

SECURITIES AND EXCHANGE COMMISSION

FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **1994-05-13** | Period of Report: **1994-03-31**
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FILER

ML LIFE INSURANCE COMPANY OF NEW YORK

CIK: **862923** | IRS No.: **161020455** | State of Incorporation: **NY** | Fiscal Year End: **1231**
Type: **10-Q** | Act: **34** | File No.: **033-34562** | Film No.: **94528377**

Business Address
717 FIFTH AVE
NEW YORK NY 10022
2124158070

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE FISCAL QUARTER ENDED MARCH 31, 1994
COMMISSION FILE NUMBER 33-34562; 33-60288

ML LIFE INSURANCE COMPANY OF NEW YORK
(Exact name of Registrant as specified in its charter)

NEW YORK
(State or other jurisdiction
of incorporation or organization)

16-1020455
(IRS Employer
Identification No.)

100 CHURCH STREET
NEW YORK, NEW YORK 10080-6511
(Address of Principal Executive Offices)

(800) 333-6524
(Registrant's telephone number including area code)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

COMMON 220,000

REGISTRANT MEETS THE CONDITIONS SET FORTH IN GENERAL INSTRUCTION H(1) (a) AND (b) OF FORM 10-Q AND IS THEREFORE FILING THIS FORM WITH THE REDUCED DISCLOSURE FORMAT.

PART I Financial Information

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ML LIFE INSURANCE COMPANY OF NEW YORK
(a wholly-owned subsidiary of Merrill Lynch Insurance Group, Inc.)

BALANCE SHEETS
(Dollars in Thousands)
<TABLE>
<CAPTION>

ASSETS	March 31, 1994	December 31, 1993
	(Unaudited)	
<S>	<C>	<C>
INVESTMENTS		
Fixed maturity securities available for sale, at estimated fair value (amortized cost: 1994 - \$399,453; 1993 - \$442,008)	\$ 402,114	\$ 458,916
Equity securities available for sale, at estimated fair value (cost: 1994 - \$8,348; 1993 - \$8,387)	10,685	7,195
Mortgage loans on real estate	17,627	17,627
Policy loans on insurance contracts	74,980	73,380
	-----	-----
Total Investments	505,406	557,118
CASH AND CASH EQUIVALENTS	13,739	26,919
ACCRUED INVESTMENT INCOME	9,131	10,164
DEFERRED POLICY ACQUISITION COSTS	26,821	24,036
FEDERAL INCOME TAXES - DEFERRED	11,915	10,468
REINSURANCE RECEIVABLES	1,633	1,685
OTHER ASSETS	5,877	4,310
SEPARATE ACCOUNTS ASSETS	445,828	410,613
	-----	-----
TOTAL ASSETS	\$ 1,020,350	\$ 1,045,313
	=====	=====

</TABLE>

See notes to financial statements

(Continued)

ML LIFE INSURANCE COMPANY OF NEW YORK
(a wholly-owned subsidiary of Merrill Lynch Insurance Group, Inc.)

BALANCE SHEETS

(Concluded) (Dollars in Thousands)

<TABLE>

<CAPTION>

LIABILITIES AND STOCKHOLDER'S EQUITY	March 31, 1994	December 31, 1993
	(Unaudited)	
<S>	<C>	<C>
LIABILITIES:		
POLICY LIABILITIES AND ACCRUALS:		
Policyholders' account balances	\$ 458,835	\$ 523,382
Claims and claims settlement expenses	5,575	5,614
	-----	-----
Total policy liabilities and accruals	464,410	528,996
OTHER POLICYHOLDER FUNDS	3,782	1,200
OTHER LIABILITIES	7,094	5,641
FEDERAL INCOME TAXES - CURRENT	1,968	864
PAYABLE TO AFFILIATES - NET	5,130	5,223
SEPARATE ACCOUNTS LIABILITIES	445,828	410,613
	-----	-----
Total Liabilities	928,212	952,537
	-----	-----
STOCKHOLDER'S EQUITY:		
Common stock, \$10 par value - 220,000 shares authorized, issued and outstanding	2,200	2,200
Additional paid-in capital	83,006	83,006
Retained earnings	9,942	8,497
Net unrealized investment loss	(3,010)	(927)
	-----	-----
Total Stockholder's Equity	92,138	92,776

TOTAL LIABILITIES AND STOCKHOLDER'S EQUITY

\$ 1,020,350 \$ 1,045,313
=====

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See notes to financial statements

ML LIFE INSURANCE COMPANY OF NEW YORK

(a wholly-owned subsidiary of Merrill Lynch Insurance Group, Inc.)

STATEMENTS OF EARNINGS

(Dollars in Thousands)

<TABLE>

<CAPTION>

	Three Months Ended March 31,	
	1994	1993
	(Unaudited)	
<S>	<C>	<C>
REVENUES:		
Investment revenue:		
Net investment income	\$ 9,615	\$ 14,426
Net realized investment gains	35	580
Policy charge revenue	2,465	1,770
	-----	-----
Total Revenues	12,115	16,776
	-----	-----
BENEFITS AND EXPENSES:		
Interest credited to policyholders' account balances	7,328	12,971
Market value adjustment expense	85	52
Policy benefits (reinsurance recoveries: 1994 - \$78; 1993 - \$265)	331	186
Reinsurance premium ceded	320	291
Amortization of deferred policy acquisition cost	1,034	2,156
Insurance expenses and taxes	794	1,217
	-----	-----
Total Benefits and Expenses	9,892	16,873
	-----	-----
Earnings (Loss) Before Federal Income Tax Provision (Benefit)	2,223	(97)
FEDERAL INCOME TAX PROVISION (BENEFIT):		
Current	1,104	496
Deferred	(326)	(529)
	-----	-----
Total Federal Income Tax Provision (Benefit)	778	(33)
	-----	-----
NET EARNINGS (LOSS)	\$ 1,445	\$ (64)
	=====	=====

</TABLE>

See notes to financial statements

ML LIFE INSURANCE COMPANY OF NEW YORK

(a wholly-owned subsidiary of Merrill Lynch Insurance Group, Inc.)

STATEMENTS OF STOCKHOLDER'S EQUITY

(Dollars in Thousands)

<TABLE>

<CAPTION>

	Common Stock	Additional paid-in capital	Retained earnings	Net unrealized investment gain (loss)	Total stockholders' equity
			(Unaudited)		
<S>	<C>	<C>	<C>	<C>	<C>
BALANCE, JANUARY 1, 1993	\$ 2,200	\$ 83,006	\$ 6,689	\$ 352	\$ 92,247
Net earnings	0	0	1,808	0	1,808
Net unrealized investment loss	0	0	0	(1,279)	(1,279)
BALANCE, DECEMBER 31, 1993	2,200	83,006	8,497	(927)	92,776
Net earnings	0	0	1,445	0	1,445
Net unrealized investment loss	0	0	0	(2,083)	(2,083)
BALANCE, MARCH 31, 1994	\$ 2,200	\$ 83,006	\$ 9,942	\$ (3,010)	\$ 92,138

</TABLE>

See notes to financial statements

ML LIFE INSURANCE COMPANY OF NEW YORK
(a wholly-owned subsidiary of Merrill Lynch Insurance Group, Inc.)

STATEMENTS OF CASH FLOWS

(Dollars in Thousands)

<TABLE>

<CAPTION>

	Three Months Ended March 31,	
	1994	1993
	(Unaudited)	
<S>	<C>	<C>
OPERATING ACTIVITIES:		
Net earnings (loss)	\$ 1,445	\$ (64)
Adjustments to reconcile net earnings (loss) to net cash and cash equivalents provided (used) by operating activities:		
Amortization of deferred policy acquisition costs	1,035	2,156
Capitalization of policy acquisition costs	(2,393)	(1,312)
Amortization of fixed maturity securities	4	241
Net realized investment gains	(35)	(580)
Interest credited to policyholders' account balances	7,328	12,971
Benefit for deferred Federal income tax	(326)	(529)
Cash and cash equivalents provided (used) by changes in operating assets and liabilities:		
Accrued investment income	1,033	124
Policy liabilities and accruals	(39)	(642)
Federal income taxes - current	1,104	828
Other policyholder funds	2,582	1,321
Payable from affiliates - net	(92)	2,386
Policy loans	(1,600)	363
Other - net	(153)	5,902
Net cash and cash equivalents provided by operating activities	9,893	23,165
INVESTING ACTIVITIES:		
Fixed maturity securities sold	33,695	20,759
Fixed maturity securities matured	29,513	77,885

Fixed maturity securities purchased	(20,533)	(107,152)
Equity securities available for sale sold	68	0
Equity securities available for sale purchased	(31)	0
	-----	-----
Net cash and cash equivalents provided (used) by investing activities	42,712	(8,508)
	-----	-----

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See notes to financial statements
(continued)

ML LIFE INSURANCE COMPANY OF NEW YORK
(a wholly-owned subsidiary of Merrill Lynch Insurance Group, Inc.)

STATEMENTS OF CASH FLOWS
(Concluded) (Dollars in Thousands)

<TABLE>
<CAPTION>

	Three Months Ended March 31,	
	1994	1993
	(Unaudited)	
	<C>	<C>
	-----	-----
FINANCING ACTIVITIES:		
Policyholders' account balances:		
Deposits	14,658	9,926
Withdrawals (net of transfers to Separate Accounts)	(80,443)	(63,730)
	-----	-----
Net cash and cash equivalents used by financing activities	(65,785)	(53,804)
	-----	-----
NET DECREASE IN CASH AND CASH EQUIVALENTS	(13,180)	(39,147)
CASH AND CASH EQUIVALENTS:		
Beginning of year	26,919	41,122
	-----	-----
End of period	\$ 13,739	\$ 1,975
	=====	=====

</TABLE>

See notes to financial statements

ML LIFE INSURANCE COMPANY OF NEW YORK
(a wholly-owned subsidiary of Merrill Lynch Insurance Group, Inc.)

NOTES TO FINANCIAL STATEMENTS
MARCH 31, 1994

NOTE 1: BASIS OF PRESENTATION:

ML Life Insurance Company of New York (the "Company"), is a wholly-owned subsidiary of Merrill Lynch Insurance Group, Inc. ("MLIG"). The Company is an indirect wholly-owned subsidiary of Merrill Lynch & Co., Inc. ("Merrill Lynch & Co."). The Company sells life insurance and annuity products, including variable life insurance and variable annuities.

The condensed financial statements included herein have been prepared by the Company without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally

accepted accounting principles have been condensed or omitted pursuant to such rules and regulations. In the opinion of management, the unaudited financial statements presented herein include all adjustments (consisting only of normal recurring accruals) necessary for a fair presentation of the financial position and the results of operations in accordance with generally accepted accounting principles for the periods presented. Results for the three months ended March 31, 1994 and 1993 are not necessarily indicative of annual results. To facilitate comparison with the current periods, certain amounts in the prior periods have been reclassified. These unaudited financial statements should be read in conjunction with the financial statements and the notes thereto included in the Company's 1993 Annual Report on Form 10-K ("1993 Report").

The Company recovered Federal income taxes of \$0 and \$(332,000) for the three months ended March 31, 1994 and 1993, respectively. The Company paid interest on affiliated borrowings of \$80,000 and \$21,000 for the three months ended March 31, 1994 and 1993, respectively.

NOTE 2. STATUTORY ACCOUNTING PRACTICES:

The Company maintains its statutory accounting records in conformity with accounting practices prescribed or permitted by the Insurance Department of the State of New York and the National Association of Insurance Commissioners. Statutory capital and surplus at March 31, 1994 and December 31, 1993, was \$61,366,000 and \$57,333,000, respectively. For the three months ended March 31, 1994 and 1993, statutory net income was \$3,077,000 and \$605,000, respectively.

Item 2 Management's Narrative Analysis of the Results of Operations

This Management's Narrative Analysis of the Results of Operations should be read in conjunction with the accompanying financial statements and notes thereto, in addition to the 1993 Financial Statements and Notes to Financial Statements and the Management's Discussion and Analysis of Financial Condition and Results of Operations in the 1993 Report.

Business Overview

The Company's gross earnings are principally derived from two sources: the net income from investment of fixed rate life insurance and annuity contract owner deposits less interest credited to contract owners, commonly known as spread, and fees charged to variable life insurance and variable annuity contract owners. The costs associated with acquiring contract owner deposits are amortized over the period in which the Company anticipates holding those funds. In addition, the Company incurs expenses associated with the maintenance of inforce contracts.

Life insurance and annuity deposits received in the first three months of 1994 increased \$4,732,000 to \$14,658,000, when compared to the same period in 1993. The increase was attributable to an increase in sales of the Company's variable annuity product.

For 1994, approximately \$228,000,000 of fixed deferred annuity liabilities will reach the expiration of their interest rate guarantee period. This represents approximately 44% of the Company's policy liabilities and accruals as of the beginning of 1994. During the first three months of 1994, approximately \$77,000,000 of fixed deferred annuity liabilities reached the expiration of their interest rate guarantee period. At the expiration of an interest rate guarantee period, the contract owner has an option to either surrender or exchange the contract

for another annuity product offered by the Company without incurring a surrender charge, or to "renew" with an adjustment of the interest crediting rate to the prevailing rate at the time of renewal. The Company has offered those contract owners the opportunity to exchange their contract for either a variable annuity or market value adjusted annuity contract. The following table summarizes the contract owners' selections for the first quarter of 1994 and for the year ending December 31, 1993:

<TABLE>

<CAPTION>

	1994		1993	
	Amount	%	Amount	%
	(Dollars in Millions)			
<S>	<C>	<C>	<C>	<C>
Renewed with an adjustment to the applicable interest crediting rate	\$ 12	16%	\$ 76	25%
Exchanged into either the variable annuity product or the market value adjusted annuity product	40	51%	101	33%
Surrendered	25	33%	127	42%
Total	\$ 77	100%	\$ 304	100%

The rates of renewal, exchange and surrender experienced are consistent with management's projections.

To fund all business activities, the Company maintains an investment portfolio of high quality and liquidity. As of March 31, 1994, the Company's invested assets and cash equivalents consist of approximately 55% liquid or readily marketable securities.

As of March 31, 1994, approximately \$39,500,000 (9.8%) of the Company's fixed maturity securities, were invested in securities considered non-investment grade. The Company defines non-investment grade as unsecured corporate debt obligations which do not have a rating equivalent to Standard and Poor's BBB or higher (or similar rating agency), and are not guaranteed by an agency of the federal government. Non-investment grade securities are speculative and are subject to significantly greater risks related to the creditworthiness of the issuers and the liquidity of the market for such securities. The Company carefully selects, and closely monitors, such investments.

Results of Operations

For the three month periods ended March 31, 1994 and 1993, the Company reported net earnings of \$1,445,000 and a net loss of \$(64,000), respectively.

Net investment income and interest credited to policy holder account balances for the three months ended March 31, 1994 as compared to the same period in 1993 have declined by approximately \$4,811,000 and \$5,643,000, respectively, resulting in a net increase in interest spread of \$832,000. This increase in interest spread is primarily attributable to the adjustment of the guaranteed interest crediting rate on those contracts which have reached the end of their interest rate guarantee period to the prevailing rate.

Net realized investment gains declined \$545,000 for the three months ended March 31, 1994 as compared to the same period in 1993 principally as a result of changes in the interest rate environment between the two periods. During the first quarter of 1994, interest rates rose from the historically low levels reached during 1993 generally reducing the fair value of the

fixed maturity securities portfolio.

Policy charge revenue increased \$695,000 during the current three month period as compared to the same period during 1993. This is primarily attributable to the increase in contracts in force of the variable annuity product.

Policy benefits increased approximately \$145,000 during the current three month period as compared to the same period during 1993 due to a period to period change in mortality experience. The Company's reinsurance and risk retention programs have remained unchanged between 1994 and 1993.

Amortization of deferred policy acquisition costs decreased approximately \$1,122,000 during the three months ended March 31, 1994 as compared to the same period in 1993. ML of New York adjusts the amortization of deferred policy acquisition costs based on realized investment gains recognized on normal trading activity in ML of New York's investment portfolios. Approximately \$500,000 of the decrease in deferred policy acquisition costs is attributable to the decrease during 1994 in realized investment gains. The remainder of the decrease in amortization is attributable to a decline in fixed annuity contracts inforce partially offset by an increase in the variable annuity contracts inforce.

Insurance expenses and taxes decreased approximately \$423,000 during the current three month period as compared to the same period during 1993. The reduction in expenses is attributable to operational efficiencies and the completion during 1993 of certain policy administration system enhancements.

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PART II Other Information

Item 1. Legal Proceedings.

Nothing to report.

Item 5. Other Information.

Nothing to report.

Item 6. Exhibits and Reports on Form 8-K.

(a) Exhibits.

None.

(b) Reports on Form 8-K.

None.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

/s/ JOSEPH E. CROWNE

Joseph E. Crowne
Senior Vice President and
Chief Financial Officer

Date: May 12, 1994

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</TABLE>