

# OUR MUTUAL ADVANTAGE



Northwestern Mutual®

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Of all the reasons clients value Northwestern Mutual as their partner on the path to financial security, one is paramount. It's often called the company's "mutual advantage."

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A decorative graphic at the bottom of the page consisting of two overlapping wavy lines. The top line is a light blue-grey color, and the bottom line is a slightly darker shade of the same color. They create a soft, undulating shape that spans the width of the page.

Northwestern Mutual did not invent “mutuality.” Over time, however, and continuing today, our company has become what many point to as a preeminent example of the power inherent in the mutual form of corporate governance.

Indeed, Northwestern Mutual offers dramatic evidence that a company governed by mutual values can be, in its field, best in the nation. Northwestern Mutual is among the “World’s Most Admired” life insurance companies.<sup>1</sup>

The mutual structure of Northwestern Mutual allows the company to act differently than most publicly traded stock companies, which typically must split their focus between clients and shareholders.

In the typical stock company, profits go to shareholders. In contrast, Northwestern Mutual manages the company in the best interests of its clients. After setting aside a safe margin for reserves and surplus each year, the company returns gains from operations, which would otherwise be “profits,” to its participating policyowners in the form of policy dividends. In other words, our mutual structure brings into alignment the interests of both clients and the company. For clients, that’s an enormous “mutual advantage.”

There are others. As a mutual, the company has more freedom to employ a longer-term investment approach when it comes to the general account assets that back our insurance products rather than focus on meeting the short-sighted expectations of quarterly earnings reports.<sup>2</sup> As a strategy, long-term investing has served us well in all economic environments.

Respected experts praise the company’s mutual structure and values as underpinning an “extremely strong competitive position” within the U.S. individual life insurance market<sup>3</sup> – one in which Northwestern Mutual focuses on helping its clients achieve financial security.

As practiced by Northwestern Mutual, mutuality extends well beyond these basic mutual advantages. The benefits of our mutuality are manifested in four key values:

- Doing what’s right for clients.
- Taking a long-term view.
- Building long-term relationships with clients.
- Building and preserving financial strength.

We invite you to explore these values on the following pages, to see how our brand of mutuality sets us apart. We believe you will find it to be ...  
*a mutual advantage.*

<sup>1</sup> Based on FORTUNE® magazine’s annual survey published Feb. 19, 2015.

<sup>2</sup> The vast majority of the company’s managed assets back most of its life, disability income and portfolio income annuity liabilities. The investment strategies described in this brochure apply to the investment of those assets. A portion of managed assets back the remaining liabilities (primarily fixed deferred annuities, income plans and long-term care insurance), which have different investment exposures than described in the pages that follow. When purchasing the company’s life insurance and annuity products, clients are not investing in the company’s general account portfolio but purchasing products backed by the financial strength of Northwestern Mutual. Long-term care insurance is issued by Northwestern Long Term Care Insurance Company, Milwaukee, WI, a subsidiary of Northwestern Mutual.

<sup>3</sup> Standard & Poor’s, May 29, 2015



# MORE THAN A CENTURY AND A HALF OF DOING WHAT'S RIGHT

Our steadfast dedication to doing what's right for clients is as old as the company itself. Since our beginnings in 1857, generations of company leaders have tested the merits of corporate decisions against one standard: "Is what we're doing in the best long-term interests of our policyowners?"

## EQUITABLE TREATMENT

Elsewhere in the insurance industry, inequitable treatment of policyowners has become commonplace. To attract new clients, many companies have offered special benefits or attractive pricing unlike what is available to their current policyowners.

Such an approach is not the practice at Northwestern Mutual, which seeks to treat all policyowners fairly and equitably. This guiding principle extends to all areas: pricing, underwriting, claims, dividend payouts and more.

## EQUITABLE TREATMENT IN PRACTICE

As our insurance products are enhanced or improved, our current policyowners are invited to share in the new benefits at no charge, whenever possible and practical.

Throughout the years, the company has offered several product enhancements to existing policyowners – because doing so serves their best interests. One program alone offered life insurance policyowners \$4.5 billion of additional insurance at no increase in premium.

"It (is) ... pre-eminently the policyowner's company."

– **Executive Committee of the Board of Trustees, 1888**

"The company is a mutual organization in the strictest and best sense. This is a company operated by the policyholders and for the best interests of the policyholders."

– **Examination of the Wisconsin Insurance Department, 1905**

"Northwestern has set a standard that all life insurance companies should strive to emulate."

– **Ohio policyowner, 2011**

"Our beliefs are not the easy way—but we think they are the right way. We do not propose to change our philosophy of mutuality and fairness to all policyowner-members. This company is different."

– **Francis Ferguson, President and CEO, Northwestern Mutual, 1973**

"As a mutual company, we have no stockholders and no interest in doing anything but providing high-value products and services that benefit our clients."

– **Greg Oberland, President, Northwestern Mutual, 2011**



"We believe mutuality provides Northwestern Mutual with great competitive advantage and is one of the factors that has enabled the company to remain financially strong and to keep decisions focused on longer-term implications (rather than on reported quarterly earnings)."

– Report of the Policyowners' Examining Committee, 2001

"The company's management does not stray from its core policyowner-oriented principles, which align well with creditor interests."

– Moody's Investors Service, 2015

"Thank you for keeping shared values a mutual focus."

– Connecticut policyowner, 2012

"Your company is a true-blue company operating with a high degree of integrity."

– Virginia policyowner, 2012

"Northwestern Mutual has been successful for 155-plus years in large part because we have a very strong corporate culture – everyone is working toward the same goal of doing what is best for clients."

– Dave Remstad,  
Senior Vice President and Chief Actuary,  
Northwestern Mutual, 2012

# THE BENEFITS OF TAKING THE LONG-TERM VIEW

## STEADY, STABLE, SUPERIOR VALUE

Clients receive steady, stable and excellent value, in part because of the long-term investment strategy we employ when it comes to the general account assets that back our insurance products. Long-term investments typically outperform short-term investments. In addition, focusing on long-term strategies gives us flexibility in selecting investments and asset classes while minimizing short-term risk and volatility.

It's an approach that has worked. It's the reason that we expect to pay, in total, more than triple the ordinary life insurance dividends of our closest competitor. Our expected 2015 total dividend payout of \$5.5 billion includes:

- \$4.8 billion in dividends on permanent life insurance policies;
- \$150 million in dividends on term life insurance policies;
- \$320 million in dividends on individual disability income insurance policies; and
- \$45 million in dividends on individual, fixed and variable life annuities.

## EXTRAORDINARY LOYALTY

Our mutual business practices and the value they deliver create extraordinary loyalty among our clients. Northwestern Mutual has a persistency rate of 96 percent, a key indicator of client satisfaction.<sup>4</sup>

So satisfied are clients that they not only keep their policies, they return for more. In a typical year, existing clients account for more than half of our life insurance sales.<sup>4</sup>

The comment we so often hear from clients who have watched the cash value of their policies grow over the years:

**"I WISH I HAD BOUGHT MORE BACK THEN."**

The same mutual principles that protect our financial strength and stability also provide product value. We have paid industry-leading dividends year after year, decade after decade. In fact, we have made a dividend payout every year since 1872, no matter the economic climate.<sup>5</sup>

We work hard to secure client loyalty through our quality products, excellent value, consistent financial strength and prudent yet productive investment practices – as well as through enduring client relationships.

## LIFETIME RELATIONSHIPS

It's often said that we have what many others in our industry hope to create – lasting relationships built on confidence and trust.

These relationships begin with our well-trained financial representatives who help clients plan for a lifetime of financial security.

We have long been committed to building our field force of financial representatives, who are passionate about our purpose.

"We were struck by the company's long-term view in every aspect of its business – particularly its commitment to operating within its principles."

– Report of the Policyowners' Examining Committee, 2011

<sup>4</sup> Source: Northwestern Mutual

<sup>5</sup> The dividend scale is reviewed annually and is subject to change. Future dividends are not guaranteed, although Northwestern Mutual has made a dividend payout every year since 1872. Dividends for Northwestern Mutual policies are distributions of the company's surplus. They arise when premiums plus investment income are more than enough to cover company operating expenses (including taxes), claim costs, guaranteed increases in policy cash values, and additions to reserves and surplus. Dividends are paid annually to policyowners in proportion to company earnings on their policies. However, decisions with respect to the determination and allocation of divisible surplus are at the discretion and sound business judgment of the company's Board of Trustees. There is no guaranteed specific method or formula for the determination and allocation of divisible surplus. Accordingly, the company's approach is subject to change.

Rooted in the Northwestern Mutual culture, our representatives:

- Develop lifetime clients, not one-time clients.
- Identify each client's most important goals to build and execute a sound financial plan.

Only Northwestern Mutual financial representatives can sell our products, and these representatives share our values.

## A LONG HISTORY OF LISTENING TO CLIENTS

For more than a century, we have listened to our clients. We still do. Our Policyowners' Examining Committee is unique in our industry.

Since 1907, our Board of Trustees has annually named a group of three to five policyowners to produce an independent and unrestricted evaluation of company operations, management and strategic plans. We publish the committee's report each year in our Annual Report. Read the entire report at [www.northwesternmutual.com](http://www.northwesternmutual.com).

Over the years, these reports have kept us sensitive to client needs and prompted important improvements in company structure and operations.

"I am thankful that The Northwestern stands firm in a world of shifting sands."

– North Dakota policyowner, 2011

"Thank you for all that you do, essentially the gift of life."

– Missouri policyowner, 2012

"Northwestern Mutual occupies a unique position as one of the few remaining major mutual life insurers and the only major life insurer that sells insurance products exclusively through a career agency distribution system."

– Fitch Ratings, 2014

"The company's management team is well seasoned and clearly manages for long-term stability and strength with a commitment to mutuality and the policyholder."

– Standard & Poor's, 2015

"Over the years, we have always thought in terms of the individual rather than the mass and have consciously built toward a personal relationship between the policyholder, the agent and the company."

– Edmund Fitzgerald, President and CEO, Northwestern Mutual, 1958





# MAINTAINING FINANCIAL STRENGTH

Our mutuality sets us apart financially. We are built to manage well in good times and bad.

On a basic level, of course, financial strength is an obligation. It arises from our commitment to clients, from the financial security they entrust with us. Company founders pioneered a culture of scrupulous responsibility for policyowner funds – to keep long-term financial promises.

Northwestern Mutual has the highest financial strength ratings awarded to any life insurer by all four of the major rating agencies. That says a lot in today’s unpredictable economy.

Our approach to mutuality, including our long-term investment strategy and sharp focus on operating fundamentals, helps us maintain the following financial strength ratings.

FINANCIAL STRENGTH RATINGS	
A.M. Best	A++
Fitch Ratings	AAA
Moody's	Aaa
Standard & Poor's	AA+

A.M. Best Company, A++ (highest), 5/2015; Fitch Ratings, AAA (highest), 11/2014; Moody's Investors Service, Aaa (highest), 6/2015; and Standard & Poor's, AA+ (second highest), 5/2015. Third-party ratings are subject to change.

Ratings are for The Northwestern Mutual Life Insurance Company and Northwestern Long Term Care Insurance Company.







"Northwestern Mutual has been important to my family for so many years."

– Michigan policyowner, 2014

"You sure know how to run a business."

– Wisconsin policyowner, 2013

"There is one overriding factor that connects all of our results – sales, financial and investment results. Everything we do is aimed at helping our clients achieve a lifetime of financial security."

– John Schlifske, Chairman and CEO,  
Northwestern Mutual, 2015

"Everything we do must be done wisely. We won't invest unless we can do it prudently. We won't grow unless it's by our values. And we may not follow the industry if we see opportunity differently. We remain financially strong because we make good decisions. And because we're financially strong, it gives us the power to avoid poor decisions."

– Ed Zore, President and CEO,  
Northwestern Mutual, 2009

"At a time when financial security is a pressing need in this country and consumers face complex needs and increased responsibility for their financial futures, Northwestern Mutual is uniquely positioned to become clients' primary financial security provider."

– Report of the Policyowners'  
Examining Committee, 2014

# THE BUILDING BLOCKS OF MUTUALITY

We are able to offer clients superior value because, as a mutual company, we diligently monitor our business practices and results in four vital areas:

- Mortality
- Expenses
- Client loyalty
- Portfolio management

These building blocks are the groundwork for a mutual company and create advantages for our clients. As you'll see in the four sections that follow, we excel in these areas – and frequently surpass the industry averages by a wide margin.

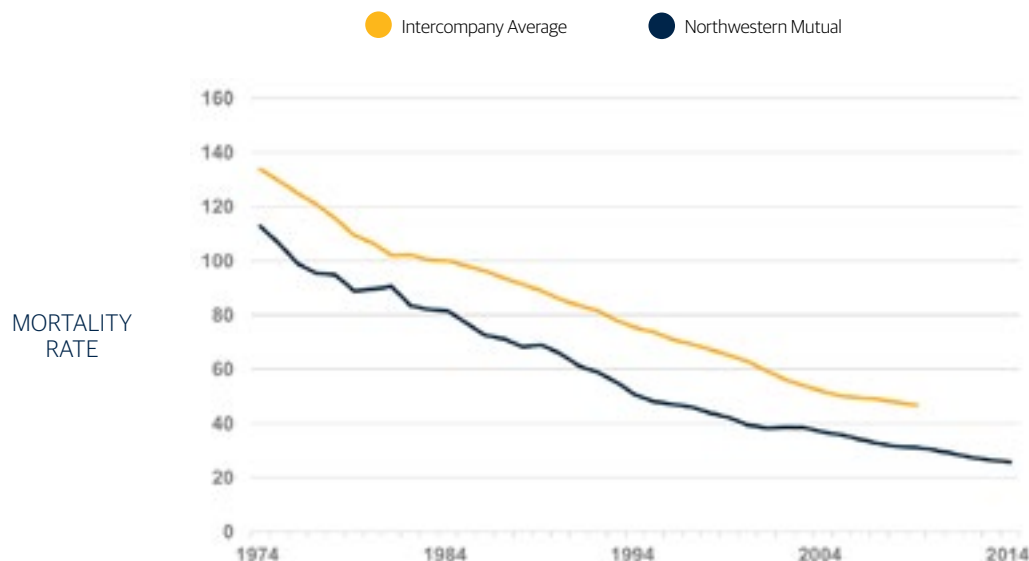
## SUPERIOR MORTALITY RESULTS

Selective underwriting helps drive our superior mortality results. The outcome is that Northwestern Mutual has had some of the best mortality results in the industry.<sup>6</sup> For example, when we pay a death claim, on average the policy has been in force for about 40 years. Because our policyowners tend to live longer, our overall cost of claims is lower than the industry average. This is one factor that enables us to pay more in dividends.

The chart below represents an industry study that compares the mortality rate of Northwestern Mutual and 20 of its major competitors over a period of years. It includes all ages and the best classes of smokers and non-smokers, the vast majority of our policyowners. The chart shows that our policyowners tend to live longer – producing a mortality experience about 35 percent better than the intercompany average.

This is only one building block that contributes to the long-term value we offer.

SOCIETY OF ACTUARIES INTERCOMPANY MORTALITY STUDY



<sup>6</sup>Source: Society of Actuaries Intercompany Mortality Studies – all ages, select period, using the 1975-1980 basic table. Prepared and calculated by Northwestern Mutual. Intercompany Average data is currently available only through 2009.

## KEEPING EXPENSES LOW

Taken together, our careful approach to managing expenses and our favorable claims experience account for a significant portion of the total dividends expected to be paid during 2015.

Our vigilance in keeping costs down has been a hallmark of ours for decades and gives us a strong competitive advantage today. It's another important factor that contributes to the value we offer clients.

The chart below makes this case by comparing the expenses on our principal product line with the industry average. We consistently spend less on expenses than most companies. These savings can contribute to our dividend-paying capacity, thus providing more value to policyowners.

"The ambition of the Northwestern has been less to be large than to be safe; its aim is to rank first in benefits to policyowners rather than first in size."

– Executive Committee, 1888

"Northwestern Mutual has been and continues to make a tremendous difference in my life and gives me confidence in the stability of my future."

– Maine policyowner, 2012

"Fitch considers Northwestern Mutual's key competitive advantages to include its successful distribution system, large and stable block of traditional life insurance, and expense advantage relative to peers."

– Fitch Ratings, 2014

### ORDINARY LIFE EXPENSES AS PERCENTAGE OF PREMIUM

	2012	2013	2014
<b>Northwestern Mutual</b>	<b>18.6%</b>	<b>18.0%</b>	<b>18.0%</b>
John Hancock	18.7	19.0	18.1
Lincoln	20.9	21.5	22.2
Guardian	22.5	23.8	22.7
Pacific Life	22.6	22.7	22.8
New York Life	28.8	29.7	27.8
MetLife	25.3	29.8	28.3
MassMutual	28.6	28.9	28.4
Prudential	24.5	29.8	30.4
Industry Average	25.4	25.6	25.3

Source: SNL Financial. Prepared and calculated by Northwestern Mutual.

## SATISFACTION – OUR CLIENTS KEEP WHAT THEY BUY

Satisfied clients are loyal – they keep what they have purchased. In the insurance world, this is called “persistence.”

We are an industry leader in persistency, and that’s important to you.

- Persistency is perhaps the truest measure of client satisfaction – people voting with their dollars, so to speak.
- Persistency acts as an indicator that the products “fit.” They were properly bought and sold in the first place.

Persistency benefits the company in two ways. First, incoming premiums create a steady cash flow that adds to our investment portfolio. Second, retaining clients gives us a larger base over which to spread expenses. Both can contribute to the dividend payout, resulting in greater value for our policyowners.

In the insurance industry, the “lapse ratio” is the inverse of persistency. Policies lapse when people stop paying their premiums. According to the latest available data, Northwestern Mutual’s annual life insurance lapse ratio is significantly lower than the industry average (see chart below). Persistency and lapse ratios are two sides of the same coin.

“A commandment that flows from our credo is a policy of aggressive fairness. We treat all of our policyowners with the same thorough respect.”

– **Donald J. Schuenke, President and CEO, Northwestern Mutual, 1988**

“Our company has embraced mutuality for 143 years. But ironically, today, as more and more companies abandon the mutual form, the advantage of mutuality is finally getting its rightful attention. We like being a mutual company.”

– **James D. Ericson, President and CEO, Northwestern Mutual, 2000**

“Thank you for running a wonderful company. I recommend Northwestern to everyone any chance I get.”

– **Nevada policyowner, 2011**

“The company has a long-held reputation for safety, stability and performance during difficult times.”

– ***Business Management* magazine, 2008**

### LAPSE RATIO BY INDIVIDUAL LIFE INSURANCE IN FORCE

	2012	2013	2014
<b>Northwestern Mutual</b>	<b>3.5</b>	<b>3.5</b>	<b>3.5</b>
Prudential	4.7	4.8	3.8
MassMutual	5.0	4.7	4.2
Guardian	4.8	4.5	4.2
MetLife	4.3	4.7	4.3
John Hancock	5.9	4.7	4.3
Lincoln	5.6	4.5	4.8
Pacific Life	7.4	6.5	5.0
New York Life	6.2	5.9	5.8
Industry Average	5.9	5.7	5.3

A low lapse ratio means a company has a high retention rate, referred to as persistency. Northwestern Mutual views this as an indicator of client satisfaction with the performance of their policies.



# THE POWER OF OUR PORTFOLIO

How we manage our general account investment portfolio is the final building block of superior value.

The following investment principles guide us to perform well both in good times and in bad.

- Maintain a balance between high-quality fixed income investments and higher-risk assets.
- Diversify among and within asset classes and specific investments.
- Participate in all major asset classes and market sectors.
- Manage risk across the entire investment portfolio and preserve capital to assure financial strength.
- Seek opportunity in investment activity.
- Manage portfolios to maximize total returns.

This strategy has enabled us to maximize total returns with reduced volatility. To learn more about how we invest to create additional value (pie chart below), visit [NorthwesternMutual.com](http://NorthwesternMutual.com) | [About Us](#) | [Financial Information](#) | [Our Investments](#).

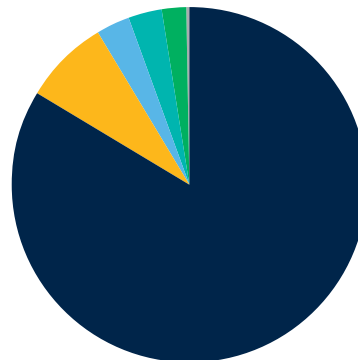
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## ALLOCATION OF MANAGED ASSETS

Dec. 31, 2014 | Total Managed Assets: \$175.5 Billion

Fixed Income Assets: 84%  
Risk Assets<sup>1</sup>: 16%

- 84% ● Investment Grade Fixed Income<sup>2</sup>
- 8% ● Below Investment Grade (High Yield) Fixed Income<sup>2</sup>
- 3% ● Private Common Stock
- 3% ● Real Estate Equities
- 2% ● Public Common Stock
- < 1% ● Strategic Affiliates



<sup>1</sup> Risk assets include below investment grade (high yield) fixed income, public and private stock, real estate equities and strategic affiliates.

<sup>2</sup> Includes both bonds and preferred stock.

Source: SNL Financial. Prepared and calculated by Northwestern Mutual.

# PLANNING FOR A LIFETIME OF FINANCIAL SECURITY

Northwestern Mutual's world-class products result from a vision and passion to be "simply the best" in quality and value.

We have always aimed to:

- Provide superior products.
- Avoid fads and gimmicks.
- Upgrade our insurance policies in both the scope of coverage and ability to provide better benefits at lower costs.

In recent decades, clients have brought to us a broader range of financial security needs. Northwestern Mutual has answered with more complementary products and services. Today, we offer a full spectrum of financial products to address risk management, wealth accumulation, and wealth preservation and distribution needs.

## OUR FINANCIAL REPRESENTATIVES

Through a distinctive planning process, our financial representatives help clients identify their goals and develop a personalized plan using a wide range of insurance and investment solutions.

With access to a team of experts, financial representatives can help clients meet all of their financial security needs, including:

- Wealth and income protection.
- Education planning.
- Business needs analysis.
- Retirement planning.
- Investment advisory, trust and private client services.
- Estate planning.
- Business planning.

And our "mutual advantage" thrives. As we continue to do what's right for clients, we will draw upon the benefits of the culture and values that have defined our company over time: build long-term relationships to meet client needs, build and preserve financial strength and provide expert guidance.

"Northwestern Mutual's field force is one of the best trained, most productive and efficient distribution forces in the industry."  
– Moody's Investors Service, 2015

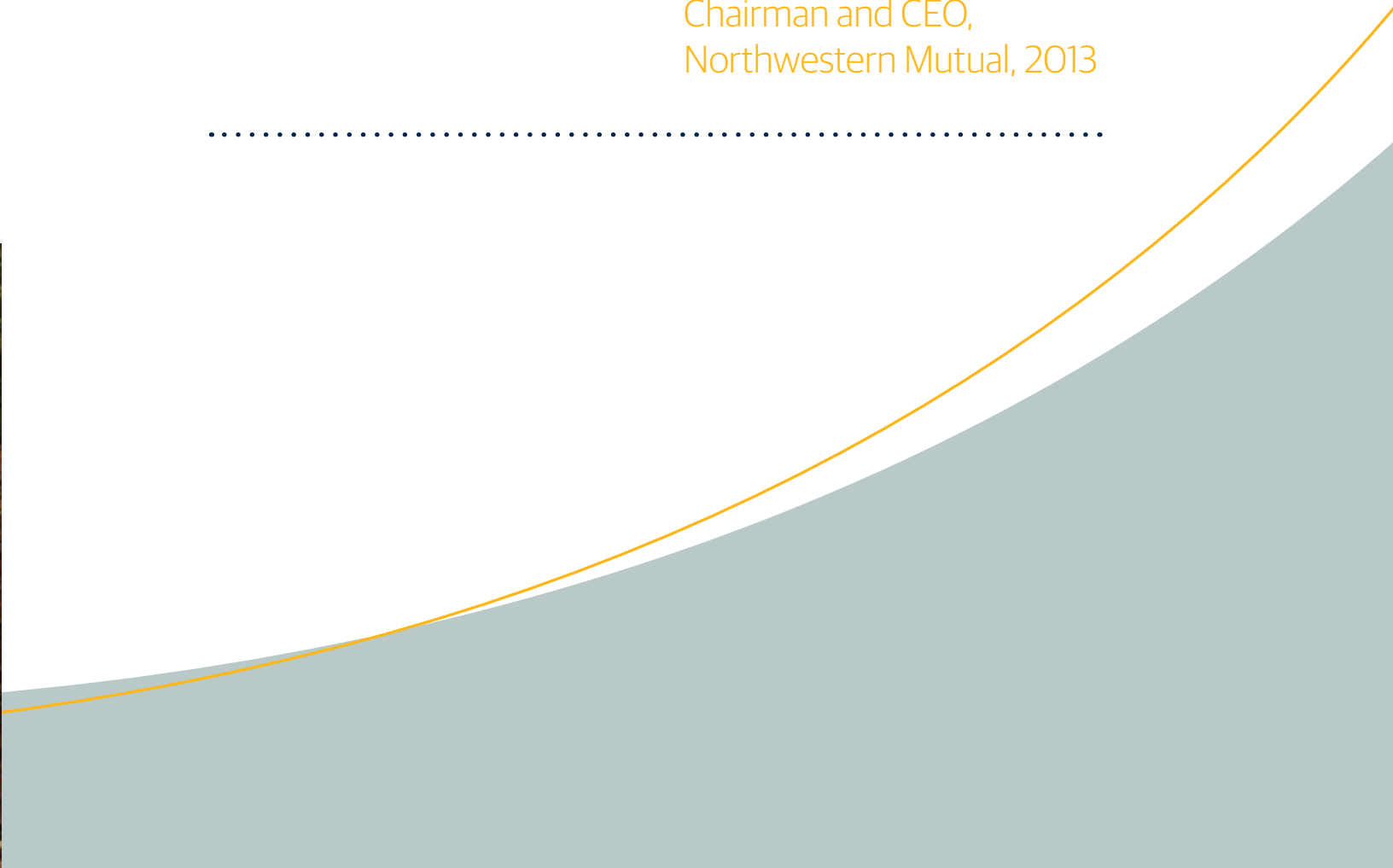


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"We have the products,  
the planning, the advice  
and – best of all – the  
financial representatives  
to take care of anyone  
at any age."

– John Schlifske,  
Chairman and CEO,  
Northwestern Mutual, 2013

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"Northwestern Mutual has an extremely strong competitive position, which reflects a strong and respected brand, a competitive product portfolio, and leading operating fundamentals relative to peers."

– Standard & Poor's, 2014

Northwestern Mutual is the marketing name for The Northwestern Mutual Life Insurance Company (NM), Milwaukee, WI (life and disability insurance, annuities) and its subsidiaries. Northwestern Long Term Care Insurance Company (NLTC), Milwaukee, WI, (long-term care insurance) subsidiary of NM. **Northwestern Mutual Investment Services, LLC**, (securities and investment advisory programs) subsidiary of NM, broker-dealer, registered investment adviser, member FINRA and SIPC. Northwestern Mutual Wealth Management Company® (NMWMC), Milwaukee, WI, (investment management, trust services, and fee-based financial planning) subsidiary of NM, limited purpose federal savings bank.

Products and services are offered through properly credentialed Northwestern Mutual financial representatives. Many Northwestern Mutual financial representatives can offer some but not all of the products and services described. Investment advisory services are only offered through properly affiliated representatives of NMIS and NMWMC.