

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**  
SEC Accession No. **0000950123-94-000920**

([HTML Version](#) on [secdatabase.com](http://secdatabase.com))

FILER

**MERRILL LYNCH LIFE INSURANCE COMPANY**

CIK: **845091** | IRS No.: **911325756** | State of Incorporation: **AR** | Fiscal Year End: **1231**  
Type: **10-Q** | Act: **34** | File No.: **033-26322** | Film No.: **94528396**

Business Address  
*800 SCUDDERS MILL ROAD  
PLAINSBORO NJ 08536  
6092821429*

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 33-26322; 33-46827; 33-52254; 33-60290

MERRILL LYNCH LIFE INSURANCE COMPANY  
(Exact name of Registrant as specified in its charter)

ARKANSAS  
(State or other jurisdiction  
of incorporation or organization)

91-1325756  
(IRS Employer  
Identification No.)

800 SCUDDERS MILL ROAD  
PLAINSBORO, NEW JERSEY 08536  
(Address of Principal Executive Offices)

(609) 282-1429  
(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 X                      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 200,000

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.

MERRILL LYNCH LIFE INSURANCE COMPANY  
(a wholly-owned subsidiary of Merrill Lynch Insurance Group, Inc.)

## BALANCE SHEETS

(Dollars in Thousands)

&lt;TABLE&gt;

&lt;CAPTION&gt;

ASSETS	March 31, 1994	December 31, 1993
	-----	
	(Unaudited)	
	<C>	<C>
<b>&lt;S&gt;</b>		
<b>INVESTMENTS:</b>		
Fixed maturity securities available for sale, at estimated fair value (amortized cost: 1994 - \$4,975,785; 1993 - \$5,369,236)	\$ 5,015,500	\$ 5,597,359
Fixed maturity securities held for trading, at estimated fair value (amortized cost: 1994 - \$138,469; 1993 - \$140,635)	136,532	144,035
Equity securities available for sale, at estimated fair value (amortized cost: 1994 - \$19,300; 1993 - \$24,424)	21,394	24,970
Equity securities held for trading, at estimated fair value (amortized cost: 1994 - \$19,523; 1993 - \$19,694)	18,562	20,585
Mortgage loans on real estate	187,854	191,214
Real estate available for sale	30,032	29,761
Policy loans on insurance contracts	936,026	924,579
	-----	
Total Investments	6,345,900	6,932,503
CASH AND CASH EQUIVALENTS	78,497	122,218
ACCRUED INVESTMENT INCOME	120,565	120,337
DEFERRED POLICY ACQUISITION COSTS	367,712	318,903
FEDERAL INCOME TAXES - DEFERRED	28,761	16,878
REINSURANCE RECEIVABLES	2,412	1,190
RECEIVABLES FROM AFFILIATES - NET	1,082	789
OTHER ASSETS	31,505	21,481
SEPARATE ACCOUNTS ASSETS	5,149,224	4,715,278
	-----	
<b>TOTAL ASSETS</b>	<b>\$ 12,125,658</b>	<b>\$ 12,249,577</b>
	=====	

&lt;/TABLE&gt;

See notes to financial statements.

(Continued)

MERRILL LYNCH LIFE INSURANCE COMPANY

(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	\$ 6,133,518	\$ 6,691,811
Claims and claims settlement expenses	24,391	20,295
Total policy liabilities and accruals	6,157,909	6,712,106
OTHER POLICYHOLDER FUNDS	21,937	28,768
LIABILITY FOR GUARANTY FUND ASSESSMENTS	25,811	28,083
OTHER LIABILITIES	69,789	68,165
FEDERAL INCOME TAXES - CURRENT	19,096	10,122
SEPARATE ACCOUNTS LIABILITIES	5,149,224	4,715,278
Total Liabilities	11,443,766	11,562,522
STOCKHOLDER'S EQUITY:		
Common stock, \$10 par value - 200,000 shares authorized, issued and outstanding	2,000	2,000
Additional paid-in capital	637,590	637,590
Retained earnings	55,516	47,860
Net unrealized investment loss	(13,214)	(395)
Total Stockholder's Equity	681,892	687,055
TOTAL LIABILITIES AND STOCKHOLDER'S EQUITY	\$ 12,125,658	\$ 12,249,577

</TABLE>

See notes to financial statements.

MERRILL LYNCH LIFE INSURANCE COMPANY

(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	\$ 122,479	\$ 159,206
Net realized investment gains (losses)	(4,623)	3,843
Policy charge revenue	25,719	19,558
Total Revenues	143,575	182,607

BENEFITS AND EXPENSES		
Interest credited to policyholders' account balances	91,060	127,807
Market value adjustment expense	4,731	2,448
Policy benefits (reinsurance recoveries: 1994 - \$1,505; 1993 - \$2,116)	3,666	2,475
Reinsurance premium ceded	3,563	2,744
Amortization of deferred policy acquisition cost	19,413	21,493
Insurance expenses and taxes	9,493	13,107
Total Benefits and Expenses	131,926	170,074
Earnings Before Federal Income Tax Provision	11,649	12,533
FEDERAL INCOME TAX PROVISION (BENEFITS)		
Current	8,974	5,305
Deferred	(4,981)	(1,187)
Total Federal Income Tax Provision	3,993	4,118
NET EARNINGS	\$ 7,656	\$ 8,415

</TABLE>

See notes to financial statements.  
MERRILL LYNCH LIFE INSURANCE COMPANY  
(a wholly-owned subsidiary of Merrill Lynch Insurance Group, Inc.)

STATEMENTS OF STOCKHOLDER'S EQUITY  
(Dollars in Thousands)

	Common Stock	Additional paid-in capital	Retained earnings (Unaudited)	Net unrealized investment gain (loss)	Total stockholder's equity
<S>	<C>	<C>	<C>	<C>	<C>
BALANCE, JANUARY 1, 1993	\$ 2,000	\$ 654,717	\$ 102,873	\$ 2,884	\$ 762,474
Dividend to Parent	0	(17,127)	(102,873)	0	(120,000)
Net earnings	0	0	47,860	0	47,860
Net unrealized investment loss	0	0	0	(3,279)	(3,279)
BALANCE, DECEMBER 31, 1993	2,000	637,590	47,860	(395)	687,055
Net earnings	0	0	7,656	0	7,656
Net unrealized investment loss	0	0	0	(12,819)	(12,819)
BALANCE, MARCH 31, 1994	\$ 2,000	\$ 637,590	\$ 55,516	\$ (13,214)	\$ 681,892

</TABLE>

See notes to financial statements.

MERRILL LYNCH LIFE INSURANCE COMPANY  
(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>
<b>OPERATING ACTIVITIES:</b>		
Net earnings	\$ 7,656	\$ 8,415
Adjustments to reconcile net earnings to net cash and cash equivalents provided (used) by operating activities:		
Amortization of deferred policy acquisition costs	19,413	21,493
Capitalization of policy acquisition costs	(30,763)	(13,877)
Depreciation and amortization	(1,516)	(2,132)
Net realized investment (gains) losses	4,623	(3,843)
Interest credited to policyholders' account balances	91,060	127,809
Provision for deferred Federal income tax	(4,981)	(1,187)
Cash and cash equivalents provided (used) by changes in operating assets and liabilities:		
Accrued investment income	(228)	(13,744)
Policy liabilities and accruals	4,096	12,166
Federal income taxes - current	8,974	5,305
Other policyholder funds	(6,831)	(6,720)
Liability for guaranty fund assessments	(2,272)	37
Receivable from affiliates - net	(293)	(7,255)
Policy loans	(11,448)	(18,288)
Investment trading securities	2,563	0
Other, net	(9,623)	4,983
	-----	-----
Net cash and cash equivalents provided by operating activities	70,430	113,162
	-----	-----
<b>INVESTING ACTIVITIES:</b>		
Fixed maturity securities sold	142,473	151,380
Fixed maturity securities matured	502,891	727,381
Fixed maturity securities purchased	(245,474)	(795,399)
Equity securities available for sale sold	6,768	182
Equity securities available for sale purchased	0	(75)
Mortgage loans on real estate principal payments received	0	4,829
Real estate available for sale purchased	(271)	(32)
Investment in Separate Accounts	0	(1,445)
	-----	-----
Net cash and cash equivalents provided by investing activities	406,387	86,821
	-----	-----

</TABLE>

See notes to financial statements  
(continued)

MERRILL LYNCH LIFE INSURANCE COMPANY  
(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)	
<S>	<C>	<C>
FINANCING ACTIVITIES:		
Real estate encumbrances paid off	0	(956)
Policyholders' account balances:		
Deposits	290,789	63,149
Withdrawals (net of transfers to separate account)	(811,327)	(409,695)
	-----	-----
Net cash and cash equivalents used by financing activities	(520,538)	(347,502)
	-----	-----
NET DECREASE IN CASH AND CASH EQUIVALENTS	(43,721)	(147,519)
	-----	-----
CASH AND CASH EQUIVALENTS:		
Beginning of year	122,218	172,124
	-----	-----
End of period	\$ 78,497	\$ 24,605
	=====	=====

</TABLE>

See notes to financial statements  
MERRILL LYNCH LIFE INSURANCE COMPANY  
(a wholly-owned subsidiary of Merrill Lynch Insurance Group,  
Inc.)

NOTES TO FINANCIAL STATEMENTS  
MARCH 31, 1994

NOTE 1: BASIS OF PRESENTATION:

Merrill Lynch Life Insurance Company (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 paid no Federal income taxes during the first three months of 1994 and 1993. The Company paid interest on affiliated borrowings of \$0.1 million and \$0.2 million 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 Arkansas and the National Association of Insurance Commissioners ("NAIC"). Statutory capital and surplus at March 31, 1994 and December 31, 1993, was \$371.6 million and \$374.2 million, respectively. For the three months ended March 31, 1994 and 1993, statutory net income was \$1.7 million and \$12.6 million, respectively.

#### NOTE 3. COMMITMENTS:

In the normal course of business, the Company enters into interest rate swap contracts for the purpose of minimizing exposure to fluctuations in interest rates of specific assets held. Termination of these commitments as of March 31, 1994 would not have a material effect on the financial condition of the Company.

#### 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 unaudited 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 filed 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 \$227.6 million to \$290.8 million, when compared to the same period in 1993. The increase was attributable to sales of the Company's variable annuity product.

For 1994, approximately \$1.892 billion of fixed deferred annuity liabilities will reach the expiration of their interest rate guarantee period. This represents approximately 28% of the Company's policy liabilities and accruals as of December 31, 1993. During the first three months of 1994, approximately \$505 million 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 the contract 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 1994 and for the year ending December 31, 1993:

<TABLE>  
<CAPTION>

	1994		1993	
	Amount	%	Amount	%
	(Dollars in Millions)			
	<C>	<C>	<C>	<C>
Renewed with an adjustment to the applicable interest crediting rate	\$ 92	18%	\$ 273	22%
Exchanged into either the variable annuity product or the market value adjusted annuity product	238	47%	453	36%
Surrendered	175	35%	543	42%
Total	\$ 505	100%	\$1,269	100%

</TABLE>

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

To fund all business activities, the Company maintains a high quality, high liquidity investment portfolio. As of March 31, 1994, the Company's invested assets and cash equivalents consist of approximately 63% liquid or readily marketable securities.

As of March 31, 1994, approximately \$535 million (10.4%) 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 \$7.7 million and \$12.5 million, respectively.

Net investment income and interest credited to policyholders' account balances for the three months ended March 31, 1994 as compared to the same period in 1993 have both declined by

approximately \$36.7 million resulting in no change in interest spread. The reductions in both net investment income and interest credited to policyholders' account balances is primarily attributable to the reduction in fixed rate contracts in force.

The Company experienced net realized investment losses of \$(4.6) million during the current three month period as compared to net realized investment gains of \$3.8 million for the same period during 1993. During the first quarter of 1994 there was significant volatility in both the equity and debt markets with ending values generally being lower at March 31, 1994 than they were at December 31, 1993. Reflecting the general declines in value, the Company's trading portfolios experienced \$7.2 million of realized and unrealized losses during the current period. The Company did not have any securities designated as trading during the first quarter of 1993.

Policy charge revenue increased approximately \$6.5 million during the current three month period as compared to the same period in 1993. This is primarily attributable to the increase in contracts in force of the variable annuity product.

The market value adjustment expense is attributable to the Company's market value adjusted annuity product. This contract provision results in a market value adjustment to the cash surrender value of those contracts which are surrendered before the expiration of their interest rate guarantee period. Due to the decline in interest rates, this market value adjustment has resulted in an expense to the Company. The Company's market value adjusted annuity has experienced an increase in surrenders during the first three months of 1994 as compared to the same period during 1993. Many of these contract owners have exchanged their contracts for variable annuity contracts sold by the Company or its competitors. The increase in surrender activity has resulted in the \$2.3 million increase in the market value adjustment expense. Offsetting this expense were net realized investment gains attributable to the sale of investments to fund the surrenders.

Policy benefits increased approximately \$1.2 million from \$2.5 million for 1993 to \$3.7 million for 1994. The Company's variable annuity product includes a contract provision which guarantees a minimum death benefit. The Company accrues the expected cost of this benefit and records the expense in policy benefits. The increase in policy benefits during 1994 as compared to 1993 is attributable to this accrual reflects the growth in variable annuity contracts in force.

Reinsurance premium ceded increased approximately \$0.8 million from \$2.8 million during the first three months of 1993 to \$3.6 million for the current period. This increase is primarily attributable to the increase in average attained age of the Company's life insurance policyholders. As the average age of the policyholders increases the cost to the Company of reinsurance increases.

Amortization of deferred policy acquisition costs declined \$2.1 million during the current period as compared to the same period during 1993 as a result of a decline in fixed annuity contracts in force partially offset by an increase in the variable annuity contracts in force.

Insurance expenses and taxes decreased \$3.6 million during the current three month period as compared to the same period in 1993. Approximately \$1.0 million of the decrease was attributable to a period to period reduction in the amount of allowances established for future assessments related to the rehabilitation of insolvent and/or impaired life insurance companies. The remaining reduction in expenses is attributable to operational efficiencies and the completion during 1993 of certain policy administration system enhancements.

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.

I-2

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.

MERRILL LYNCH LIFE INSURANCE COMPANY

/s/ JOSEPH E. CROWNE

-----

Joseph E. Crowne  
Senior Vice President and  
Chief Financial Officer

Date: May 12, 1994

