

# Prospectus

Penn Mutual  
Variable Annuity Account III

May 1, 2016



Diversifier II Variable Annuity



PROSPECTUS — MAY 1, 2016

## Individual Annuity Contracts with Variable Benefit Provisions - Flexible Purchase Payments

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### DIVERSIFIER II

#### PENN MUTUAL VARIABLE ANNUITY ACCOUNT III

THE PENN MUTUAL LIFE INSURANCE COMPANY

Philadelphia, Pennsylvania 19172 • Telephone (800) 523-0650

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This prospectus describes two annuity contracts (“Contracts”) offered by the Penn Mutual Life Insurance Company (“Penn Mutual” or the “Company”) and contains information that you should know before purchasing a Contract. Please read it carefully and save it for future reference.

Each Contract is an agreement between you and Penn Mutual. One Contract is an individual fixed and variable annuity contract. The other is a variable annuity contract that is available only if you own a companion fixed annuity contract issued by us.

Under either Contract, you agree to make one or more payments to us and we agree to pay annuity and other benefits at a future date. The Contract

- has a variable component, which means that your Variable Account Value and any variable payout will be based upon investment experience (see investment options on next page),
- is tax-deferred, which means that you will not pay taxes until we begin to make annuity payments to you or you take money out, and
- allows you to choose to receive your annuity payments over different periods of time, including your lifetime.

**The Securities and Exchange Commission has not approved or disapproved these securities or determined whether this prospectus is truthful or complete. It is a crime for anyone to tell you otherwise.**

**The Contracts are not suitable for short-term investment. You may pay a deferred sales charge on early withdrawals. If you withdraw money before age 59  $\frac{1}{2}$ , you may pay a 10% additional income tax. Your Contract is not a bank deposit and is not federally insured.**

**You may return your Contract within ten days of receipt for a full refund of the Contract Value (or purchase payments, if required by law). Longer free look periods apply in some states. To return your Contract, simply deliver or mail it to our office or to our representative who delivered the Contract to you. The date of the cancellation will be the date we receive your Contract. Your purchase payment will be allocated to the Subaccounts you have selected on the date we issue your Contract.**

You may obtain a Statement of Additional Information, dated May 1, 2016, from us free of charge by writing to The Penn Mutual Life Insurance Company, Attn: SAI Request — CNN, Philadelphia, PA 19172 or by visiting our web site at [www.pennmutual.com](http://www.pennmutual.com). Or you can call us at 800-523-0650. The Statement of Additional Information contains more information about the Contract. It is filed with the Securities and Exchange Commission (the “Commission”) and we incorporate it by reference into this prospectus. The table of contents of the Statement of Additional Information is at the end of this prospectus.

The Commission maintains a web site (<http://www.sec.gov>) that contains this prospectus, the Statement of Additional Information, material incorporated by reference, and other information regarding registrants that file electronically with the Commission.

Under either Contract, you may direct us to invest your payments in one or more of the following underlying funds (the “Funds”) through Penn Mutual Variable Annuity Account III (the “Separate Account”).

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<b>Penn Series Funds, Inc.</b>	<b>Manager</b>
Money Market Fund	Penn Mutual Asset Management, Inc.
Limited Maturity Bond Fund	Penn Mutual Asset Management, Inc.
Quality Bond Fund	Penn Mutual Asset Management, Inc.
High Yield Bond Fund	T. Rowe Price Associates, Inc.
Flexibly Managed Fund	T. Rowe Price Associates, Inc.
Balanced Fund	Penn Mutual Asset Management, Inc.
Large Growth Stock Fund	T. Rowe Price Associates, Inc.
Large Cap Growth Fund	MFS Investment Management
Large Core Growth Fund	Wells Capital Management, Inc.
Large Cap Value Fund	Loomis, Sayles & Company, L.P.
Large Core Value Fund	Eaton Vance Management
Index 500 Fund	SSGA Funds Management, Inc.
Mid Cap Growth Fund	Ivy Investment Management Company
Mid Cap Value Fund	Neuberger Berman Investment Advisers LLC
Mid Core Value Fund	American Century Investment Management, Inc.
SMID Cap Growth Fund	Wells Capital Management, Inc.
SMID Cap Value Fund	AllianceBernstein L.P.
Small Cap Growth Fund	Janus Capital Management LLC
Small Cap Value Fund	Goldman Sachs Asset Management L.P.
Small Cap Index Fund	SSGA Funds Management, Inc.
Developed International Index Fund	SSGA Funds Management, Inc.
International Equity Fund	Vontobel Asset Management, Inc.
Emerging Markets Equity Fund	Morgan Stanley Investment Management, Inc.
Real Estate Securities Fund	Cohen & Steers Capital Management, Inc.
Aggressive Allocation Fund	Penn Mutual Asset Management, Inc.
Moderately Aggressive Allocation Fund	Penn Mutual Asset Management, Inc.
Moderate Allocation Fund	Penn Mutual Asset Management, Inc.
Moderately Conservative Allocation Fund	Penn Mutual Asset Management, Inc.
Conservative Allocation Fund	Penn Mutual Asset Management, Inc.

**A prospectus for each of these Funds accompanies this prospectus.**

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## GLOSSARY

**Accumulation Period:** A period that begins with your first purchase payment and ends on the Annuity Date.

**Accumulation Unit:** If you own a Variable/Fixed Contract, this is a unit of measure used to compute the Variable Account Value under the Contract prior to the Annuity Date. If you own a Variable Contract, this is a unit of measure used to compute Contract Value prior to the Annuity Date.

**Administrative Office:** A reference to our administrative office means The Penn Mutual Life Insurance Company, Administrative Office, 600 Dresher Road, Horsham, Pennsylvania 19044.

**Annuitant:** The person during whose life annuity payments are made.

**Annuity Date:** The date on which annuity payments start.

**Annuity Payout Period:** The period of time, starting on the Annuity Date, during which we make annuity payments.

**Annuity Unit:** A unit of measure used to calculate the amount of each variable annuity payment.

**Beneficiary:** The person(s) named by the Contract Owner to receive the death benefit payable upon the death of the Contract Owner or Annuitant.

**Code:** The Internal Revenue Code of 1986, as amended.

**Contract:** The combination variable and fixed annuity contract or the variable annuity contract described in this prospectus.

**Contract Owner:** The person named in the Contract as the Contract Owner.

**Contract Value:** If you own a Variable/Fixed Contract, this is the sum of the Variable Account Value and the Fixed Interest Account Value. If you own a Variable Contract, this is the Variable Account Value.

**Contract Year:** Each twelve-month period following the contract date.

**Fixed Interest Account Value:** The value of amounts held under the Variable/Fixed Contract in the fixed interest account.

**Fund:** An open-end management investment company registered with the Securities and Exchange Commission (commonly known as a “mutual fund”) in which a Subaccount of a Separate Account invests all of its assets.

**Separate Account:** Penn Mutual Variable Annuity Account III, a separate account of The Penn Mutual Life Insurance Company that is registered with the Securities and Exchange Commission as a unit investment trust under the Investment Company Act of 1940, as amended.

**Subaccount:** A division of the Separate Account which holds shares of the Funds.

**Valuation Period:** The period from one valuation of Separate Account assets to the next. Valuation is performed on each day the New York Stock Exchange is open for trading.

**Variable Account Value:** The value of amounts held under the Contract in all Subaccounts of the Separate Account.

**Variable Contract:** The variable annuity contract described in this prospectus.

**Variable/Fixed Contract:** The combination variable and fixed annuity contract described in this prospectus.

**We or Us:** “We” or “us” means The Penn Mutual Life Insurance Company, also referred to in this prospectus as Penn Mutual or the Company.

**You:** “You” means the Contract Owner or prospective Contract Owner.



**EXPENSES**

The following tables describe the fees and expenses that you will pay when buying, owning, and surrendering the Contract. The first table describes the fees and expenses that you will pay at the time you buy the Contract, surrender the Contract, or transfer cash value between investment options. State premium taxes may also be deducted.

**Contract Owner Transaction Expenses**

Sales Load Imposed on Purchase Payments .....	None
Maximum Contingent Deferred Sales Charge	
Variable/Fixed Contract .....	7% <sup>(a)</sup>
Variable Contract .....	5% <sup>(b)</sup>
Transfer Fee .....	None

The next table describes the fees and expenses that you will pay periodically during the time that you own the Contract, not including Fund fees and expenses.

<b>Maximum Annual Contract Administration Charge</b> .....	\$30 <sup>(c)</sup>
<b>Separate Account Annual Expenses (as a percentage of Variable Account Value)</b>	
Mortality and Expense Risk Charge .....	1.25%
Account Fees and Expenses .....	None
<b>Total Separate Account Annual Expenses</b>	1.25%

- (a) You pay this charge as a percentage of the amount that you withdraw. This charge will never be more than 8 1/2% of the purchase payments that you allocate to the Separate Account. After your first Contract Year, you will not pay this charge on your first withdrawal in a Contract Year unless it exceeds 10% of your Contract Value. See **What Charges Do I Pay?** in this prospectus.
- (b) You pay this charge as a percentage of the amount that you withdraw, or as a percentage of the total purchase payments that you made within seven years of the withdrawal, whichever is less. You will not pay this charge on that portion of the first withdrawal that you make in a Contract Year that does not exceed 10% of the purchase payments that you made one year or more prior to the withdrawal. See **What Charges Do I Pay?** in this prospectus.
- (c) You pay \$30 or 2% of the Variable Account Value, whichever is less. See **What Charges Do I Pay?** in this prospectus.

The next item shows the minimum and maximum total operating expenses charged by the Funds that you may pay periodically during the time that you own the Contract. More detail concerning each Fund’s fees and expenses is contained in the prospectus for each Fund.

<b>Maximum and Minimum Total Fund Operating Expenses</b>	<u>Minimum:</u>	<u>Maximum:</u>
(expenses that are deducted from assets of the Funds, including management fees and other expenses) .....	0.38%	1.68%

The following table provides more specific detail about the total fund operating expenses for each fund.

**Penn Series Funds, Inc.**

**Underlying Fund Annual Expenses (as a % of an Underlying Fund's average daily net assets)**

<b>Fund<sup>(1)</sup></b>	<b>Investment Advisory Fees</b>	<b>Other Expenses</b>	<b>Acquired Fund Fees and Expenses</b>	<b>Total Fund Expenses</b>
Money Market	0.33% <sup>(2)</sup>	0.28%	0.00%	0.61%
Limited Maturity Bond	0.46%	0.27%	0.00%	0.73%
Quality Bond	0.44%	0.24%	0.00%	0.68%
High Yield Bond	0.56%	0.31%	0.00%	0.87%
Flexibly Managed	0.70%	0.22%	0.02%	0.94% <sup>(3)</sup>
Balanced	0.00%	0.21%	0.50%	0.71% <sup>(3)</sup>
Large Growth Stock	0.71%	0.27%	0.00%	0.98%
Large Cap Growth	0.55%	0.34%	0.00%	0.89%
Large Core Growth	0.60%	0.27%	0.00%	0.87%
Large Cap Value	0.66%	0.26%	0.00%	0.92%
Large Core Value	0.67%	0.25%	0.00%	0.92%
Index 500	0.13%	0.25%	0.00%	0.38%
Mid Cap Growth	0.70%	0.30%	0.00%	1.00%
Mid Cap Value	0.55%	0.26%	0.01%	0.82% <sup>(3)</sup>
Mid Core Value	0.72%	0.35%	0.01%	1.08% <sup>(3)</sup>
SMID Cap Growth	0.75%	0.32%	0.00%	1.07%
SMID Cap Value	0.95%	0.28%	0.00%	1.23%
Small Cap Growth	0.74%	0.29%	0.00%	1.03%
Small Cap Value	0.72%	0.27%	0.03%	1.02% <sup>(3)</sup>
Small Cap Index	0.30%	0.39%	0.00%	0.69%
Developed International Index	0.30%	0.53%	0.00%	0.83%
International Equity	0.85%	0.30%	0.00%	1.15%
Emerging Markets Equity	1.18%	0.50%	0.00%	1.68%
Real Estate Securities	0.70%	0.27%	0.00%	0.97%
Aggressive Allocation	0.12%	0.22%	0.99%	1.33% <sup>(3)</sup>
Moderately Aggressive Allocation	0.12%	0.20%	0.93%	1.25% <sup>(3)</sup>
Moderate Allocation	0.12%	0.20%	0.86%	1.18% <sup>(3)</sup>
Moderately Conservative Allocation	0.12%	0.21%	0.80%	1.13% <sup>(3)</sup>
Conservative Allocation	0.12%	0.22%	0.72%	1.06% <sup>(3)</sup>

(1) The Funds are subject to an expense limitation agreement under which a portion of each Fund's fees and expenses will be waived and/or reimbursed to the extent necessary to keep total operating expenses of each Fund from exceeding the amounts shown below. This agreement is limited to a Fund's direct operating expenses and, therefore, does not apply to nonrecurring account fees, fees on portfolio transactions, such as exchange fees, dividends and interest on securities sold short, acquired fund fees and expenses ("AFFE"), service fees, interest, taxes, brokerage commissions, other expenditures which are capitalized in accordance with generally accepted accounting principles, and other non-routine expenses or extraordinary expenses not incurred in the ordinary course of the Fund's business. Notwithstanding the foregoing, for the Balanced Fund, AFFE shall be included as a direct operating expense of the Fund for purposes of the expense limitation agreement. Further, this agreement is expected to continue through April 30, 2017. The agreement may be terminated by a majority vote of the Board of Directors of Penn Series Funds, Inc. for any reason and at any time. The agreement may also be terminated, by the Fund's investment adviser and Penn Mutual, for any reason, upon at least sixty (60) days' prior written notice to Penn Series Funds, Inc., such termination to be effective as of the close of business on April 30, 2017, or at such earlier time provided that such termination is approved by a majority vote of the Board of Directors of Penn Series Funds, Inc. and its Independent Directors (the Directors who are not "interested persons" of the Fund) voting separately. Unless terminated, this agreement will continue in effect from year to year for successive one-year periods. Under this agreement, to the extent Penn Mutual and the Funds' investment adviser do not have an obligation to waive fees and/or reimburse expenses of a Fund (e.g., the Fund is operating at or below its expense limitation), Penn Mutual and the Fund's investment adviser may seek reimbursement from the Fund for amounts previously waived or reimbursed by Penn Mutual and the Fund's investment adviser, if any, during the Fund's

preceding three fiscal years. Penn Mutual and the Funds' investment adviser, however, shall not be entitled to any reimbursement that would cause a Fund to exceed its expense limitation.

<u>Fund</u>	<u>Expense Limitation</u>	<u>Fund</u>	<u>Expense Limitation</u>
Money Market	0.64%	SMID Cap Growth	1.07%
Limited Maturity Bond	0.74%	SMID Cap Value	1.26%
Quality Bond	0.73%	Small Cap Growth	1.13%
High Yield Bond	0.92%	Small Cap Value	1.02%
Flexibly Managed	0.94%	Small Cap Index	0.74%
Balanced	0.79%	Developed International Index	0.94%
Large Growth Stock	1.02%	International Equity	1.20%
Large Cap Growth	0.89%	Emerging Markets Equity	1.78%
Large Core Growth	0.90%	Real Estate Securities	1.02%
Large Cap Value	0.96%	Aggressive Allocation	0.40%
Large Core Value	0.96%	Moderately Aggressive Allocation	0.34%
Index 500	0.42%	Moderate Allocation	0.34%
Mid Cap Growth	1.00%	Moderately Conservative Allocation	0.35%
Mid Cap Value	0.83%	Conservative Allocation	0.38%
Mid Core Value	1.11%		

- (2) The Money Market Fund's actual total operating expenses for the most recent year were less than the Fund's expense limitation amount shown above because the Fund's investment adviser and Penn Mutual voluntarily waived and/or reimbursed expenses to the extent necessary to maintain the Fund's net yield at a certain level as determined by Penn Mutual and the Fund's investment adviser. Penn Mutual and the Fund's investment adviser may recapture from the Fund any of these expenses or fees they have waived and/or reimbursed until the third anniversary of the end of the fiscal year in which such waiver and/or reimbursement occurs, subject to certain limitations. This recapture could negatively affect the Fund's future yield. During the prior fiscal year, the Money Market Fund did not reimburse the Fund's investment adviser or Penn Mutual for previously waived or reimbursed fees and expenses.
- (3) The Total Annual Fund Operating Expenses of each Fund may not correlate to the expense ratios in the Fund's financial highlights. Financial statements reflect only the operating expenses of the Fund and do not include AFPE, which are fees and expenses incurred indirectly by the Fund through its investments in certain underlying investment companies.

Please review these tables carefully. They show the expenses that you pay directly and indirectly when you purchase a Contract. Your expenses include Contract expenses and the expenses of the Funds that you select. See the prospectus of Penn Series Funds, Inc. for additional information on Fund expenses.

You also may pay premium taxes. These tables and the examples that follow do not show the effect of premium taxes. See **What Charges Do I Pay?** in this prospectus.

#### **EXAMPLES OF FEES AND EXPENSES**

This Example is intended to help you compare the cost of investing in the Contract with the cost of investing in other variable annuity contracts. These costs include Contract Owner transaction expenses, Contract fees, Separate Account annual expenses, and Fund fees and expenses.

The Example assumes that you invest \$10,000 in the Contract for the time periods indicated and that your investment has a 5% return each year. Although your actual costs may be higher or lower, based on these assumptions, your costs would be:

- (1) If you surrender your Variable Contract at the end of the applicable time period:

	<u>One Year</u>	<u>Three Years</u>	<u>Five Years</u>	<u>Ten Years</u>
Assuming Maximum Total Annual Fund Expenses	\$802	\$1,404	\$2,071	\$3,306
Assuming Minimum Total Annual Fund Expenses	\$672	\$1,032	\$1,416	\$1,995

- (2) If you do not surrender your Contract or if you annuitize at the end of the applicable time period:

	<u>One Year</u>	<u>Three Years</u>	<u>Five Years</u>	<u>Ten Years</u>
Assuming Maximum Total Annual Fund Expenses	\$302	\$924	\$1,571	\$3,306
Assuming Minimum Total Annual Fund Expenses	\$172	\$532	\$916	\$1,995

- (3) If you surrender your Variable/Fixed Contract at the end of the applicable time period and made purchase payments only during the first Contract Year:

	<u>One Year</u>	<u>Three Years</u>	<u>Five Years</u>	<u>Ten Years</u>
Assuming Maximum Total Annual Fund Expenses	\$946	\$1,404	\$1,872	\$3,306
Assuming Minimum Total Annual Fund Expenses	\$825	\$1,033	\$1,240	\$1,995

- (4) If you surrender your Variable/Fixed Contract at the end of the applicable time period and made purchase payments after the first Contract Year:

	<u>One Year</u>	<u>Three Years</u>	<u>Five Years</u>	<u>Ten Years</u>
Assuming Maximum Total Annual Fund Expenses	\$946	\$1,404	\$1,922	\$3,418
Assuming Minimum Total Annual Fund Expenses	\$825	\$1,033	\$1,293	\$2,124

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## CONDENSED FINANCIAL INFORMATION

Appendix A to this prospectus contains tables that show Accumulation Unit values and the number of Accumulation Units outstanding for each of the Subaccounts of the Separate Account. The financial data included in the tables should be read in conjunction with the financial statements and the related notes that are included in the Statement of Additional Information.

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## FINANCIAL STATEMENTS

The financial statements of the Separate Account and the statutory financial statements of the Company appear in the Statement of Additional Information. The statutory financial statements of the Company should be considered only as bearing upon the Company's ability to meet its obligations under the Contracts.

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## THE PENN MUTUAL LIFE INSURANCE COMPANY

Penn Mutual is a Pennsylvania mutual life insurance company chartered in 1847. We are located at 600 Dresher Road, Horsham, PA 19044. Our mailing address is The Penn Mutual Life Insurance Company Attn: Customer Service Group, Philadelphia, PA 19172. We issue and are liable for all benefits and payments under the Contracts.

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## THE SEPARATE ACCOUNT

Penn Mutual established Penn Mutual Variable Annuity Account III (the "Separate Account") on April 13, 1982. The Separate Account is registered with the Securities and Exchange Commission as a unit investment trust and is a "separate account" within the meaning of the federal securities laws. The Separate Account is divided into Subaccounts that invest in shares of different mutual funds.

- The income, gains and losses, whether or not realized, of Penn Mutual do not have any effect on the income, gains or losses of the Separate Account or any Subaccount.

- The Separate Account and its Subaccounts are not responsible for the liabilities of any other business of Penn Mutual.

The financial statements of the Subaccounts of the Separate Account for the year ended December 31, 2015 are included in the Statement of Additional Information referred to on the cover page of this prospectus.

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## Investment Options in the Separate Account

The Separate Account currently has Subaccounts that invest in the following Funds:

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### Penn Series Funds, Inc.

**Money Market Fund** — The Fund is a government money market fund that seeks current income, while preserving capital and liquidity, and will invest no less than 99.5% of its total assets in government securities, cash or repurchase agreements that are collateralized fully by government securities or cash. The Fund may invest only in U.S. dollar-denominated securities that are determined to present minimal credit risk and meet certain other criteria, including relating to maturity, diversification, liquidity and credit quality.

**Limited Maturity Bond Fund** — The Fund seeks to maximize total return consistent with preservation of capital by investing, under normal circumstances, at least 80% of its net assets, plus the amount of any borrowings for investment purposes, in short- to intermediate-term investment grade debt securities of U.S. government and corporate issuers, including mortgage-backed and asset-backed securities.

**Quality Bond Fund** — The Fund seeks to maximize total return over the long term consistent with the preservation of capital by investing, under normal circumstances, at least 80% of its net assets, plus the amount of any borrowings for investment purposes, in marketable investment grade debt securities, which are those securities rated BBB- or higher by S&P, Baa3 or higher by Moody's, or the equivalent by any other nationally recognized statistical rating organization, or, if unrated, determined by the Fund's investment adviser to be of comparably quality.

**High Yield Bond Fund** — The Fund seeks to realize high current income by investing, under normal circumstances, at least 80% of its net assets, plus the amount of any borrowings for investment purposes, in a widely diversified portfolio of high yield corporate bonds, often called "junk bonds," income-producing convertible securities and preferred stocks that are rated below investment-grade or not rated by any major credit rating agency but deemed to be below investment-grade by the Fund's sub-adviser.

**Flexibly Managed Fund** — The Fund seeks to maximize total return (capital appreciation and income) by investing primarily in common stocks of established U.S. companies that the Fund believes have above-average potential for capital growth.

**Balanced Fund** — The Fund seeks to achieve long-term growth and current income by using a "fund-of-funds" strategy and investing in a combination of other portfolios of Penn Series Funds, Inc. in accordance with the Fund's target asset allocation. Under normal circumstances, the Fund will invest 50%-70% of its assets in stock and other equity underlying funds, 30%-50% of its assets in bond and other fixed income funds, and 0%-20% of its assets in money market funds. The Fund also may invest directly in equity and fixed income securities and cash equivalents, including money market securities.

**Large Growth Stock Fund** — The Fund seeks to achieve long-term growth of capital and increase of future income by investing, under normal circumstances, at least 80% of its net assets, plus the amount of any borrowings for investment purposes, in common stocks of large capitalization companies (companies with market capitalizations that fall within the market capitalization range of companies in the Russell 1000® Growth Index at the time of purchase). The Fund invests primarily in common stocks of well established companies the Fund's sub-adviser believes have long-term growth potential as well as companies that have the ability to pay increasing dividends through strong cash flow.

**Large Cap Growth Fund** — The Fund seeks to achieve long-term capital appreciation by investing, under normal circumstances, at least 80% of its net assets, plus the amount of any borrowings for investment purposes, in common stocks of U.S. companies with large market capitalizations (companies with market capitalizations of more than \$3 billion at the time of purchase). The Fund invests in the stocks of companies its sub-adviser believes to have above average earnings growth potential compared to other companies.

**Large Core Growth Fund** — The Fund seeks to achieve long-term growth of capital (capital appreciation) by investing primarily in common and preferred stocks of large capitalization U.S. companies (companies that have market capitalizations that fall within the market capitalization range of companies in the Russell 1000<sup>®</sup> Growth Index at the time of purchase). Under normal circumstances, the Fund invests at least 80% of its net assets, plus the amount of any borrowings for investment purposes, in securities of large capitalization companies. The Fund invests principally in equity securities of large capitalization companies that offer the potential for capital growth, with an emphasis on identifying companies that have the prospect for improving sales and earnings growth rates, enjoy a competitive advantage and have effective management with a history of making investments that are in the best interests of shareholders.

**Large Cap Value Fund** — The Fund seeks to achieve long-term growth of capital by investing primarily in equity securities, of U.S. and non-U.S. incorporated entities, including, but not limited to common stock, American Depositary Receipts (ADRs), equity real estate investment trust securities (REITs), preferred securities and convertible preferred securities. Under normal circumstances, the Fund invests at least 80% of its net assets, plus the amount of any borrowings for investment purposes, in equity securities of large capitalization companies (companies that have market capitalizations of more than \$2 billion at the time of purchase). The Fund primarily invests in common stocks that its portfolio manager deems to be underpriced relative to long-term earnings and for cash flow potential.

**Large Core Value Fund** — The Fund seeks to achieve total return by investing primarily in value stocks of large capitalization companies (companies that have market capitalizations equal to or greater than the median capitalization of companies included in the Russell 1000<sup>®</sup> Value Index at the time of purchase). Under normal circumstances, the Fund invests at least 80% of its net assets, plus the amount of any borrowings for investment purposes, in securities of large capitalization companies. Value stocks are stocks that, in the opinion of the Fund's sub-adviser, are inexpensive or undervalued relative to the overall stock market.

**Index 500 Fund** — The Fund seeks to achieve total return (capital appreciation and income) which corresponds to that of the S&P 500<sup>®</sup> Index by investing, under normal circumstances, at least 80% of its net assets, plus the amount of any borrowings for investment purposes, in securities listed in the S&P 500<sup>®</sup> Index. Under normal circumstances, however, the Fund intends to invest substantially all of its assets in securities of companies included in the S&P 500<sup>®</sup> Index and close substitutes (such as index futures contracts) that are designed to track the S&P 500<sup>®</sup> Index.

**Mid Cap Growth Fund** — The Fund seeks to maximize capital appreciation by investing, under normal circumstances, at least 80% of its net assets, plus the amount of any borrowings for investment purposes, in equity securities of mid-cap companies (companies that have market capitalizations that fall within the market capitalization range of companies in the Russell MidCap<sup>®</sup> Growth Index at the time of purchase). The Fund invests in equity securities of companies that the Fund's sub-adviser believes have strong earnings growth potential and that are diversified across economic sectors.

**Mid Cap Value Fund** — The Fund seeks to achieve growth of capital by investing, under normal market conditions, at least 80% of its net assets, plus the amount of any borrowings for investment purposes, in equity securities of mid-cap companies (companies that have market capitalizations that fall within the market capitalization range of companies in the Russell MidCap<sup>®</sup> Index at the time of purchase). The Fund seeks to invest in the equity securities of high quality companies that the Fund's sub-adviser believes are trading at a substantial discount to their intrinsic value where there is a strategic plan or event that is expected to both enhance value and narrow the value/price gap.

**Mid Core Value Fund** — The Fund seeks to achieve capital appreciation by investing, under normal circumstances, at least 80% of its net assets in equity securities of medium capitalization companies (companies whose market capitalization at the time of purchase is within the capitalization range of the Russell 3000<sup>®</sup> Index, excluding the largest 100 such companies). The Fund seeks to invest in undervalued companies and hold each stock until the price has increased to, or is higher than, a level the Fund's sub-adviser believes more accurately reflects the fair value of the company.

**SMID Cap Growth Fund** — The Fund seeks to achieve long-term growth of capital (capital appreciation) by investing primarily in common stocks of small and medium capitalization U.S. companies (companies that have market capitalizations that fall within the market capitalization range of companies in the Russell 2500<sup>®</sup> Growth Index at the time of purchase) that offer the potential for capital growth, with an emphasis on identifying companies that have the prospect for improving sales and earnings growth rates, enjoy a competitive advantage and have effective management with a history of making investments that are in the best interests of shareholders. Under normal circumstances, the Fund invests at least 80% of its net assets, plus the amount of any borrowings for investment purposes, in securities of small and medium capitalization companies.

**SMID Cap Value Fund** — The Fund seeks to achieve long-term growth of capital by investing primarily in a diversified portfolio of equity securities of small and medium capitalization U.S. companies, generally representing 60 to 125 companies (companies that, at the time of investment, fall within the capitalization range between the smallest company in the Russell 2500<sup>™</sup> Value Index and the greater of \$5 billion or the market capitalization of the largest company in the Russell 2500<sup>™</sup> Value Index). Under normal circumstances, the Fund invests at least 80% of its net assets, plus the amount of any borrowings for investment purposes, in securities of small and medium capitalization companies. The Fund invests in companies that are determined by the Fund's sub-adviser to be undervalued using its fundamental value approach.

**Small Cap Growth Fund** — The Fund seeks to achieve capital appreciation by investing, under normal circumstances, at least 80% of its net assets, plus the amount of any borrowings for investment purposes, in equity securities of small capitalization companies (companies that have market capitalizations of less than \$4 billion at the time of purchase). The small capitalization companies in which the Fund invests are selected for their growth potential.

**Small Cap Value Fund** — The Fund seeks to achieve capital appreciation by investing, under normal circumstances, at least 80% of its net assets, plus the amount of any borrowings for investment purposes, in a diversified portfolio of equity investments in small-cap issuers with public stock market capitalizations (based upon shares available for trading on an unrestricted basis) within the range of the market capitalization of companies constituting the Russell 2000<sup>®</sup> Value Index at the time of investment. The Fund invests in equity securities that the Fund's sub-adviser believes to be underpriced relative to a combination of such companies' long term earnings prospects, growth rate, free cash flow and/or dividend-paying ability.

**Small Cap Index Fund** — The Fund seeks to replicate the returns and characteristics of a small cap index by investing, under normal circumstances, at least 80% of its net assets, plus the amount of any borrowings for investment purposes, in securities listed in the Russell 2000<sup>®</sup> Index. Under normal circumstances, however, the Fund intends to invest substantially all of its assets in securities of companies included in the Russell 2000<sup>®</sup> Index and close substitutes (such as index futures contracts or other investment companies) that are designed to track the Russell 2000<sup>®</sup> Index.

**Developed International Index Fund** — The Fund seeks to replicate the returns and characteristics of an international index composed of securities from developed countries by investing, under normal circumstances, at least 80% of its net assets, plus the amount of any borrowings for investment purposes, in securities listed in the Morgan Stanley Capital International<sup>®</sup> Europe, Australasia, Far East (MSCI EAFE) Index. Under normal circumstances, however, the Fund intends to invest substantially all of its assets in securities of companies included in the MSCI EAFE Index (including American Depositary Receipts and Global Depositary Receipts) and close substitutes (such as index futures contracts) that are designed to track the MSCI EAFE Index.

**International Equity Fund** — The Fund seeks to achieve capital appreciation by investing, under normal circumstances, at least 80% of its net assets, plus the amount of any borrowings for investment purposes, in equity securities, such as common stocks, preferred stocks, convertible bonds, and warrants. The Fund will invest primarily in companies operating in the countries in Europe and the Pacific Basin.

**Emerging Markets Equity Fund** — The Fund seeks to achieve capital appreciation by investing, under normal circumstances, at least 80% of its total assets in equity securities located in emerging market countries. For the Fund, an issuer is considered to be located in an emerging market country if, at the time of investment: (i) its principal securities trading market is in an emerging market country, (ii) alone or on a consolidated basis it derives 50% or more of its annual revenue from goods produced, sales made or services performed in emerging market countries, or (iii) it is organized under the laws of, or has a principal office in, an emerging market country.

**Real Estate Securities Fund** — The Fund seeks to achieve a high total return consistent with reasonable investment risks by investing, under normal circumstances, at least 80%, and normally substantially all, of its net assets, plus the amount of any borrowings for investment purposes, in common stocks and other equity securities issued by real estate companies, including real estate investment trusts.

**Aggressive Allocation Fund** — The Fund seeks to achieve long-term capital growth consistent with its asset allocation strategy by using a “fund-of-funds” strategy and investing in a combination of other portfolios of Penn Series Funds, Inc. in accordance with its target asset allocations (85%-100% of its assets in equity funds and 0%-15% of its assets in fixed income and money market funds). The portfolio of the Fund is more heavily allocated to stocks, and reflects an aggressive approach.

**Moderately Aggressive Allocation Fund** — The Fund seeks to achieve long-term capital growth and current income consistent with its asset allocation strategy by using a “fund-of-funds” strategy and investing in a combination of other portfolios of Penn Series Funds, Inc. in accordance with its target asset allocations (70%-100% of its assets in equity funds and 0%-30% of its assets in fixed income and money market funds). The portfolio of the Fund is more heavily allocated to stocks, and reflects a moderately aggressive approach.

**Moderate Allocation Fund** — The Fund seeks to achieve long-term capital growth and current income consistent with its asset allocation strategy by using a “fund-of-funds” strategy and investing in a combination of other portfolios of Penn Series Funds, Inc. in accordance with its target asset allocations (50%-70% of its assets in equity funds and 30%-50% of its assets in fixed income and money market funds). The portfolio of the Fund is allocated among stock, bond and cash investments with a majority of its assets allocated to stocks, and is designed to offer investors an investment option that is less aggressive than the Penn Series Aggressive Allocation and Moderately Aggressive Allocation Funds, but more aggressive than the Penn Series Moderately Conservative Allocation and Conservative Allocation Funds.

**Moderately Conservative Allocation Fund** — The Fund seeks to achieve long-term capital growth and current income consistent with its asset allocation strategy by using a “fund-of-funds” strategy and investing in a combination of other portfolios of Penn Series Funds, Inc. in accordance with its target asset allocations (30%-50% of its assets in equity funds and 50%-70% of its assets in fixed income and money market funds). The portfolio of the Fund is more heavily allocated to bonds and cash investments, and reflects a moderately conservative approach.

**Conservative Allocation Fund** — The Fund seeks to achieve long-term capital growth and current income consistent with its asset allocation strategy by using a “fund-of-funds” strategy and investing in a combination of other portfolios of Penn Series Funds, Inc. in accordance with its target asset allocations (20%-40% of its assets in equity funds and 60%-80% of its assets in fixed income and money market funds). The portfolio of the Fund is more heavily allocated to bonds and cash investments, and reflects a conservative approach.

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Penn Mutual Asset Management, Inc., Horsham, Pennsylvania is investment adviser to each of the Funds and a wholly owned subsidiary of Penn Mutual. T. Rowe Price Associates, Inc., Baltimore, Maryland, is investment sub-adviser to the Flexibly Managed, Large Growth Stock and High Yield Bond Funds. Wells Capital Management, Inc., San Francisco, California, is investment sub-adviser to the Large Core Growth and SMID Cap Growth Fund. Ivy Investment Management Company, Shawnee Mission, Kansas, is investment sub-adviser to the Mid Cap Growth Fund. MFS Investment Management, Boston, Massachusetts, is investment sub-adviser to the Large Cap Growth Fund. Neuberger Berman Investment Advisers LLC, New York, New York, is investment sub-adviser to the Mid Cap Value Fund. American Century Investment Management, Inc., Kansas City, Missouri, is investment sub-adviser to the Mid Core Value Fund. Goldman Sachs Asset Management, L.P., New York, New York, is investment sub-adviser to the Small Cap Value Fund. Vontobel Asset Management, Inc., New York, New York, is investment sub-adviser to the International Equity Fund. Cohen & Steers Capital Management, Inc., New York, New York, is investment sub-adviser to the Real Estate Securities Fund. Janus Capital Management LLC, Denver, Colorado, is investment sub-adviser to the Small Cap Growth Fund. Eaton Vance Management, Boston, Massachusetts, is investment sub-adviser to the Large Core Value Fund. AllianceBernstein L.P., New York, New York, is investment sub-adviser to the SMID Cap Value Fund. Morgan Stanley Investment Management, Inc., New York, New York, is investment sub-adviser to the Emerging Markets Equity Fund. SSGA Funds Management, Inc., Boston, Massachusetts, is investment sub-adviser to the Index 500, Small Cap Index and Developed International Index Funds. Loomis, Sayles & Company, L.P., Boston, Massachusetts, is investment sub-adviser to the Large Cap Value Fund.

*Shares of Penn Series are sold to other variable life and variable annuity separate accounts of Penn Mutual and its subsidiary, The Penn Insurance and Annuity Company. For more information on the possible conflicts involved when the Separate Account invests in Funds offered to other separate accounts, see the Fund prospectuses and statements of additional information.*

**Read the prospectuses of these Funds carefully before investing.** You may obtain copies of the prospectuses which contain additional information about the Funds including their investment objectives and policies and expenses, without charge, by writing to The Penn Mutual Life Insurance Company, Customer Service Group — C3R, Philadelphia, PA 19172. Or, you may call, toll free, 800-523-0650.

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## **Voting Instructions**

You have the right to tell us how to vote proxies for the Fund shares in which your purchase payments are invested. If the law changes and permits us to vote the Fund shares, we may do so.

If you are a Contract Owner, we determine the number of Fund shares that you may vote by dividing your interest in a Subaccount by the net asset value per share of the Fund. If you are receiving annuity payments, we determine the number of Fund shares that you may vote by dividing the reserve allocated to the Subaccount by the net asset value per share of the Fund. We change these procedures whenever we are required to do so by law.

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## **Accumulation Units — Valuation**

Your allocations and transfers to the Separate Account are held as Accumulation Units of the Subaccounts that you select. We value Accumulation Units as of the close of regular trading on the New York Stock Exchange (“NYSE”) (generally, 4:00 p.m. ET). When you invest in, withdraw from or transfer money to a Subaccount, you receive the Accumulation Unit price next computed after we receive and accept your purchase payment or your withdrawal or transfer request at our Administrative Office. Allocation, withdrawal and transfer instructions received from you or the agent of record (pursuant to your instructions) at our Administrative Office after the close of regular trading on the NYSE will be valued based on the Accumulation Unit price computed as of the close of regular trading on the next NYSE business day. In the case of your first purchase payment, you receive the price next computed after we accept your application to purchase a Contract.

The value of an Accumulation Unit is \$10 when a Subaccount begins operation. The value of an Accumulation Unit may vary, and is determined by multiplying its last computed value by the net investment factor for the Subaccount for the current Valuation Period. The net investment factor measures (1) investment performance of Fund shares held in the Subaccount, (2) any taxes on income or gains from investments held in the Subaccount, and (3) the mortality and expense risk charge at an annual rate of 1.25%.

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## THE FIXED INTEREST ACCOUNT

The fixed interest account is part of the Company's general investment account. Interests in the fixed interest account are not registered under the Securities Act of 1933 and the general account is not registered as an investment company under the Investment Company Act of 1940. This prospectus generally discusses only the variable portion of the Contract. The staff of the Commission has not reviewed the disclosure in this prospectus relating to the fixed interest account. Disclosure regarding the fixed interest account, however, may be subject to generally applicable provisions of the federal securities laws relating to the accuracy and completeness of statements made in this prospectus. See **MORE INFORMATION ABOUT THE FIXED INTEREST ACCOUNT** in this prospectus.

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## THE CONTRACTS

The Contracts may be an attractive long-term investment vehicle for many people. They allow you to allocate your purchase payment(s) and transfer amounts to the Separate Account, and direct investment in one or more of the available Funds of Penn Series Funds, Inc.

In addition, the Variable/Fixed Contract allows you to allocate your purchase payment(s) and transfer amounts to a fixed interest account. The Variable Contract allows you to transfer amounts from your Contract to a fixed interest account in a separate fixed annuity contract issued by Penn Mutual. The fixed interest account is funded and guaranteed by Penn Mutual through its general account. See **THE FIXED INTEREST ACCOUNT And MORE INFORMATION ABOUT THE FIXED INTEREST ACCOUNT** in this prospectus.

You decide, within Contract limits,

- how often you make a purchase payment and how much you invest;
- the Funds and/or fixed interest account in which your purchase payments are invested;
- whether or not to transfer money among the available Funds and fixed interest account;
- the type of annuity that we pay and who receives it;
- the Beneficiary or Beneficiaries to whom we pay death benefits; and
- the amount and frequency of withdrawals from the Contract Value.

Your Contract has

- an Accumulation Period, during which you make one or more purchase payments and we invest your payments as you tell us; and
- an Annuity Payout Period, during which we make annuity payments to you. Your Annuity Payout Period begins on your Annuity Date.

We may amend your Contract at any time to comply with legal requirements. State law may require us to obtain your approval for any Contract amendment. We may, with any necessary approval of the Commission and the governing state insurance department, substitute another mutual fund for any of the

Funds currently available. We will notify you of any material contract amendment and mutual fund substitutions.

You may contact us by writing The Penn Mutual Life Insurance Company, Customer Service Group, Philadelphia, PA 19172; or you may call (800) 523-0650.

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### How Do I Purchase a Contract?

Our representative will assist you in completing an application and sending it, together with a check for your first purchase payment, to our Administrative Office. All subsequent purchase payments should be sent as follows: 1) checks sent by mail: The Penn Mutual Life Insurance Company, Payment Processing Center, P.O. Box 9773, Providence, RI 02940-9773, and 2) checks sent by overnight delivery: The Penn Mutual Life Insurance Company, Payment Processing Center, 4400 Computer Drive, Westborough, MA 01581. We usually accept an application to purchase a Contract within two business days after we receive it at our Administrative Office. If you send us an incomplete application, we will return your purchase payment to you within five business days unless you ask us to keep it while you complete the application.

For Variable/Fixed Contracts issued in connection with qualified retirement plans, the minimum first purchase payment is \$250 and the minimum for each subsequent purchase payment is \$50. The minimum first purchase payment for Variable/Fixed Contracts which are not issued in connection with qualified retirement plans is \$2,500 and the minimum for each subsequent purchase payment is \$300. The total purchase payments that you make on a Variable/Fixed Contract may not exceed \$1,000,000 in any calendar year without our consent.

For Variable Contracts issued in connection with retirement plans qualifying for special tax treatment under the Internal Revenue Code of 1986, as amended, (the "Code"), the minimum first purchase payment is \$250 and the minimum for each subsequent purchase payment is \$40. The minimum first purchase payment for Variable Contracts that are not issued in connection with qualified retirement plans is \$1,500 and the minimum for each subsequent purchase payment is \$300.

We may, at our discretion, reduce the minimum requirements for initial and subsequent purchase payments under the Contracts.

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### What Types of Annuity Payments May I Choose?

You may choose from the following options:

- **An annuity for a set number of years** (5 to 25 years for a Variable/Fixed Contract; 5 to 30 years for a Variable Contract) — Annuity payments will continue for a specified number of years, which may not be for less than 5 nor more than 30;
- **A life annuity** — Annuity payments will continue until the Annuitant's death;
- **A life annuity with payments guaranteed for 10 or 20 years** — Annuity payments will continue until the Annuitant's death with payments for 10 or 20 years guaranteed regardless of when the Annuitant dies;
- **A joint and survivor life annuity** — Annuity payments will continue until the death of the surviving joint Annuitant; or
- Any other form of annuity that we may agree upon.

You may choose a person other than yourself to be the Annuitant. The shorter the expected length of the Annuity Payout Period, the larger each payment will be.

**Variable Annuity Payments.** The size of your variable annuity payments will vary depending upon the performance of the investment options that you choose for the Annuity Payout Period. Your payments also will depend on factors such as the size of your investment, the type of annuity you choose, the expected length of the annuity period, frequency with which you receive payments, and the annuity purchase rates and charges in your Contract.

The variable annuity purchase rate assumes an annual net investment return of 4%. If the annual net investment return during the Annuity Payout Period is greater than 4%, the amount of your payments will increase. If the annual net investment return is less, the amount of your payments will decrease.

You will pay a mortality and expense risk charge during both the Accumulation Period and the Annuity Payout Period under your Contract. We charge this fee while you receive a variable annuity even though we may no longer bear a mortality risk.

**Fixed Annuity Payments Under a Variable/Fixed Contract.** The size of your fixed annuity payments will not change. The size of these payments is determined by a number of factors, including the size of your investment, the form of annuity chosen, and the expected length of the annuity period.

**Other Information.** If your Contract is not issued under a qualified retirement plan, annuity payments must commence not later than the first day of the next month after the Annuitant's 85th birthday. If your Contract is issued under a qualified retirement plan, annuity payments must commence not later than the first day of April following the year in which the Annuitant turns 70  $\frac{1}{2}$ .

You or your surviving Beneficiary may change the Annuity Date or your annuity option by giving us written notice at our Administrative Office at least 30 days prior to the current Annuity Date. The Annuity Date under a Variable/Fixed Contract may not be earlier than the first contract anniversary.

If your Contract Value is less than \$5,000, we may pay you in a lump sum. We usually make annuity payments on the first day of each month, starting with the Annuity Date, but we will pay you quarterly, semiannually or annually, if you prefer. To the extent you choose to receive payments less frequently, the larger each payment amount will generally be. If necessary, we will adjust the frequency of your payments so that payments are at least \$50 each.

For information on the tax treatment of annuity payments, see **FEDERAL INCOME TAX CONSIDERATIONS** in this prospectus.

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## **What Are the Death Benefits Under My Contract?**

You may designate a Beneficiary in your application. If you fail to designate a Beneficiary, your Beneficiary will be your estate. You may change your Beneficiary at any time before the death of the Annuitant.

If you die before the Annuity Date and you are not the Annuitant, we will pay your Beneficiary the Contract Value as of the date our Administrative Office receives proof of death, i.e., a death certificate or other official document establishing death, and other information required to process the payment. If you are the Annuitant, we will pay your Beneficiary the death benefit described in the following paragraphs.

Variable/Fixed Contracts sold in most states provide that if the Annuitant dies prior to the Annuity Date, we will pay your Beneficiary the greatest of

- the sum of all purchase payments, adjusted for withdrawals and contract transfers,
- the Contract Value for the Valuation Period in which proof of death, i.e., a death certificate or other official document establishing death, and any other required information needed to make payment is received in our Administrative Office, or

- the Variable Account Value, as of the contract date or, if later, as of the end of the most recent seven-year contract period occurring prior to the Contract Owner's 81st birthday, adjusted for subsequent purchase payments and adjusted for withdrawals and contract transfers, plus the value the Fixed Interest Account under your Contract.

Similarly, Variable Contracts sold in most states provide that if the Annuitant dies prior to the Annuity Date, we will pay your Beneficiary the greatest of

- the sum of all purchase payments, adjusted for withdrawals and contract transfers,
- the Contract Value for the Valuation Period in which proof of death and any other required information needed to make payment is received in our Administrative Office, or
- the Contract Value, as of the contract date or, if later, as of the end of the most recent seven-year contract period occurring prior to the Contract Owner's 81st birthday, adjusted for subsequent purchase payments and adjusted for withdrawals and contract transfers.

With respect to Contracts sold in Texas, if the Annuitant dies prior to the Annuity Date, we will pay the greater of

- the sum of all purchase payments, adjusted for withdrawals and contract transfers, or
- the Contract Value for the Valuation Period in which proof of death and any other required information needed to make payment is received at Penn Mutual's service office.

The death benefit may be paid in a lump sum or in the form of annuity payments. We normally will pay the death benefit in a lump sum within seven days after we receive proof of the date of death and all required information. We will delay payment upon request, however, the death benefit payment amount will be invested in the variable subaccounts, as allocated by the previous owner, and must be paid out by 12/31 of the 5th year following death.

If the Beneficiary is not the spouse of the decedent, he or she may choose an annuity option rather than a lump sum payment. If he or she selects an annuity option, payments must begin within one year of the decedent's death. Payments may not be made over a period longer than the Beneficiary's life or life expectancy (whichever is longer).

If the Beneficiary is the spouse of the decedent, he or she may select any annuity option that was available to the decedent or apply to become the Contract Owner.

If the Annuitant dies on or after the Annuity Date and the annuity is for a specified number of years or for life with payments guaranteed for 10 or 20 years, the Beneficiary may elect to have the payments continue for the specified or guaranteed period or to receive in a lump sum the present value of the remaining payments.

Same sex marriages that are recognized as marriages under the law of the jurisdiction in which the marriage occurred are so recognized under federal law and will be afforded the same tax treatment and spousal annuity provisions. However, the IRS currently takes the position that relationships such as civil unions and domestic partnerships that are not recognized as marriages under applicable state (or foreign) law are not recognized as marriages for federal tax purposes. Please consult a tax or legal advisor for details and up-to-date information.

For further information on the tax treatment of death benefits, see **FEDERAL INCOME TAX CONSIDERATIONS** in this prospectus.

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## May I Transfer Money Among Investment Options?

**Variable/Fixed Contracts.** You may transfer amounts from one Subaccount of the Separate Account to another Subaccount of the Separate Account. Within Contract limits, you also may transfer from the Subaccounts of the Separate Account to the fixed interest account. You may transfer from the fixed interest account to Subaccounts of the Separate Account. You may make no more than two transfers per calendar month and no more than twelve per calendar year. The minimum amount that you may transfer is \$250 or the total amount held in the investment account, if less. After the transfer, there must be \$250 remaining in the Subaccounts and fixed interest accounts in which you are invested.

**Variable Contract.** You may transfer amounts from one Subaccount of the Separate Account to another. You may make no more than two transfers per calendar month and no more than twelve per calendar year. The minimum amount that you may transfer is \$250 or the total amount held in the investment account, if less. After the transfer, there must be \$250 remaining in the Subaccounts in which you are invested.

**General Rules.** Transfers will be based on values at the end of the Valuation Period in which the transfer request is received at our Administrative Office. A transfer request must be received at our Administrative Office from you or the agent of record (pursuant to your instruction), and all other administrative requirements must be met to make the transfer. We will not be liable for following instructions, including instructions from the agent of record, communicated by telephone that we reasonably believe to be genuine. We require certain personal identifying information to process a request for transfer made over the telephone. For transfers other than dollar cost averaging and automatic rebalancing, we reserve the right to charge a fee, although we have no present intention of doing so. The Contract is not designed for individuals and professional market timing organizations that use programmed and frequent transfers among investment options. We therefore reserve the right to change our telephone transaction policies and procedures at any time to restrict the use of telephone transfers for market timing and to otherwise restrict market timing, up to and including rejecting transactions we reasonably believe are market timing transactions, when we believe it is in the interest of all of our Contract Owners to do so. However, we may not be able to detect all market timing and may not be able to prevent frequent transfers, and any possible harm caused, by those we do detect.

**Frequent Trading Risks.** We did not design this variable annuity and the available Subaccounts to accommodate market timing or frequent transfers between the Subaccounts. Frequent exchanges among Subaccounts and market timing by Contract Owners can reduce the long-term returns of the underlying mutual funds. The reduced returns could adversely affect the Contract Owners, Annuitants, insureds or Beneficiaries of any variable annuity or variable life insurance contract issued by any insurance company with respect to values allocated to the underlying fund. Frequent exchanges may reduce the mutual fund's performance by increasing costs paid by the fund (such as brokerage commissions); they can disrupt portfolio management strategies; and they can have the effect of diluting the value of the shares of long term shareholders in cases in which fluctuations in markets are not fully priced into the fund's net asset value.

The insurance-dedicated mutual funds available through the Subaccounts generally cannot detect individual contract owner exchange activity because they are owned primarily by insurance company separate accounts that aggregate exchange orders from owners of individual contracts. Accordingly, the funds are dependent in large part on the rights, ability and willingness of the participating insurance companies to detect and deter short-term trading by contract owners.

As outlined below, we have adopted policies regarding frequent trading, but there is the risk that these policies and procedures concerning frequent trading will prove ineffective in whole or in part in detecting or preventing frequent trading. As a result of these limitations, some Contract Owners may be able to engage in frequent trading, while other Contract Owners will bear the affects of such frequent trading. Please review the mutual funds' prospectuses for specific information about the funds' short-term trading policies and risks.

**Frequent Trading Policies.** We have adopted policies and procedures designed to discourage frequent trading as described below. We intend to monitor on an ongoing basis the operation of these policies and procedures and may, at any time without notice to Contract Owners, revise them in any manner not inconsistent with the terms of the Contract. If requested by the investment adviser and/or sub-adviser of a Fund, we will consider additional steps to discourage frequent trading. In addition, we reserve the right to reject any purchase payment or exchange request at any time for any reason.

We have adopted certain procedures to detect frequent trading. If it appears that market timing activity is occurring or the transfer frequency would be expected to have a detrimental impact on the affected Funds, the following steps will be taken on a uniform basis:

- (1) A letter is sent to the Contract Owner and to the registered representative/insurance agent associated with the Contract reiterating the policy with respect to frequent transfers and urging a cessation of any market timing or frequent transfer activity.
- (2) If market timing or frequent transfer activity continues after the initial letter, a second letter is sent requiring that all subsequent transfer requests be submitted in writing containing the Contract Owner's original signature. Thereafter, any attempt to make a transfer request electronically, telephonically or by facsimile will be rejected.
- (3) Any Contracts which have been the subject of a letter referred to in paragraph 1 or 2 will be subject to special monitoring to determine whether the potentially detrimental frequent trading has ceased.

**Dollar Cost Averaging.** Dollar cost averaging is a way to invest in which securities are purchased at regular intervals in fixed dollar amounts so that the cost of the securities gets averaged over time and possibly over market cycles. If your Contract Value is at least \$10,000, you can have a fixed percentage of your purchase payments transferred monthly from one account to other accounts to achieve dollar cost averaging (\$50 minimum per account). These transfers may be made only from one of the following accounts: Money Market Subaccount, Limited Maturity Bond Subaccount, Quality Bond Subaccount, or the Fixed Holding Account. You may do this for 12 to 60 months, or until you change your allocations or tell us to stop dollar cost averaging.

**Automatic Rebalancing.** Automatic rebalancing is a way to maintain your desired asset allocation percentages. Because the value of your Subaccounts will fluctuate in response to investment performance, your asset allocation percentages may become out of balance over time. If you elect automatic rebalancing, we will transfer funds under your Contract on a quarterly (calendar) basis among the Subaccounts to maintain a specified percentage allocation among your selected variable investment options.

Dollar cost averaging and automatic rebalancing may not be in effect at the same time and are not available after annuitization. There is no charge for either of these programs.

**Additional Information.** Transfers will be based on values at the end of the Valuation Period in which the transfer request is received at our Administrative Office.

A transfer request must be received at our Administrative Office from you or the agent of record (pursuant to your instructions) and all other administrative requirements for transfer must be met to make the transfer. We reserve the right to lower the minimum transfer amount. Neither we nor the Separate Account will be liable for following instructions communicated by telephone that we reasonably believe to be genuine. We require certain personal identifying information to process a request for transfer made over the telephone.

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## May I Withdraw Any of My Money?

Prior to the earlier of the Annuity Date or the death of the Contract Owner or Annuitant, you may withdraw all or part of your Contract Value. We base your withdrawal request on your Contract Value next determined after we receive a proper written request for withdrawal (and the Contract, in case of a full withdrawal) at our Administrative Office. We normally will pay you within seven days. You may pay a contingent deferred sales charge when you withdraw Contract Value. See **What Charges Do I Pay — Contingent Deferred Sales Charge** in this prospectus. You may pay tax when you make a withdrawal, including an additional 10% tax under certain circumstances. See **FEDERAL INCOME TAX CONSIDERATIONS** in this prospectus.

- A partial withdrawal must be at least \$250 and the remaining Contract Value must be at least \$250.
- If you do not tell us otherwise, the withdrawal will be taken pro rata from the Subaccounts if you own a Variable Contract. If you own a Variable/Fixed Contract, and you do not tell us otherwise, the withdrawal will be taken first from the Fixed Holding Account. If the withdrawal exhausts your Fixed Holding Account value, any remaining withdrawal will be taken pro rata from the Subaccounts. If the withdrawal exhausts your Variable Account Value, then any remaining withdrawal will be taken from a fixed interest account beginning with the fixed interest account with the shortest interest period.

**Systematic Withdrawals.** If you have not taken a lump sum free withdrawal in the current contract year, you can make systematic withdrawals. These are regular payments that we make to you on a monthly, quarterly, semiannual or annual basis. It is a convenient way for you to withdraw a limited percentage of Contract Value without incurring a contingent deferred sales charge. The total amount that you withdraw in a contract year cannot exceed your free withdrawal amount, and the minimum monthly amount of each withdrawal payment is \$50. Your payments will begin on the next withdrawal date after we receive your request. See **What Charges Do I Pay? — Free Withdrawals** in this prospectus. For information on the tax treatment of withdrawals, see **FEDERAL INCOME TAX CONSIDERATIONS** in this prospectus.

**403(b) Withdrawals.** There are restrictions on withdrawals from Contracts qualifying under Section 403(b) of the Code. Generally, withdrawals attributable to purchase payments made after December 31, 1988, pursuant to a salary reduction plan may be made only if the Contract Owner is over the age of 59 <sup>1</sup>/<sub>2</sub>, leaves the employment of the employer, dies, or becomes disabled as defined in the Code. Withdrawals (other than withdrawals attributable to income earned on purchase payments) may also be possible in the case of hardship as defined in the Code. The restrictions do not apply to transfers among Subaccounts and may also not apply to transfers to other investments qualifying under Section 403(b). For information on the tax treatment of withdrawals under Section 403(b) Contracts, see **FEDERAL INCOME TAX CONSIDERATIONS** in this prospectus.

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## Deferment of Payments and Transfers

We reserve the right to defer a withdrawal, a transfer of Contract Value, or annuity payments funded by the Separate Account if (a) the NYSE is closed (other than customary weekend and holiday closings); (b) trading on the NYSE is restricted; (c) an emergency exists that makes it impractical for us to dispose of securities held in the Separate Account or to determine the value of its assets; or (d) the Commission by order so permits for the protection of investors. Conditions described in (b) and (c) will be decided by, or in accordance with rules of, the Commission.

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## What Charges Do I Pay?

The following discussion explains the Contract charges that you pay. You also indirectly pay expenses of the Funds that you select as investment options in the Separate Account. See the Funds' Prospectus for information on Fund expenses.



**Administration Charges.** These charges reimburse us for administering the Contracts and the Separate Account.

- We deduct from your Variable Account Value an annual contract administration charge that is the lesser of \$30 or 2% of your Variable Account Value. We deduct this charge each year on the date specified in the Contract (and on the date the Variable Account Value or Contract Value is withdrawn in full if other than the date specified). To pay this charge, we cancel Accumulation Units credited to your Contract, pro rata among the Subaccounts in which you invest.

**Mortality and Expense Risk Charge**

- We deduct from the net asset value of the Separate Account a daily expense risk charge equal to an annual rate of 0.50% of the daily net asset value of the Separate Account. You pay this charge to compensate us for the risk of guaranteeing not to increase the annual contract administration charge to more than \$30 regardless of actual administrative costs.
- We deduct a daily mortality risk charge equal to an annual rate of 0.75% of the daily net asset value of the Separate Account (prior to September 1, 1990 the charge was 0.80%). This charge is to compensate us for the mortality-related guarantees (e.g. guarantees that the annuity factors will never be decreased even if mortality experience is substantially different than originally assumed) we make under your Contract.

You pay the mortality and expense risk charges during both the accumulation and variable annuity payout phases of your Contract.

**Contingent Deferred Sales Charge.** This charge pays for our sales expenses. Sales expenses that are not covered by the deferred sales charge are paid from our surplus, which may include proceeds from the expense and mortality risk charges. You may pay this charge if you make a full or partial withdrawal of the Contract Value or if you withdraw the present value of your annuity payments. Purchase payments will be treated as withdrawn on a first-in, first-out basis.

**Variable/Fixed Contract.** The following tables show the schedule of the contingent deferred sales charge that will apply to the withdrawal of a purchase payment, after allowing for the free withdrawals described below.

First, if no purchase payments have been made after the first Contract Year, the deferred sales charge will equal:

Withdrawal During Contract Year	Deferred Sales Charge as a Percentage of Amount Withdrawn
1	7.0%
2	6.0%
3	5.0%
4	4.0%
5	3.0%
6	2.0%
7	1.0%
8 and later	No Charge

Second, if purchase payments have been made in any Contract Year after the first, the deferred sales charge will equal:

<b>Withdrawal During Contract Year</b>	<b>Deferred Sales Charge as a Percentage of Amount Withdrawn</b>
1	7.0%
2	6.0%
3	5.0%
4	4.0%
5	3.5%
6	3.0%
7	2.5%
8	2.0%
9	1.5%
10	1.0%
11 and later	No Charge

**Free Withdrawals.** Once in each Contract Year on or after the last day of the first Contract Year, you may withdraw 10% of the Contract Value (determined as of the date of withdrawal) free of the contingent deferred sales charge. The 10% free withdrawal may be taken either in one sum or, subject to meeting certain minimum amounts, in a series of scheduled amounts during the Contract Year. The total sum of the contingent deferred sales charges deducted from amounts withdrawn from the Separate Account will never exceed 8 1/2% of the total of all purchase payments credited to the Separate Account.

**Variable Contract.** If the contingent deferred sales charge applies, it will equal the lesser of (a) 5% of the sum of purchase payments made within seven years prior to the date of withdrawal, or (b) 5% of the amount withdrawn. Under no circumstances will the cumulative charges ever exceed 5% of total purchase payments.

You will not pay a charge on that portion of the first withdrawal in a Contract Year that does not exceed 10% of total purchase payments made one year or more prior to the withdrawal. This 10% free withdrawal may be taken either in one sum or, subject to certain minimum amounts, in a series of scheduled amounts during the Contract Year. Further, no charge will be made under the Variable Contract on that portion of the first withdrawal in the eighth, ninth and tenth Contract Years that does not exceed the following percentages of the Contract Value:

<b>Contract Year</b>	<b>Percentage</b>
Eighth	25%
Ninth	50%
Tenth	75%

No charge will be made on any withdrawal in any Contract Year after the tenth Contract Year.

**Other Information.** You may at any time withdraw all or any part of the Contract Value free from the contingent deferred sales charge if (i) you (or the Annuitant under a qualified retirement plan) are disabled as defined in Section 72 (m) (7) of the Code and as applied under the Social Security Act, (ii) the disability began after the Contract Date, and (iii) the disability has continued without interruption for four months.

The contingent deferred sales charge may be reduced on Contracts sold to a trustee, employer or similar party pursuant to a retirement plan or to a group of individuals, if such sales are expected to involve

reduced sales expenses. The amount of reduction will depend upon such factors as the size of the group, any prior or existing relationship with the purchaser or group, the total amount of purchase payments and other relevant factors that might tend to reduce expenses incurred in connection with such sales. The reduction will not be unfairly discriminatory to any Contract Owners.

**Underlying Fund Charges.** The Funds assess fees and charges that you pay indirectly through your investment in subaccounts. For more information about these fees see **EXPENSES** in this prospectus and the fee table in a Fund's prospectus.

**Premium Taxes.** Some states and municipalities impose premium taxes on purchase payments received by insurance companies. Generally, any premium taxes payable will be deducted upon annuitization, although we reserve the right to deduct such taxes when due in jurisdictions that impose such taxes on purchase payments. Currently, state premium taxes on purchase payments range from 0% to 3.5%.

The Company or an affiliate may receive asset-based compensation from the Funds' advisors or their affiliates for, among other things, customer service and recordkeeping services with respect to those assets. These payments are not charges under your Contract and do not increase the Underlying Fund or Contract charges described in this section or in the fee table.

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## **MORE INFORMATION ABOUT THE FIXED INTEREST ACCOUNT**

### **General Information**

If you own a Variable/Fixed Contract you may allocate or transfer all or part of the amount credited to your Contract to one or more of the following fixed interest options in the Fixed Interest Account: (1) the Fixed Holding Account; (2) the One Year Guaranteed Account; (3) the Three Year Guaranteed Account; (4) the Five Year Guaranteed Account; and (5) the Seven Year Guaranteed Account. The minimum amount for an allocation to the Fixed Holding Account, the One Year Guaranteed Account, the Three Year Guaranteed Account, the Five Year Guaranteed Account, or the Seven Year Guaranteed Account is \$250. We periodically declare an effective annual interest rate applicable to allocations to the various fixed interest options. For each amount allocated to the Fixed Holding Account, interest will be credited at an effective annual interest rate declared by us on the first day of each calendar year. The declared rate of interest will apply through the end of the calendar year in which an allocation is made to the Fixed Holding Account, at which time a new rate will be declared by Penn Mutual. For each amount allocated to the One Year Guaranteed Account, the Three Year Guaranteed Account, the Five Year Guaranteed Account or the Seven Year Guaranteed Account, interest will be credited at an annual effective interest rate declared by us each month. The declared rate of interest will apply through the end of the twelve month, thirty-six month, sixty month or eighty-four month period, as applicable, which begins on the first day of the calendar month in which the allocation is made. We guarantee an effective annual rate of interest on allocations to all fixed interest options of not less than 4%. In addition, the Contract provides that the rates declared during the first seven Contract Years for the One Year Guaranteed Account will not be less than an average of the 3 month and 2 Year U.S. Treasury Bill discount rate from the most recent regularly scheduled auction held before the beginning of the calendar month. If the auction program is discontinued, Penn Mutual will substitute an index which in its opinion is comparable and which is approved by state insurance regulatory authorities. We reserve the right to reduce our guaranteed minimum interest rate if permitted by your state. If required by law, we will notify you in advance of any such change.

If you own a Variable/Fixed Contract you may transfer Fixed Account funds to Subaccounts or to another fixed interest option within the Fixed Account, subject to the conditions and limitations in the fixed account provisions of the Contract. A premature withdrawal charge may be deducted from the interest earned on any amount that is withdrawn from the Three Year Guaranteed Account, the Five Year Guaranteed Account or the Seven Year Guaranteed Account during the period for which an interest rate is guaranteed. The premature withdrawal charge will be determined by multiplying the premature withdrawal rate by the premature withdrawal amount. The premature withdrawal rate for the Three Year Guaranteed Account and the Five and Seven Year Guaranteed Accounts equals one quarter and one-half, respectively, of the most recent effective annual interest rate then applicable to the fixed interest account from which the withdrawal

is being made (i.e., 3 months' interest and 6 months' interest, respectively). The premature withdrawal amount equals (a) minus the greater of (b) or (c) where: (a) is the total amount withdrawn from the fixed interest account, excluding the One Year Fixed Guaranteed; (b) is the amount for which the declared effective annual interest rate has expired in the immediately preceding 25 days (which reflects that you may make withdrawals up to 25 days after the maturity of a fixed interest account without application of the premature withdrawal charge); and (c) is 10% of purchase payments. In no event will the premature withdrawal charge exceed 10% of the amount withdrawn. In accordance with state law, we may defer a withdrawal or transfer from the Fixed Account for up to six months if we reasonably determine that investment conditions are such that an orderly sale of assets in our general account is not feasible.

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### **Loans Under Section 403(b) Contracts**

If your Contract qualifies under Section 403(b) of the Internal Revenue Code of 1986, as amended, (the "Code"), and if state law permits, you may be able to borrow against money that you have invested in a Fixed Interest Account. Review your Contract loan endorsement or consult our representative for a complete description of the terms of the loan privilege, including minimum and maximum loan amounts, repayment terms, and restrictions on prepayments.

When you borrow, an amount equal to your loan will be transferred as collateral from your Subaccounts to an account in our general account called the "Restricted Account." Amounts transferred to the Restricted Account currently earn interest at a rate of 2 1/2 percentage points less than the rate of interest that we charge you on the loan. On your contract anniversary, the accrued interest in the Restricted Account will be transferred to your Subaccounts in accordance with your current payment allocation instructions.

Loan repayments are due quarterly. When you repay part of your loan, we transfer an amount equal to the principal portion of the repayment from the Restricted Account to the Fixed Holding Account subaccount. You may then transfer amounts from the Fixed Holding Account subaccount to the other investment options offered under the Contract.

If you are in default, we must report the default to the Internal Revenue Service as a taxable distribution and, if you are then under age 59 1/2, as a premature distribution that may be subject to a 10% penalty. We will repay the loan by withdrawing the amount in default, plus interest and any applicable contingent deferred sales charge, from your Subaccounts in accordance with your loan request and agreement. If Section 403(b) prevents us from doing this, your outstanding loan balance will continue to accrue interest and the amount due will be withdrawn when a withdrawal becomes permissible. While a loan balance is outstanding, any withdrawal or death benefit proceeds must first be used to pay the loan.

Loans are subject to the terms of your Contract, your Section 403(b) plan and the Code, and, in the case of plans subject to the Employee Retirement Income Security Act of 1974 ("ERISA"), the ERISA regulations on plan loans, all of which may impose restrictions. We reserve the right to suspend, modify or terminate the availability of loans. Where there is a plan fiduciary, it is the responsibility of the fiduciary to ensure that any Contract loans comply with plan qualification requirements, including ERISA.

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### **FEDERAL INCOME TAX CONSIDERATIONS**

The following is a general summary of some federal income tax considerations. It is based on the law in effect on the date of this prospectus, which may change, and does not address state or local tax laws. For further information, you should consult qualified tax counsel.

You pay no federal income tax on increases in the value of your Contract until money is distributed to you or your Beneficiary as a withdrawal, death benefit or an annuity payment.

Same sex marriages that are recognized as marriages under the law of the jurisdiction in which the marriage occurred are so recognized under federal law and will be afforded the same tax treatment and spousal annuity provisions. However, the IRS currently takes the position that relationships such as civil

unions and domestic partnerships that are not recognized as marriages under applicable state (or foreign) law are not recognized as marriages for federal tax purposes. Please consult a tax or legal advisor for details and up-to-date information.

**Withdrawals and Death Benefits.** You may pay tax on a withdrawal, and your Beneficiary may pay tax on a death benefit. The taxable portion of these payments generally will be the amount by which the payment exceeds your cost basis. Thus, you or your Beneficiary generally will have taxable income to the extent that your Contract Value exceeds your purchase payments. Ordinary income tax rates apply. If you designate a Beneficiary who is either your grandchild or more than 37 1/2 years younger than you, you may be subject to the Generation Skipping Transfer Tax treatment under Section 2601 of the Code.

**Annuity Payments.** The taxable portion of an annuity payment generally is determined by a formula that establishes the ratio of the cost basis of the Contract (as adjusted for any refund feature) to the expected return under the Contract. The taxable portion, which is the amount of the annuity payment in excess of the cost basis, is taxed at ordinary income tax rates.

Subject to certain exceptions, a Contract must be held by or on behalf of a natural person in order to be treated as an annuity Contract under federal income tax law and to be accorded the tax treatment described in the preceding paragraphs. If a Contract is not treated as an annuity contract for federal income tax purposes, the income on the Contract is treated as ordinary income received or accrued by the Contract Owner during the taxable year.

**Early Withdrawals.** An additional income tax of 10% (or 25% under certain circumstances) may be imposed on the taxable portion of an early withdrawal or distribution unless one of several exceptions apply. Generally, there will be no additional income tax on

- early withdrawals that are part of a series of substantially equal periodic payments (not less frequently than annually) made for the life (or life expectancy) of the taxpayer or the joint lives (or joint life expectancies) of the taxpayer and a Beneficiary;
- withdrawals made on or after age 59 1/2;
- distributions made after death; and
- withdrawals attributable to total and permanent disability.

**Transfers.** You may pay tax if you transfer your Contract to someone else. If the transfer is for less than adequate consideration special rules apply. If the transfer is less than adequate consideration, the taxable portion would be the Contract Value at the time of the transfer over the investment in the Contract at such time.

**Separate Account Diversification.** Section 817(h) of the Code provides that the investments of a separate account (or the investments of a mutual fund, the shares of which are owned by the variable annuity separate account) underlying a variable annuity contract which is not purchased under a qualified retirement plan or certain other types of plans must be “adequately diversified” in order for the Contract to be treated as an annuity contract for tax purposes. The Treasury Department has issued regulations prescribing such diversification requirements. The Separate Account, through each of the available funds of the Penn Series Funds, Inc. intends to comply with those requirements. The requirements are briefly discussed in the accompanying prospectuses for the underlying funds.

The Treasury Department has stated in published rulings that a variable contract owner will be considered the owner of separate account assets if the contract owner possesses incidents of ownership in those assets, such as the ability to exercise investment control over the assets. If a variable contract owner is treated as owner of separate account assets, income and gain from the assets would be includable in the variable contract owner’s gross income. The Treasury Department indicated in 1986 that, in regulations or

revenue rulings under Section 817(d) (relating to the definition of a variable contract), it would provide guidance on the extent to which contract owners may direct their investments to particular Subaccounts without being treated as owners of the underlying shares. No such regulations have been issued to date. The Internal Revenue Service has issued Revenue Ruling 2003-91 in which it ruled that the ability to choose among 20 Subaccounts and make not more than one transfer per month without charge did not result in the owner of a contract being treated as the owner of the assets in the subaccount under the investment control doctrine.

The ownership rights under your Contract are similar to, but different in certain respects from, those described by the IRS in Revenue Ruling 2003-91 and other rulings in which it was determined that contract owners were not owners of the subaccount assets. Although we do not believe this to be the case, these differences could result in Contract owners being treated as the owners of the assets of the Subaccounts under the Contract. We, therefore, reserve the right to modify the Contract as necessary to attempt to prevent the owners of the Contract from being considered the owners of a pro rata share of the assets of the Subaccounts under the Contract. It is possible that when regulations or additional rulings are issued, the Contracts may need to be modified to comply with them.

**Qualified Plans.** The Contracts may be used in connection with certain retirement plans that qualify for special tax treatment under the Code. The plans include individual retirement annuities qualified under Section 408(b) of the Code (referred to as IRAs), simplified employee pension plans qualified under Section 408(k) of the Code, tax-deferred annuities qualified under Section 403(b) of the Code, state and local government deferred compensation plans qualified under Section 457 of the Code, pension or profit sharing plans for self-employed individuals qualified under Section 401 of the Code (referred to as H.R. 10 or Keogh plans) and corporate pension or profit sharing plans qualified under Section 401 of the Code or annuity plans qualified under Section 403(a) of the Code. Special provisions are required in some Contracts for qualification under the Code.

For some types of qualified retirement plans, there may be no cost basis in the Contract. In this case, the total payments received may be taxable. Before purchasing a Contract under a qualified retirement plan, the tax law provisions applicable to the particular plan should be considered.

Distribution must generally commence from individual retirement annuities and from contracts qualified under Section 403(b) no later than the April 1 following the calendar year in which the Contract Owner attains age 70  $\frac{1}{2}$ . Failure to make such required minimum distributions may result in a 50% tax on the amount of the required distribution.

Generally, under a nonqualified annuity or rollover individual retirement annuity qualified under Section 408(b), unless the Contract Owner elects to the contrary, any amounts that are received under the Contract that the Company believes are includable in gross income for tax purposes will be subject to mandatory withholding to meet federal income tax obligations. The same treatment will apply to distributions from a Section 403(b) annuity that are payable as an annuity for the life or life expectancy of one or more individuals, or for a period of at least 10 years, or are required minimum distributions. Other distributions from a qualified plan or a Section 403(b) annuity are subject to mandatory withholding, unless an election is made to receive the distribution as a direct rollover to another eligible retirement plan. Distributions from a Section 457 eligible deferred compensation plan are wages subject to general income tax withholding requirements.

This general summary of federal income tax considerations does not address every issue that may affect you. You should consult qualified tax counsel.

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## **DISTRIBUTION ARRANGEMENTS**

Penn Mutual has a distribution agreement with Hornor, Townsend & Kent, Inc. (“HTK”) to act as principal underwriter for the distribution and sale of the Contracts. HTK is a wholly owned subsidiary of Penn Mutual and is located at 600 Dresher Road, Suite C1C, in Horsham, Pennsylvania, 19044. HTK sells the

Contracts through its sales representatives. HTK has also entered into selling agreements with other broker-dealers who in turn sell the Contracts through their sales representatives. HTK is registered as a broker-dealer with the Securities and Exchange Commission under the Securities Exchange Act of 1934, as well as with the securities commissions in the states in which it operates, and is a member of the Financial Industry Regulatory Authority, Inc. (“FINRA”).

Penn Mutual enters into selling agreements with HTK and other broker-dealers whose registered representatives are authorized by state insurance and securities departments to solicit applications for the Contracts. Sales and renewal compensation are paid to these broker-dealers for soliciting applications as premium-based commission, asset-based commission (sometimes referred to as “trails” or “residuals”), or a combination of the two. Premium-based commissions on purchase payments made under the Contract will not exceed 6.7%.

In addition to or partially in lieu of commission, Penn Mutual may also make override payments and pay expense allowances and reimbursements, bonuses, wholesaler fees, and training and marketing allowances. Such payments may offset broker-dealer expenses in connection with activities they are required to perform, such as educating personnel and maintaining records. Registered representatives may also receive non-cash compensation such as expense-paid educational or training seminars involving travel within and outside the U.S. or promotional merchandise.

Such additional compensation may give Penn Mutual greater access to registered representatives of the broker-dealers that receive such compensation. While this greater access provides the opportunity for training and other educational programs so that your registered representative may serve you better, this additional compensation also may afford Penn Mutual a “preferred” status at the recipient broker-dealer (along with other product vendors that provide similar support) and offer some other marketing benefit such as web site placement, access to registered representative lists, extra marketing assistance, or other heightened visibility and access to the broker-dealer’s sales force that otherwise influences the way that the broker-dealer and the registered representative market the contracts.

Finally, within certain limits imposed by FINRA, registered representatives who are associated with HTK, as a Penn Mutual broker-dealer affiliate, may qualify for sales incentive programs and other benefits sponsored by Penn Mutual. These HTK registered representatives are also agents of Penn Mutual and upon achievement of specified annual sales goals may be eligible for compensation in addition to the amounts stated above, including bonuses, fringe benefits, financing arrangements, conferences, trips, prizes and awards.

All of the compensation described in this section, and other compensation or benefits provided by Penn Mutual or its affiliates, may be more or less than the overall compensation on similar or other products and may influence your registered representative or broker-dealer to present this Contract rather than other investment options.

Individual registered representatives typically receive a portion of the compensation that is paid to the broker-dealer in connection with the Contract, depending on the agreement between the registered representative and their broker-dealer firm. Penn Mutual is not involved in determining that compensation arrangement, which may present its own incentives or conflicts. You may ask your registered representative how he/she will be compensated for the transaction.

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**APPENDIX A**

This Appendix contains tables that show Accumulation Unit values and the number of Accumulation Units outstanding for each of the Subaccounts of the Separate Account. The financial data included in the tables should be read in conjunction with the financial statements and the related notes of the Separate Account that are included in the Statement of Additional Information.

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**PENN SERIES MONEY MARKET FUND SUBACCOUNT**

**Values of an Accumulation Unit Outstanding Throughout Each Period**

	Year Ended December 31,				
	2015	2014	2013	2012	2011
Accumulation Unit Value, beginning of period . . . . .	\$23.096	\$23.384	\$23.676	\$23.972	\$24.270
Accumulation Unit Value, end of period . . . . .	\$22.811	\$23.096	\$23.384	\$23.676	\$23.972
Number of Accumulation Units outstanding, end of period . . . . .	139,347	138,988	213,004	210,983	238,144

  

	Year Ended December 31,				
	2010	2009	2008	2007	2006
Accumulation Unit Value, beginning of period . . . . .	\$24.573	\$24.774	\$24.435	\$23.572	\$22.809
Accumulation Unit Value, end of period . . . . .	\$24.270	\$24.573	\$24.774	\$24.435	\$23.572
Number of Accumulation Units outstanding, end of period . . . . .	240,231	315,122	443,259	468,495	323,605

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**PENN SERIES LIMITED MATURITY BOND FUND SUBACCOUNT**

**Values of an Accumulation Unit Outstanding Throughout Each Period**

	Year Ended December 31,				
	2015	2014	2013	2012	2011
Accumulation Unit Value, beginning of period . . . . .	\$16.864	\$17.047	\$17.276	\$17.387	\$17.220
Accumulation Unit Value, end of period . . . . .	\$16.785	\$16.864	\$17.047	\$17.276	\$17.387
Number of Accumulation Units outstanding, end of period . . . . .	116,153	146,736	157,772	175,285	180,706

  

	Year Ended December 31,				
	2010	2009	2008	2007	2006
Accumulation Unit Value, beginning of period . . . . .	\$16.812	\$16.708	\$16.108	\$15.502	\$15.021
Accumulation Unit Value, end of period . . . . .	\$17.220	\$16.812	\$16.708	\$16.108	\$15.502
Number of Accumulation Units outstanding, end of period . . . . .	207,432	206,504	252,452	326,313	346,764

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**PENN SERIES QUALITY BOND FUND SUBACCOUNT****Values of an Accumulation Unit Outstanding Throughout Each Period**

	Year Ended December 31,				
	2015	2014	2013	2012	2011
Accumulation Unit Value, beginning of period . . . . .	\$40.445	\$38.967	\$40.664	\$39.892	\$36.680
Accumulation Unit Value, end of period . . . . .	\$40.091	\$40.445	\$38.967	\$40.664	\$39.892
Number of Accumulation Units outstanding, end of period . . . . .	272,517	305,369	324,876	378,894	420,961

	Year Ended December 31,				
	2010	2009	2008	2007	2006
Accumulation Unit Value, beginning of period . . . . .	\$35.020	\$33.448	\$32.227	\$30.690	\$29.524
Accumulation Unit Value, end of period . . . . .	\$36.680	\$35.020	\$33.448	\$32.227	\$30.690
Number of Accumulation Units outstanding, end of period . . . . .	506,045	528,281	585,649	691,442	736,923

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**PENN SERIES HIGH YIELD BOND FUND SUBACCOUNT****Values of an Accumulation Unit Outstanding Throughout Each Period**

	Year Ended December 31,				
	2015	2014	2013	2012	2011
Accumulation Unit Value, beginning of period . . . . .	\$83.145	\$82.657	\$77.563	\$68.556	\$67.346
Accumulation Unit Value, end of period . . . . .	\$79.345	\$83.145	\$82.657	\$77.563	\$68.556
Number of Accumulation Units outstanding, end of period . . . . .	112,423	121,181	133,053	152,829	171,745

	Year Ended December 31,				
	2010	2009	2008	2007	2006
Accumulation Unit Value, beginning of period . . . . .	\$59.729	\$41.229	\$55.009	\$53.785	\$49.524
Accumulation Unit Value, end of period . . . . .	\$67.346	\$59.729	\$41.229	\$55.009	\$53.785
Number of Accumulation Units outstanding, end of period . . . . .	208,225	231,719	261,016	340,084	425,216

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**PENN SERIES FLEXIBLY MANAGED FUND SUBACCOUNT****Values of an Accumulation Unit Outstanding Throughout Each Period**

	Year Ended December 31,				
	2015	2014	2013	2012	2011
Accumulation Unit Value, beginning of period . . . . .	\$249.588	\$225.403	\$186.641	\$164.730	\$161.884
Accumulation Unit Value, end of period . . . . .	\$258.796	\$249.588	\$225.403	\$186.641	\$164.730
Number of Accumulation Units outstanding, end of period . . . . .	678,183	742,784	806,707	871,485	970,011

  

	Year Ended December 31,				
	2010	2009	2008	2007	2006
Accumulation Unit Value, beginning of period . . . . .	\$143.884	\$109.608	\$153.793	\$149.071	\$130.835
Accumulation Unit Value, end of period . . . . .	\$161.884	\$143.884	\$109.608	\$153.793	\$149.071
Number of Accumulation Units outstanding, end of period . . . . .	1,125,670	1,267,975	1,494,699	1,952,018	2,278,653

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**PENN SERIES BALANCED FUND SUBACCOUNT****Values of an Accumulation Unit Outstanding Throughout Each Period**

	Year Ended December 31,				
	2015	2014	2013	2012	2011
Accumulation Unit Value, . . . . . beginning of period . . . . .	\$15.509	\$14.322	\$12.422	\$11.380	\$10.917
Accumulation Unit Value, end of period . . . . .	\$15.421	\$15.509	\$14.322	\$12.422	\$11.380
Number of Accumulation Units outstanding, end of period . . . . .	534,896	576,819	635,820	771,220	875,714

  

	Year Ended December 31,		
	2010	2009	2008(a)
Accumulation Unit Value, beginning of period . . . . .	\$9.897	\$8.488	\$10.000
Accumulation Unit Value, end of period . . . . .	\$10.917	\$9.897	\$8.488
Number of Accumulation Units outstanding, end of period . . . . .	977,336	1,119,158	1,348,906

(a) For the period August 25, 2008 (date Subaccount was established) through December 31, 2008.

**PENN SERIES LARGE GROWTH STOCK FUND SUBACCOUNT(a)**  
**Values of an Accumulation Unit Outstanding Throughout Each Period**

**Qualified**

	Year Ended December 31,				
	2015	2014	2013	2012	2011
Accumulation Unit Value, beginning of period . . . . .	\$74.952	\$70.038	\$50.978	\$43.470	\$44.711
Accumulation Unit Value, end of period . . . . .	\$81.801	\$74.952	\$70.038	\$50.978	\$43.470
Number of Accumulation Units outstanding, end of period . . . . .	244,296	259,028	279,140	301,929	330,608

	Year Ended December 31,				
	2010	2009	2008	2007	2006
Accumulation Unit Value, beginning of period . . . . .	\$38.763	\$27.461	\$47.833	\$44.375	\$39.760
Accumulation Unit Value, end of period . . . . .	\$44.711	\$38.763	\$27.461	\$47.833	\$44.375
Number of Accumulation Units outstanding, end of period . . . . .	364,620	407,452	462,225	549,132	632,535

**Non-Qualified**

	Year Ended December 31,				
	2015	2014	2013	2012	2011
Accumulation Unit Value, beginning of period . . . . .	\$74.334	\$69.460	\$50.558	\$43.112	\$44.342
Accumulation Unit Value, end of period . . . . .	\$81.127	\$74.334	\$69.460	\$50.558	\$43.112
Number of Accumulation Units outstanding, end of period . . . . .	84,193	84,880	87,902	95,643	109,442

	Year Ended December 31,				
	2010	2009	2008	2007	2006
Accumulation Unit Value, beginning of period . . . . .	\$38.444	\$27.235	\$47.439	\$44.010	\$39.433
Accumulation Unit Value, end of period . . . . .	\$44.342	\$38.444	\$27.235	\$47.439	\$44.010
Number of Accumulation Units outstanding, end of period . . . . .	115,704	128,767	139,248	159,850	192,085

(a) Penn Series Growth Stock Fund Subaccount prior to September 25, 2008.

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**PENN SERIES LARGE CAP GROWTH FUND SUBACCOUNT****Values of an Accumulation Unit Outstanding Throughout Each Period**

	Year Ended December 31,				
	2015	2014	2013	2012	2011
Accumulation Unit Value, beginning of period . . . . .	\$13.218	\$12.026	\$9.893	\$9.086	\$9.868
Accumulation Unit Value, end of period . . . . .	\$13.033	\$13.218	\$12.026	\$9.893	\$9.086
Number of Accumulation Units outstanding, end of period . . . . .	83,277	96,279	109,163	115,782	149,732

  

	Year Ended December 31,				
	2010	2009	2008	2007	2006
Accumulation Unit Value, beginning of period . . . . .	\$8.886	\$6.542	\$11.792	\$11.404	\$11.136
Accumulation Unit Value, end of period . . . . .	\$9.868	\$8.886	\$6.542	\$11.792	\$11.404
Number of Accumulation Units outstanding, end of period . . . . .	189,915	194,766	189,495	217,052	328,102

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**PENN SERIES LARGE CORE GROWTH FUND SUBACCOUNT****Values of an Accumulation Unit Outstanding Throughout Each Period**

	Year Ended December 31,				
	2015	2014	2013	2012	2011
Accumulation Unit Value, beginning of period . . . . .	\$14.848	\$13.956	\$10.247	\$8.934	\$9.523
Accumulation Unit Value, end of period . . . . .	\$14.910	\$14.848	\$13.956	\$10.247	\$8.934
Number of Accumulation Units outstanding, end of period . . . . .	1,430,602	1,626,570	1,791,460	1,992,389	2,238,611

  

	Year Ended December 31,		
	2010	2009	2008(a)
Accumulation Unit Value, beginning of period . . . . .	\$8.222	\$6.127	\$10.000
Accumulation Unit Value, end of period . . . . .	\$9.523	\$8.222	\$6.127
Number of Accumulation Units outstanding, end of period . . . . .	2,570,586	2,990,016	3,436,782

(a) For the period August 25, 2008 (date Subaccount was established) through December 31, 2008.

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**PENN SERIES LARGE CAP VALUE FUND SUBACCOUNT****Values of an Accumulation Unit Outstanding Throughout Each Period**

	Year Ended December 31,				
	2015	2014	2013	2012	2011
Accumulation Unit Value, beginning of period . . . . .	\$77.663	\$70.647	\$53.703	\$48.025	\$50.878
Accumulation Unit Value, end of period . . . . .	\$73.362	\$77.663	\$70.647	\$53.703	\$48.025
Number of Accumulation Units outstanding, end of period . . . . .	384,689	430,234	472,361	532,423	596,619

  

	Year Ended December 31,				
	2010	2009	2008	2007	2006
Accumulation Unit Value, beginning of period . . . . .	\$44.860	\$33.996	\$62.157	\$60.678	\$51.949
Accumulation Unit Value, end of period . . . . .	\$50.878	\$44.860	\$33.996	\$62.157	\$60.678
Number of Accumulation Units outstanding, end of period . . . . .	681,939	777,187	910,394	1,106,434	1,345,261

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**PENN SERIES LARGE CORE VALUE FUND SUBACCOUNT****Values of an Accumulation Unit Outstanding Throughout Each Period**

	Year Ended December 31,				
	2015	2014	2013	2012	2011
Accumulation Unit Value, beginning of period . . . . .	\$13.894	\$12.642	\$9.864	\$8.642	\$9.133
Accumulation Unit Value, end of period . . . . .	\$13.611	\$13.894	\$12.642	\$9.864	\$8.642
Number of Accumulation Units outstanding, end of period . . . . .	834,075	956,181	1,045,066	1,272,165	1,423,077

  

	Year Ended December 31,		
	2010	2009	2008(a)
Accumulation Unit Value, beginning of period . . . . .	\$8.373	\$7.262	\$10.000
Accumulation Unit Value, end of period . . . . .	\$9.133	\$8.373	\$7.262
Number of Accumulation Units outstanding, end of period . . . . .	1,780,458	2,126,264	2,546,868

(a) For the period August 25, 2008 (date Subaccount was established) through December 31, 2008.

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**PENN SERIES INDEX 500 FUND SUBACCOUNT****Values of an Accumulation Unit Outstanding Throughout Each Period**

	Year Ended December 31,				
	2015	2014	2013	2012	2011
Accumulation Unit Value, beginning of period .....					
Accumulation Unit Value, beginning of period .....	\$27.598	\$24.674	\$18.947	\$16.585	\$16.503
Accumulation Unit Value, end of period .....	\$27.528	\$27.598	\$24.674	\$18.947	\$16.585
Number of Accumulation Units outstanding, end of period .....	677,463	706,009	779,045	860,272	988,104

  

	Year Ended December 31,				
	2010	2009	2008	2007	2006
Accumulation Unit Value, beginning of period .....	\$14.559	\$11.960	\$18.518	\$17.844	\$15.661
Accumulation Unit Value, end of period .....	\$16.503	\$14.559	\$11.960	\$18.518	\$17.844
Number of Accumulation Units outstanding, end of period .....	1,099,666	1,298,802	1,524,507	1,730,697	2,030,923

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**PENN SERIES MID CAP GROWTH FUND SUBACCOUNT****Values of an Accumulation Unit Outstanding Throughout Each Period**

	Year Ended December 31,				
	2015	2014	2013	2012	2011
Accumulation Unit Value, beginning of period .....	\$26.524	\$24.529	\$18.167	\$17.341	\$19.039
Accumulation Unit Value, end of period .....	\$24.680	\$26.524	\$24.529	\$18.167	\$17.341
Number of Accumulation Units outstanding, end of period .....	304,801	324,293	350,348	396,648	443,195

  

	Year Ended December 31,				
	2010	2009	2008	2007	2006
Accumulation Unit Value, beginning of period .....	\$15.198	\$10.414	\$20.623	\$16.687	\$15.820
Accumulation Unit Value, end of period .....	\$19.039	\$15.198	\$10.414	\$20.623	\$16.687
Number of Accumulation Units outstanding, end of period .....	497,414	576,717	673,165	804,086	873,396

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**PENN SERIES MID CAP VALUE FUND SUBACCOUNT****Values of an Accumulation Unit Outstanding Throughout Each Period**

	Year Ended December 31,				
	2015	2014	2013	2012	2011
Accumulation Unit Value, beginning of period . . . . .	\$42.712	\$38.049	\$28.287	\$24.870	\$26.869
Accumulation Unit Value, end of period . . . . .	\$38.813	\$42.712	\$38.049	\$28.287	\$24.870
Number of Accumulation Units outstanding, end of period . . . . .	286,839	315,529	346,646	383,882	446,653

  

	Year Ended December 31,				
	2010	2009	2008	2007	2006
Accumulation Unit Value, beginning of period . . . . .	\$21.631	\$14.901	\$28.613	\$27.924	\$25.379
Accumulation Unit Value, end of period . . . . .	\$26.869	\$21.631	\$14.901	\$28.613	\$27.924
Number of Accumulation Units outstanding, end of period . . . . .	499,707	581,760	666,104	838,484	1,010,390

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**PENN SERIES MID CORE VALUE FUND SUBACCOUNT(a)****Values of an Accumulation Unit Outstanding Throughout Each Period**

	Year Ended December 31,				
	2015	2014	2013	2012	2011
Accumulation Unit Value, beginning of period . . . . .	\$22.343	\$19.441	\$15.242	\$13.484	\$14.154
Accumulation Unit Value, end of period . . . . .	\$21.731	\$22.343	\$19.441	\$15.242	\$13.484
Number of Accumulation Units outstanding, end of period . . . . .	82,249	102,742	113,289	120,093	154,740

  

	Year Ended December 31,				
	2010	2009	2008	2007	2006
Accumulation Unit Value, beginning of period . . . . .	\$11.425	\$9.180	\$15.210	\$15.272	\$13.779
Accumulation Unit Value, end of period . . . . .	\$14.154	\$11.425	\$9.180	\$15.210	\$15.272
Number of Accumulation Units outstanding, end of period . . . . .	161,693	178,156	207,200	288,929	312,906

(a) Penn Series Strategic Value Fund Subaccount prior to September 25, 2008.



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**PENN SERIES SMID CAP GROWTH FUND SUBACCOUNT****Values of an Accumulation Unit Outstanding Throughout Each Period**

	Year Ended December 31,				
	2015	2014	2013	2012	2011
Accumulation Unit Value, beginning of period . . . . .	\$18.250	\$18.368	\$13.021	\$11.430	\$12.147
Accumulation Unit Value, end of period . . . . .	\$17.750	\$18.250	\$18.368	\$13.021	\$11.430
Number of Accumulation Units outstanding, end of period . . . . .	48,534	49,878	52,181	41,834	43,079

	Year Ended December 31,		
	2010	2009	2008(a)
Accumulation Unit Value, beginning of period . . . . .	\$9.851	\$6.471	\$10.000
Accumulation Unit Value, end of period . . . . .	\$12.147	\$9.851	\$6.471
Number of Accumulation Units outstanding, end of period . . . . .	68,404	64,803	5,570

(a) For the period August 25, 2008 (date Subaccount was established) through December 31, 2008.

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**PENN SERIES SMID CAP VALUE FUND SUBACCOUNT****Values of an Accumulation Unit Outstanding Throughout Each Period**

	Year Ended December 31,				
	2015	2014	2013	2012	2011
Accumulation Unit Value, beginning of period . . . . .	\$19.414	\$17.994	\$13.204	\$11.240	\$12.259
Accumulation Unit Value, end of period . . . . .	\$18.082	\$19.414	\$17.994	\$13.204	\$11.240
Number of Accumulation Units outstanding, end of period . . . . .	55,208	68,177	70,014	56,837	72,173

	Year Ended December 31,		
	2010	2009	2008(a)
Accumulation Unit Value, beginning of period . . . . .	\$9.784	\$6.805	\$10.000
Accumulation Unit Value, end of period . . . . .	\$12.259	\$9.784	\$6.805
Number of Accumulation Units outstanding, end of period . . . . .	70,440	42,555	2,954

(a) For the period August 25, 2008 (date Subaccount was established) through December 31, 2008.

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**PENN SERIES SMALL CAP GROWTH FUND SUBACCOUNT****Values of an Accumulation Unit Outstanding Throughout Each Period**

	Year Ended December 31,				
	2015	2014	2013	2012	2011
Accumulation Unit Value, beginning of period . . . . .	\$36.158	\$33.953	\$24.984	\$23.929	\$27.259
Accumulation Unit Value, end of period . . . . .	\$35.834	\$36.158	\$33.953	\$24.984	\$23.929
Number of Accumulation Units outstanding, end of period . . . . .	246,432	278,548	301,527	349,458	403,189

	Year Ended December 31,				
	2010	2009	2008	2007	2006
Accumulation Unit Value, beginning of period . . . . .	\$23.169	\$14.778	\$29.978	\$28.182	\$28.891
Accumulation Unit Value, end of period . . . . .	\$27.259	\$23.169	\$14.778	\$29.978	\$28.182
Number of Accumulation Units outstanding, end of period . . . . .	434,963	493,955	536,727	624,495	817,610

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**PENN SERIES SMALL CAP VALUE FUND SUBACCOUNT****Values of an Accumulation Unit Outstanding Throughout Each Period**

	Year Ended December 31,				
	2015	2014	2013	2012	2011
Accumulation Unit Value, beginning of period . . . . .	\$60.852	\$57.507	\$41.914	\$36.536	\$36.676
Accumulation Unit Value, end of period . . . . .	\$56.815	\$60.852	\$57.507	\$41.914	\$36.536
Number of Accumulation Units outstanding, end of period . . . . .	256,156	287,331	315,071	352,428	409,776

	Year Ended December 31,				
	2010	2009	2008	2007	2006
Accumulation Unit Value, beginning of period . . . . .	\$29.302	\$23.377	\$32.494	\$34.747	\$29.960
Accumulation Unit Value, end of period . . . . .	\$36.676	\$29.302	\$23.377	\$32.494	\$34.747
Number of Accumulation Units outstanding, end of period . . . . .	467,605	542,836	658,076	855,666	1,070,370

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**PENN SERIES SMALL CAP INDEX FUND SUBACCOUNT****Values of an Accumulation Unit Outstanding Throughout Each Period**

	Year Ended December 31,				
	2015	2014	2013	2012	2011
Accumulation Unit Value, beginning of period . . . . .	\$16.348	\$15.886	\$11.645	\$10.209	\$10.826
Accumulation Unit Value, end of period . . . . .	\$15.319	\$16.348	\$15.886	\$11.645	\$10.209
Number of Accumulation Units outstanding, end of period . . . . .	31,162	42,467	41,329	36,399	53,040

	Year Ended December 31,		
	2010	2009	2008(a)
Accumulation Unit Value, beginning of period . . . . .	\$8.686	\$6.972	\$10.000
Accumulation Unit Value, end of period . . . . .	\$10.826	\$8.686	\$6.972
Number of Accumulation Units outstanding, end of period . . . . .	19,662	6,846	—

(a) For the period August 25, 2008 (date Subaccount was established) through December 31, 2008.

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**PENN SERIES DEVELOPED INTERNATIONAL INDEX FUND SUBACCOUNT****Values of an Accumulation Unit Outstanding Throughout Each Period**

	Year Ended December 31,				
	2015	2014	2013	2012	2011
Accumulation Unit Value, beginning of period . . . . .	\$10.704	\$11.543	\$9.653	\$8.273	\$9.586
Accumulation Unit Value, end of period . . . . .	\$10.425	\$10.704	\$11.543	\$9.653	\$8.273
Number of Accumulation Units outstanding, end of period . . . . .	59,751	62,407	54,192	53,530	63,760

	Year Ended December 31,		
	2010	2009	2008(a)
Accumulation Unit Value, beginning of period . . . . .	\$9.034	\$7.118	\$10.000
Accumulation Unit Value, end of period . . . . .	\$9.586	\$9.034	\$7.118
Number of Accumulation Units outstanding, end of period . . . . .	33,185	25,031	2,862

(a) For the period August 25, 2008 (date Subaccount was established) through December 31, 2008.

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**PENN SERIES INTERNATIONAL EQUITY FUND SUBACCOUNT****Values of an Accumulation Unit Outstanding Throughout Each Period**

	Year Ended December 31,				
	2015	2014	2013	2012	2011
Accumulation Unit Value, beginning of period . . . . .	\$44.715	\$43.981	\$42.025	\$35.151	\$35.271
Accumulation Unit Value, end of period . . . . .	\$45.746	\$44.715	\$43.981	\$42.025	\$35.151
Number of Accumulation Units outstanding, end of period . . . . .	510,287	565,925	616,580	673,004	765,768

  

	Year Ended December 31,				
	2010	2009	2008	2007	2006
Accumulation Unit Value, beginning of period . . . . .	\$32.153	\$26.744	\$46.120	\$38.902	\$30.220
Accumulation Unit Value, end of period . . . . .	\$35.271	\$32.153	\$26.744	\$46.120	\$38.902
Number of Accumulation Units outstanding, end of period . . . . .	892,580	1,004,512	1,196,217	1,519,330	1,697,957

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**PENN SERIES EMERGING MARKETS EQUITY FUND SUBACCOUNT****Values of an Accumulation Unit Outstanding Throughout Each Period**

	Year Ended December 31,				
	2015	2014	2013	2012	2011
Accumulation Unit Value, beginning of period . . . . .	\$10.053	\$10.706	\$10.964	\$9.283	\$11.525
Accumulation Unit Value, end of period . . . . .	\$8.848	\$10.053	\$10.706	\$10.964	\$9.283
Number of Accumulation Units outstanding, end of period . . . . .	462,552	515,997	567,077	620,659	708,715

  

	Year Ended December 31,		
	2010	2009	2008(a)
Accumulation Unit Value, beginning of period . . . . .	\$9.793	\$5.987	\$10.000
Accumulation Unit Value, end of period . . . . .	\$11.525	\$9.793	\$5.987
Number of Accumulation Units outstanding, end of period . . . . .	859,404	1,038,690	1,083,544

(a) For the period August 25, 2008 (date Subaccount was established) through December 31, 2008.

**PENN SERIES REAL ESTATE SECURITIES FUND SUBACCOUNT(a)**  
**Values of an Accumulation Unit Outstanding Throughout Each Period**

	Year Ended December 31,				
	2015	2014	2013	2012	2011
Accumulation Unit Value, beginning of period . . . . .	\$28.491	\$22.153	\$21.751	\$18.986	\$17.961
Accumulation Unit Value, end of period . . . . .	\$29.605	\$28.491	\$22.153	\$21.751	\$18.986
Number of Accumulation Units outstanding, end of period . . . . .	139,490	145,434	149,228	175,444	178,782
	Year Ended December 31,				
	2010	2009	2008	2007	2006
Accumulation Unit Value, beginning of period . . . . .	\$14.531	\$11.629	\$19.426	\$23.952	\$18.317
Accumulation Unit Value, end of period . . . . .	\$17.961	\$14.531	\$11.629	\$19.426	\$23.952
Number of Accumulation Units outstanding, end of period . . . . .	176,542	201,257	230,749	266,298	422,525

(a) Penn Series REIT Fund Subaccount prior to May 1, 2011.

**PENN SERIES AGGRESSIVE ALLOCATION FUND SUBACCOUNT**  
**Values of an Accumulation Unit Outstanding Throughout Each Period**

	Year Ended December 31,				
	2015	2014	2013	2012	2011
Accumulation Unit Value, beginning of period . . . . .	\$14.191	\$13.457	\$11.124	\$9.754	\$10.251
Accumulation Unit Value, end of period . . . . .	\$13.792	\$14.191	\$13.457	\$11.124	\$9.754
Number of Accumulation Units outstanding, end of period . . . . .	45,435	46,752	51,122	35,059	37,282
	Year Ended December 31,				
	2010	2009	2008(a)		
Accumulation Unit Value, beginning of period . . . . .	\$8.951	\$7.030	\$10.000		
Accumulation Unit Value, end of period . . . . .	\$10.251	\$8.951	\$7.030		
Number of Accumulation Units outstanding, end of period . . . . .	28,198	14,167	2,095		

(a) For the period August 25, 2008 (date Subaccount was established) through December 31, 2008.

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**PENN SERIES MODERATELY AGGRESSIVE ALLOCATION FUND SUBACCOUNT**  
**Values of an Accumulation Unit Outstanding Throughout Each Period**

	Year Ended December 31,				
	2015	2014	2013	2012	2011
Accumulation Unit Value, beginning of period . . . . .	\$14.825	\$14.124	\$12.002	\$10.695	\$11.027
Accumulation Unit Value, end of period . . . . .	\$14.473	\$14.825	\$14.124	\$12.002	\$10.695
Number of Accumulation Units outstanding, end of period . . . . .	82,073	90,426	126,238	92,450	82,825

	Year Ended December 31,		
	2010	2009	2008(a)
Accumulation Unit Value, beginning of period . . . . .	\$9.751	\$7.759	\$10.000
Accumulation Unit Value, end of period . . . . .	\$11.027	\$9.751	\$7.759
Number of Accumulation Units outstanding, end of period . . . . .	72,750	94,004	16,743

(a) For the period August 25, 2008 (date Subaccount was established) through December 31, 2008.

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**PENN SERIES MODERATE ALLOCATION FUND SUBACCOUNT**  
**Values of an Accumulation Unit Outstanding Throughout Each Period**

	Year Ended December 31,				
	2015	2014	2013	2012	2011
Accumulation Unit Value, beginning of period . . . . .	\$13.663	\$13.097	\$11.623	\$10.610	\$10.673
Accumulation Unit Value, end of period . . . . .	\$13.419	\$13.663	\$13.097	\$11.623	\$10.610
Number of Accumulation Units outstanding, end of period . . . . .	203,309	236,068	236,973	295,329	259,248

	Year Ended December 31,		
	2010	2009	2008(a)
Accumulation Unit Value, beginning of period . . . . .	\$9.629	\$8.086	\$10.000
Accumulation Unit Value, end of period . . . . .	\$10.673	\$9.629	\$8.086
Number of Accumulation Units outstanding, end of period . . . . .	187,965	133,711	31,276

(a) For the period August 25, 2008 (date Subaccount was established) through December 31, 2008.

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**PENN SERIES MODERATELY CONSERVATIVE ALLOCATION FUND SUBACCOUNT**  
**Values of an Accumulation Unit Outstanding Throughout Each Period**

	<b>Year Ended December 31,</b>				
	<b>2015</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>
Accumulation Unit Value, beginning of period . . . . .	\$12.967	\$12.504	\$11.579	\$10.826	\$10.671
Accumulation Unit Value, end of period . . . . .	\$12.778	\$12.967	\$12.504	\$11.579	\$10.826
Number of Accumulation Units outstanding, end of period . . . . .	161,587	162,633	168,315	173,815	176,546

	<b>Year Ended December 31,</b>		
	<b>2010</b>	<b>2009</b>	<b>2008(a)</b>
Accumulation Unit Value, beginning of period . . . . .	\$9.844	\$8.614	\$10.000
Accumulation Unit Value, end of period . . . . .	\$10.671	\$9.884	\$8.614
Number of Accumulation Units outstanding, end of period . . . . .	200,560	194,661	61,220

(a) For the period August 25, 2008 (date Subaccount was established) through December 31, 2008.

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**PENN SERIES CONSERVATIVE ALLOCATION FUND SUBACCOUNT**  
**Values of an Accumulation Unit Outstanding Throughout Each Period**

	<b>Year Ended December 31,</b>				
	<b>2015</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>
Accumulation Unit Value, beginning of period . . . . .	\$12.128	\$11.837	\$11.477	\$11.018	\$10.735
Accumulation Unit Value, end of period . . . . .	\$11.987	\$12.128	\$11.837	\$11.477	\$11.018
Number of Accumulation Units outstanding, end of period . . . . .	22,526	41,347	38,434	38,432	63,551

	<b>Year Ended December 31,</b>		
	<b>2010</b>	<b>2009</b>	<b>2008(a)</b>
Accumulation Unit Value, beginning of period . . . . .	\$10.169	\$9.264	\$10.000
Accumulation Unit Value, end of period . . . . .	\$10.735	\$10.169	\$9.264
Number of Accumulation Units outstanding, end of period . . . . .	29,753	36,532	561

(a) For the period August 25, 2008 (date Subaccount was established) through December 31, 2008.







## Our Noble Purpose

Since 1847, Penn Mutual has been driven by our noble purpose – to create a world of possibilities, one individual, one family and one small business at a time. As an original pioneer of mutual life insurance in America, we believe that purchasing life insurance is the most protective, responsible and rewarding action a person can take to build a solid foundation today and create a brighter future for generations to come.

Diversifier II is issued by The Penn Mutual Life Insurance Company on Policy Form DV-790 and state variations thereof.