lunning. Top row: Teri Braun, George Kotars and Craig Nelson.

Group Corporate Accounts

The Life Company's Group Corporate Accounts unit, organized in 1986, is one of several MSI sales and service teams structured around the reason MSI exists: the customer.

The primary consideration in combining sales and service is to provide one-step care to customers. The customer no longer has to deal with several areas to get problems solved. "We fix them all," director Craig Nelson explains. The unit serves the group life and health needs of client cooperatives and related businesses such as agricultural and other trade associations.

This new structure has paid off in greater customer sensitivity among employees. "Our new structure has dramatically shortened lines of communication and increased our sense of accountability to our customers, resulting in quicker response times and more consistent service," Craig says. "Now, team members can build relationships with our customers because everyone is assigned to specific accounts. We're here when they have a complaint, and we can get answers to their questions within hours.

"Customers like to know there's someone here to contact, so they know they're

not on their own to understand their coverages or interpret technical language in their contracts," he adds.

"Ours is a business of people and relationships. We think this structure enables us to better capitalize on our people and strengthen those relationships. That helps MSI stay a step ahead of the competition and add tangible value to the products we sell."



"It makes me feel good if I can help someone with a problem."

Sue Triden

Sue Triden

"I consider myself a 'people' person," says Sue Triden, senior customer service representative in MSI's Individual Life Department. "I knew the day I started this job, I had found my niche.

"It makes me feel good if I can help someone with a problem or explain something so people understand it. I put myself in the policyowner's place and try to understand where they are coming from with their questions—about Universal Life, for example, which is a complex product.

"I think it's a good idea to include the human element in our professionalism," she says. "Sometimes I'm afraid

that with all our technology and automation we may forget we're people and we're dealing with people. That's another reason I'm at MSI instead of one of those huge companies. There, I have a feeling, the personal touch is lost. Here we're in contact with our insureds."

Sue has always been a people person. At 16, she began as an aide in a nursing home, helping those who couldn't take care of themselves. Now, many years and four children later, Sue has put her caring attitude to work for MSI's policyowners.

Larry Foss

Every job has its down side. For Larry Foss, it's inspecting dirty elevators. Even with knee-high boots, he's found himself thigh-deep in rotten corn. But it goes with the territory, one that includes 50 farm cooperatives in Iowa and one in Nebraska.

Larry is a field representative for MSI's Cooperative Risk Management Services or Team Co-op.

On an average day, he calls on five or six co-ops to appraise buildings, review coverages, inspect vehicles and facilities for safety, service group policies—some stops “just to stay in touch.”

Larry, who grew up in and around Albert Lea, Minn.,

values the relationships he's developed over the years. “You get the feeling you're doing some good when a client hits a streak of bad luck and isn't ruined,” he says. Within a couple of weeks, one co-op had a grain bin break open and a dryer blow over in a storm. Larry could look on the repaired dryer and new grain bin with satisfaction. “The losses didn't hit their surplus because they were sufficiently insured.”

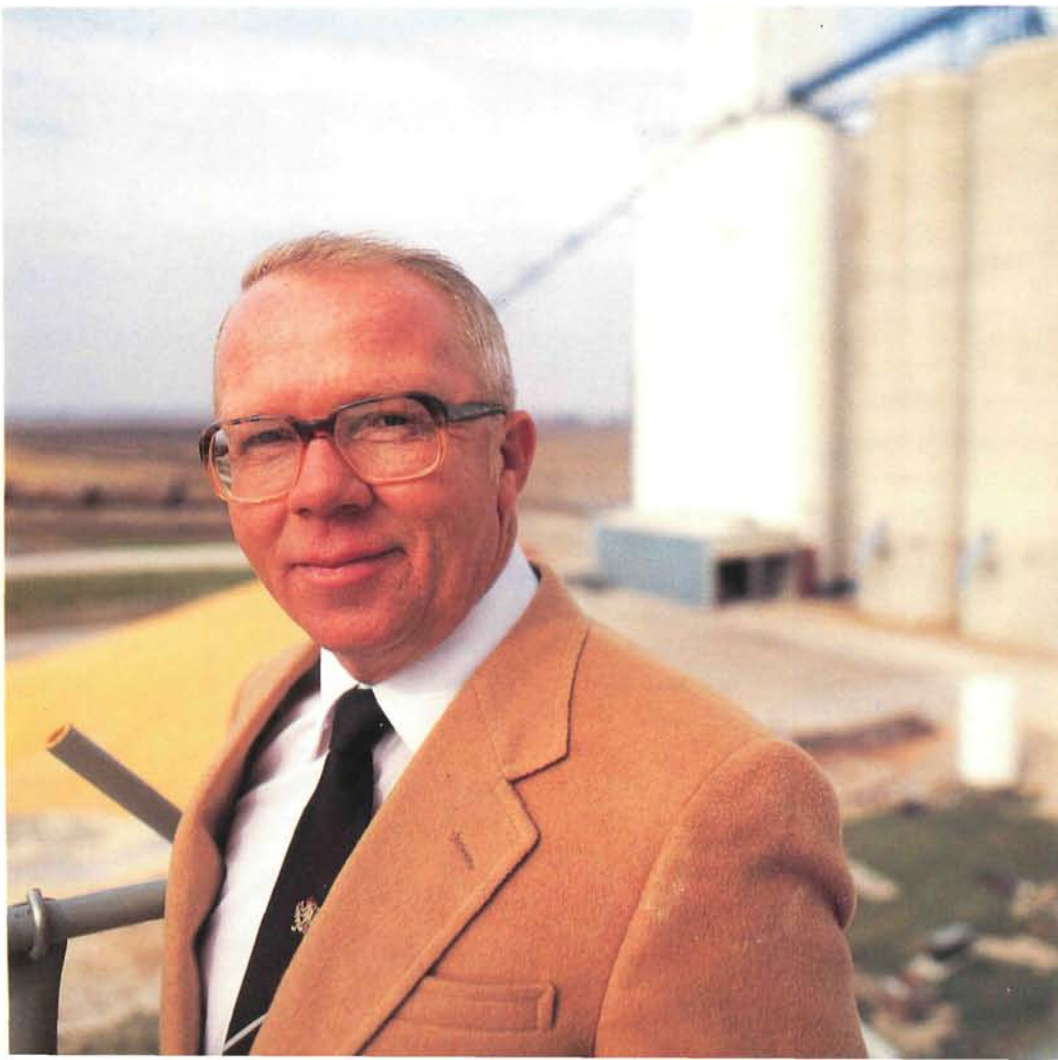
Over the past year, as MSI decentralized, expanding control and accountability among employees through a company-wide program dubbed Operation XL, Larry's responsibilities have increased. Previously, 80 per-

cent of his time was spent selling and only 20 percent servicing accounts. Now the percentages are reversed and his 27 years of experience in underwriting and loss control are extremely valuable in his new role.

“Our clients aren't insurance professionals—they need us to clearly define options on which to base their decisions,” Larry says. “Historically, co-ops weren't forced to be profitable, as long as the service was there. Now, co-ops are emphasizing profitability, and it's our job to help them achieve that goal for the benefit of their farmer members.”

Larry Foss

“Our clients need us to clearly define options on which to base their decisions.”



"I try to talk to people as I'd like to be talked to."

Karen Brown, left, and Jane Dean.



Jane Dean

"I just wanted to let you know how much I appreciate your helpfulness in working with our claims. In four years, I can't think of one major complaint."

"You can't imagine how much time and effort you save me serving co-ops when I know that an accurate answer is but a toll-free phone call away."

Jane Dean appreciates customers who appreciate the employees she supervises in the Group Life and Health Claims area—but she's not surprised. She likes to think such professionalism is standard operating procedure.

Karen Brown is a customer service representative in the

unit, where most claims are routine and can be handled promptly and efficiently by approvers. But sometimes more is needed and policy-owners call Karen. "Usually this is not a good time in their lives," she says. "The caller or family member may be in the hospital and be angry or perplexed. We don't want to add to the problems, one of which is just trying to cope with the paperwork.

"I try to talk to people as I'd like to be talked to," she adds, "businesslike, but friendly and helpful.

"The customer service job requires a high degree of technical skill," says Jane, "including knowledge of medical terminology, of in-

surance and of our systems, and the ability to make informed judgments. Most important are the 'people' skills. Confidentiality is a must, along with empathy, tact and diplomacy."

All of which leads to satisfaction for Karen, she explains, "when the man on the phone says he understands my explanation or I hear the relief in the woman's voice that her claim is indeed covered."

Randy Shrider

Randy Shrider knows cars—and he knows how owners feel about them. As a field claims representative, it's his job to evaluate auto damage in a fair and equitable way.

"A car is a big investment for people," Randy says. "Fifteen years ago, my wife and I bought our house for \$21,000. Just recently we paid almost that much for our new car.

"It's not easy sometimes to deal with a policyowner who's had an accident with a car he or she values very highly but doesn't have that value in the Blue Book, our

industry guide," he explains. "For instance, one claimant had just put a new \$2,400 engine into a \$2,000 car. It's still only a \$2,000 car in the book, but worth a lot more to him."

In the last five years, cars have been extensively redesigned, requiring adjusters to update their knowledge: new equipment to repair, front-wheel drives, unibody structure influenced by European styling. Not only have the cars changed, according to Randy, but so has MSI claims service. It's gotten better.

"Automation has made settlement faster," he says.

"Coverage can be verified and an appointment scheduled quickly—either for the adjuster to go to the site or to our one-stop claims center where the adjuster writes the check for damages on the spot. We not only try to protect against the financial loss of an accident, but to minimize the inconvenience."



Randy Shrider, left, evaluates auto damage.

"Automation has made accident settlement faster."



“I feel that client trust is more important than anything.”

Linda Lucas

Linda Lucas

“Like father, like son” is a common phrase. But “like father, like daughter?” You bet. That’s the way it turned out in the Schultz family.

“My family has been involved with MSI for 30 years,” says MSI agent Linda Lucas. “As far back as I can remember, my dad, Ken Schultz, was busy working and going out on client calls. But he was never too busy for us kids. He managed to balance his career with his family life, and did a good job at both. I guess it’s why I felt I could ‘follow in his footsteps’ and go into business with him.

“When we started, I didn’t really know what would happen to our relationship. We’d always been close, but I was

apprehensive. However, when we were in the same office, we really developed a special kind of bond. Just watching him work was enlightening. I saw sides of him I’d never seen before, how compassionate, caring and personable he was.”

Her father’s death last year was a tremendous blow to Linda. He was her mentor and friend. Not every parent-child relationship flourishes in a business setting, but it worked with Ken and Linda because their association was rooted in mutual respect.

Linda still bases much of her outlook on lessons she learned from her father. And though the majority of her clients are located closer to the Twin Cities, she keeps

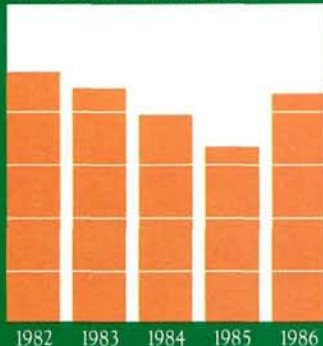
her office just off Main Street, Chaska, where she grew up. “If I relocated, it might be tough on the long-term clients—people my dad wrote back when he was just getting started, people who represent quality business.

“Chaska is a small town and the people here operate differently than they do in the suburbs,” Linda says. “In both cases, however, you have to remember that everything you do leaves some kind of an impression. Clients trust the person they choose to be their agent. I feel that trust is more important than anything, and that’s how I approach my work.” Just like her dad did.

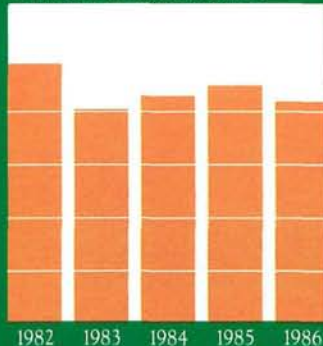
Summary of Operations

Mutual Service Casualty

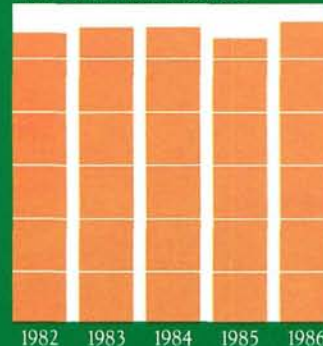
SURPLUS (millions of dollars)



PREMIUM (millions of dollars)

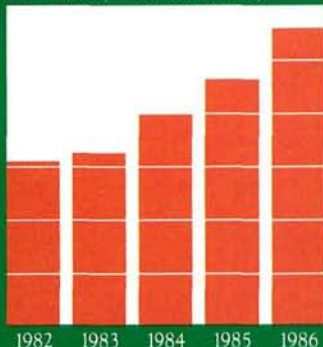


ASSETS (millions of dollars)

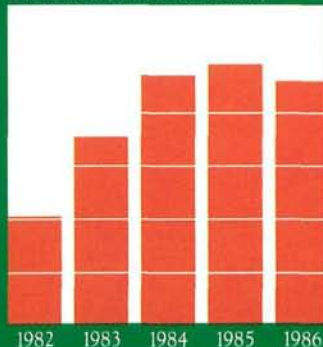


Mutual Service Life

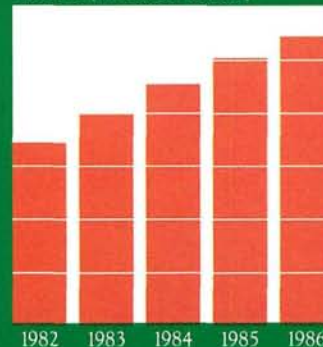
SURPLUS (millions of dollars)



PREMIUM (millions of dollars)

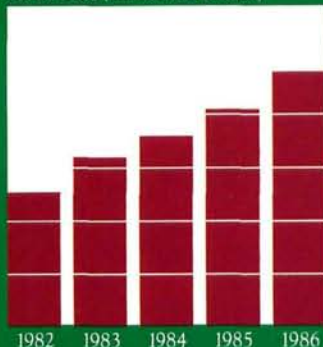


ASSETS (millions of dollars)

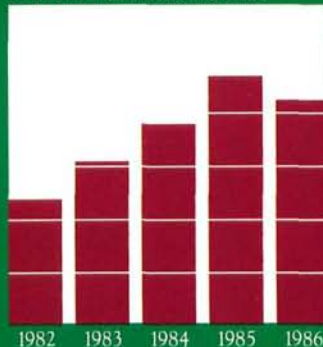


Modern Service

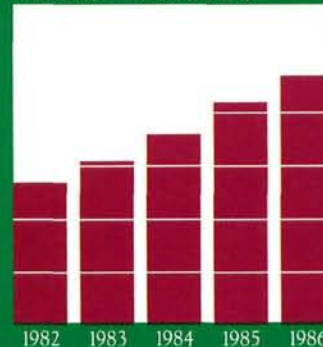
SURPLUS (millions of dollars)



PREMIUM (millions of dollars)

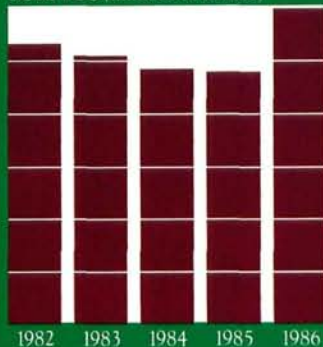


ASSETS (millions of dollars)

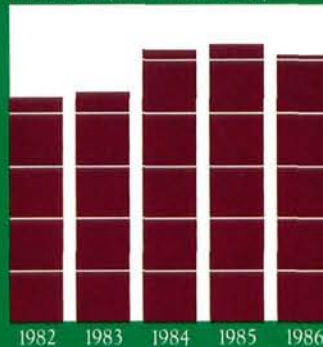


Combined Results

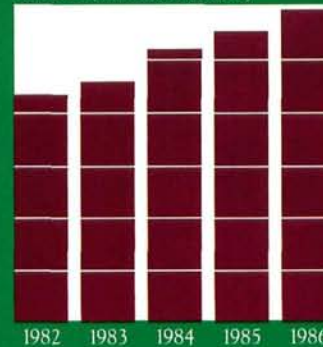
SURPLUS (millions of dollars)



PREMIUM (millions of dollars)



ASSETS (millions of dollars)



*Mutual Service
Casualty Insurance
Company*

Balance Sheet

Assets	December 31,	
	1986	1985
Bonds	\$138,165,144	\$134,658,606
Mortgage Loans	3,161,756	28,155
Preferred and Common Stocks	11,149,732	3,920,213
Investment in Subsidiaries	7,904,377	7,155,856
Cash	1,097,298	6,264,731
Premiums Due and Other Receivables	7,139,227	8,074,273
Accrued Interest	3,017,052	3,115,368
Total Assets	\$171,634,586	\$163,217,202
Liabilities and Policyowners' Surplus		
Liabilities:		
Reserves for Losses and Loss Expenses	\$ 91,825,451	\$ 90,624,060
Unearned Premiums	27,874,549	32,063,172
Advance Payments	5,252,107	5,138,482
Unpaid Expenses and Taxes	3,083,727	1,768,295
Other Liabilities	17,503	17,777
Total Liabilities	128,053,337	129,611,786
Policyowners' Surplus	43,581,249	33,605,416
Total Liabilities and Policyowners' Surplus	\$171,634,586	\$163,217,202

Statement of Operations and Policyowners' Surplus

	Year ended Dec. 31,	
	1986	1985
Underwriting		
Premiums Written, Gross	\$105,068,860	\$111,462,014
Less Reinsurance Ceded	11,074,724	10,051,038
Premiums Written, Net	93,994,136	101,410,976
Change in Unearned Premiums	4,188,623	(58,070)
Premiums Earned	98,182,759	101,352,906
Losses and Loss Adjustment Expenses	68,313,078	88,722,292
Commissions and Other Acquisition Expenses	21,897,776	22,405,850
Other Underwriting Expenses	10,454,071	8,176,447
Total Losses and Underwriting Expenses	100,664,925	119,304,589
Gain (Loss) from Underwriting	(2,482,166)	(17,951,683)
Investment Income Less Related Expenses	12,679,494	10,806,744
Gain (Loss) from Operations Before Federal Income Taxes	10,197,328	(7,144,939)
Federal Income Taxes	-0-	-0-
Gain (Loss) from Operations	10,197,328	(7,144,939)
Policyowners' Surplus at Beginning of Year	33,605,416	39,457,565
Increase in Unrealized Appreciation of Investments	1,686,220	1,272,894
Other Changes, Net	(1,907,715)	19,896
Policyowners' Surplus at End of Year	\$ 43,581,249	\$ 33,605,416

*Mutual Service
Life Insurance
Company*

Balance Sheet

Assets	December 31,	
	1986	1985
Bonds	\$214,435,904	\$221,916,796
Mortgage Loans	115,799,840	76,963,371
Preferred and Common Stocks	7,699,305	7,617,123
Real Estate	12,373,995	12,526,381
Policy Loans	14,264,752	15,128,158
Investment in Subsidiaries	5,089,029	4,067,966
Other Invested Assets	1,164,071	752,192
Cash	4,840,264	2,550,614
Federal Income Tax Recoverable	1,295,424	725,000
Due and Deferred Premiums	7,321,931	5,245,437
Accrued Interest	7,944,154	7,706,704
Data Processing Equipment	1,992,943	2,513,405
Separate Account	17,809,469	21,059,022
Total Assets	\$412,031,081	\$378,772,169

Liabilities and Policyowners' Surplus

Liabilities:

Reserves for Policy Contracts in Force	\$318,115,476	\$285,413,735
Dividends on Deposit	13,794,446	13,897,148
Advance Premiums and Suspense	3,474,935	3,640,164
Policyowners' Dividends	6,299,760	7,394,245
Pending and Unreported Claims	13,435,214	13,038,801
Unpaid Expenses and Taxes	2,696,473	5,534,615
Securities Valuation Reserve	8,274,430	5,387,230
Separate Account	17,809,469	21,059,022
Total Liabilities	383,900,203	355,364,960
Policyowners' Surplus	28,130,878	23,407,209
Total Liabilities and Policyowners' Surplus	\$412,031,081	\$378,772,169

Statement of Operations and Policyowners' Surplus

	Year ended Dec. 31,	
	1986	1985
Income		
Premiums, Annuity and Other Contract Considerations	\$ 92,880,411	\$ 88,410,151
Investment Income Less Related Expenses	36,441,789	33,909,709
Separate Account	533,040	1,368,156
Total	129,855,240	123,688,016
Benefits and Expenses:		
Death and Other Contract Benefits	36,243,903	36,444,105
Increase in Policy Reserves	25,806,058	27,099,568
Annuities and Cash Value Payments	37,855,483	28,457,427
Commissions	3,128,614	4,208,019
General Expenses and Taxes	14,593,037	13,579,535
Separate Account	533,040	1,368,156
Total	118,160,135	111,156,810
Gains from Operations Before Dividends and Federal		
Income Taxes	11,695,105	12,531,206
Dividends to Policyowners	3,821,066	4,882,215
Federal Income Taxes	4,190,000	4,529,000
Gain from Operations	3,684,039	3,119,991
Policyowners' Surplus at Beginning of Year	23,407,209	20,116,644
Realized and Unrealized Gain (Loss) on Investments, Net	2,506,779	711,501
Change in Securities Valuation Reserve	(2,887,200)	(414,750)
Other Changes, Net	1,420,051	(126,180)
Policyowners' Surplus at End of Year	\$ 28,130,878	\$ 23,407,209

*Modern Service
Insurance
Company*

Balance Sheet

Assets	December 31,	
	1986	1985
Bonds	\$ 16,297,073	\$ 15,042,857
Preferred and Common Stocks	309,300	288,675
Cash	—0—	30,021
Premiums Due and Other Receivables	1,774,060	1,113,506
Accrued Interest	384,724	382,838
Total Assets	\$ 18,765,157	\$ 16,857,897
Liabilities		
Reserves for Losses and Loss Expenses	\$ 6,254,512	\$ 5,636,207
Unearned Premiums	1,893,841	2,211,182
Advance Payments	246,483	301,896
Unpaid Expenses	723,005	558,336
Total Liabilities	9,117,841	8,707,621
Stockholders' Equity		
Common Stock Par Value	1,250,000	1,250,000
Additional Paid-in Capital	1,100,000	1,100,000
Retained Earnings	7,297,316	5,800,276
Total Stockholders' Equity	9,647,316	8,150,276
Total Liabilities and Stockholders' Equity	\$ 18,765,157	\$ 16,857,897

Statement of Operations and Retained Earnings

	Year ended Dec. 31,	
	1986	1985
Underwriting		
Premiums Written, Gross	\$ 8,594,854	\$ 9,430,690
Less Reinsurance Ceded	133,420	83,556
Premiums Written, Net	8,461,434	9,347,134
Change in Unearned Premiums	317,341	(540,593)
Premiums Earned	8,778,775	8,806,541
Losses and Loss Adjustment Expenses	5,680,303	6,252,472
Commissions and Other Acquisition Expenses	1,786,446	2,040,654
Other Underwriting Expenses	658,605	555,057
Total Losses and Underwriting Expenses	8,125,354	8,848,183
Gain (Loss) from Underwriting	653,421	(41,642)
Investment Income Less Related Expenses	1,293,454	1,145,774
Gain from Operations Before Federal Income Taxes	1,946,875	1,104,132
Federal Income Taxes	204,000	-0-
Gain from Operations	1,742,875	1,104,132
Increase in Unrealized Appreciation of Investments	100,617	52,703
Other Changes, Net	(346,452)	(276,483)
Increase in Retained Earnings	\$ 1,497,040	\$ 880,352

Corporate Officers

Gordon E. Lindquist, CLU
President and
Chief Executive Officer

Jerald L. Conrad
Vice President
Regional Operations

Robert L. Gaecke, FLMI
Vice President
Individual Operations

Loren A. Haugland, CFA
Vice President
Investments

Lorens E. Johnson,
CPCU, CLU
Vice President
Regional Operations

Richard D. Johnson,
FSA, MAAA
Vice President
Group Operations
Chief Life Actuary

William F. Kenny, CLU
Senior Vice President
Casualty Operations

Gregory V. Ostergren,
ACAS, MAAA
Vice President
Casualty Actuarial

Richard G. Rosel
Senior Vice President, Finance
Treasurer

Jerome L. Sychowski,
FLMI
Vice President
Information Systems
and Services

Daniel N. Vogelgesang
Vice President
Pension Operations

Thomas F. Wright
Senior Vice President
Life Operations

Chester A. Zinn, Jr., FLMI
Vice President
General Counsel
Secretary

Board of Directors

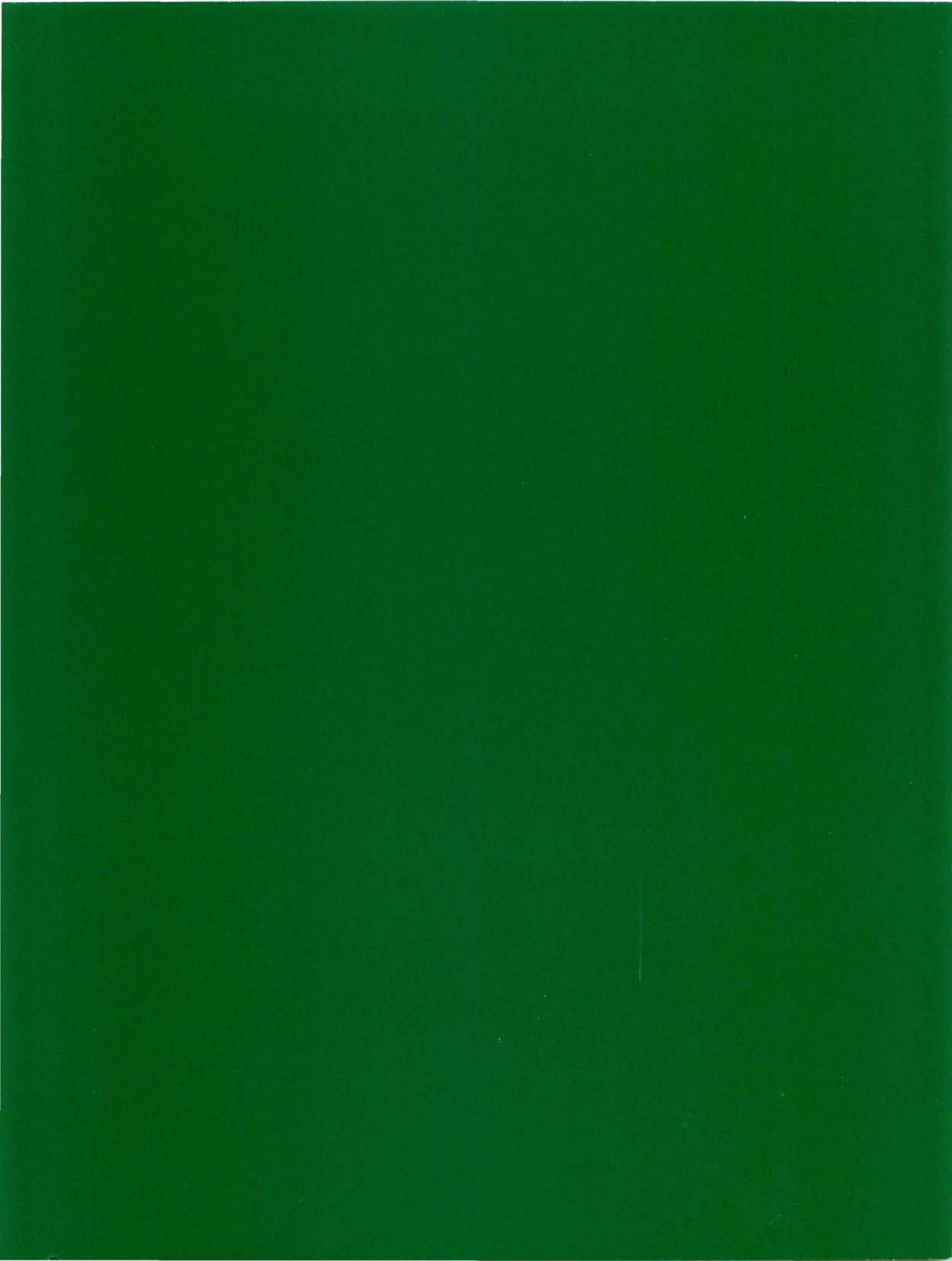
Left to right: Francis L. Lair, Chairman, Retired CEO, Universal Cooperatives Inc., Bloomington, Minnesota; Glen E. Gearing, Vice Chairman, Self-Employed Dairy Farmer, Merrilan, Wisconsin; Howard C. Richards, Executive Committee Member, Secretary of Agriculture, State of Wisconsin, Madison, Wisconsin.



Left to right: Richard H. Vilstrup, Ph.D., Professor of Agricultural Economics, University of Wisconsin, Madison, Wisconsin; Warner Isaac, Independent Marketing Consultant, San Raphael, California; Donald R. Armstrong, President and General Manager, Universal Cooperatives Inc., Bloomington, Minnesota; David C. Aspen, Self-Employed Farmer, Menomonie, Wisconsin.

Left to right: Dennis C. Sargent, President, Sargent & Associates, Columbus, Ohio; John B. Shaffer, Owner, Shaffer Farms Inc., Pipestone, Minnesota; Bruce G. Anderson, Executive Vice President, Alceco, Albert City, Iowa; Duane H. Putz, General Manager, Ottertail Co-op Oil,ergus Falls, Minnesota.







Mutual Service Insurance Companies

Mutual Service Life
Mutual Service Casualty
Modern Service Insurance
MSI Insurance
Two Pine Tree Drive
Arden Hills, Minnesota
55112

Mailing address:
P.O. Box 64035
St. Paul, MN
55164