

# SECURITIES AND EXCHANGE COMMISSION

## FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **1996-11-14** | Period of Report: **1996-09-30**  
SEC Accession No. **0000912057-96-026450**

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### FILER

#### SUN LIFE ASSURANCE CO OF CANADA US

CIK: **745544** | IRS No.: **042461439** | State of Incorpor.: **DE** | Fiscal Year End: **1231**  
Type: **10-Q** | Act: **34** | File No.: **002-99959** | Film No.: **96665005**  
SIC: **6311** Life insurance

#### Mailing Address

SC 1335 ONE SUN LIFE  
EXECUTIVE PARK  
WELLESLEY HILLS MA 02181

#### Business Address

SC 1335 ONE SUN LIFE  
EXECUTIVE PARK  
WELLESLEY HILLS MA 02181  
6172376030

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

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

2-99959  
33-29851  
33-31711  
33-41858  
33-43008

For Quarter Ended September 30, 1996

Commission File Number 33-58853

SUN LIFE ASSURANCE COMPANY OF CANADA (U.S.)

-----  
(Exact name of registrant as specified in its charter)

Delaware

04-2461439

-----  
(State or other jurisdiction of incorporation  
or organization)

-----  
(IRS Employer  
I. D. No.)

One Sun Life Executive Park,

Wellesley Hills, MA.

02181

-----  
(Address of Principal Executive Offices) (Zip Code)

Registrant's telephone number, including area code (617) 237-6030  
-----

NONE

-----  
Former name, former address, and former fiscal year, if changed since last report.

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.

(1) Yes  No

(2) Yes  No

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None

\*The balance sheet at December 31, 1995 has been taken from the audited financial statements at that date. All other statements are unaudited.

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SUN LIFE ASSURANCE COMPANY OF CANADA (U.S.)  
 (WHOLLY-OWNED SUBSIDIARY OF  
 SUN LIFE ASSURANCE COMPANY OF CANADA)

BALANCE SHEETS

(IN 000'S)

(UNAUDITED)

(SEE NOTE BELOW)

ASSETS	SEPTEMBER 30, 1996	DECEMBER 31, 1995
Bonds	\$ 2,286,265	\$ 2,846,067
Preferred stock	0	1,149
Mortgage loans	994,222	1,066,911
Investments in subsidiaries	147,687	138,282
Real estate	96,514	95,575
Other invested assets	47,139	38,387
Policy loans	39,966	38,355
Cash	(5,957)	(20,280)
Investment income due and accrued	47,704	62,720
Funds withheld on reinsurance assumed	865,487	741,091
Due from separate accounts	201,814	148,675
Other assets	61,549	26,346
	-----	-----
General account assets	4,782,390	5,183,278
Unitized separate account assets	6,412,150	5,275,808
Non-unitized separate account assets	2,003,032	2,040,596
	-----	-----
	\$13,197,572	\$12,499,682
	-----	-----
	-----	-----
LIABILITIES		
Policy reserves	\$ 2,063,481	\$ 1,937,301
Annuity and other deposits	1,997,088	2,290,656
Policy benefits in process of payment	3,484	5,884
Accrued expenses and taxes	56,300	44,114
Other liabilities	56,030	36,082
Due to (from) parent and affiliates - net	3,562	9,498
Interest maintenance reserve	26,716	25,217
Asset valuation reserve	54,300	42,099
	-----	-----
General account liabilities	4,260,961	4,390,851
	-----	-----
Unitized separate account liabilities	6,412,125	5,275,783
Non-unitized separate account liabilities	2,003,032	2,040,596
	-----	-----
	12,676,118	11,707,230
	-----	-----
CAPITAL STOCK AND SURPLUS		
Capital Stock		
Par value \$1,000:		
Authorized 10,000 shares, issued		
and outstanding 5,900 shares	5,900	5,900
Surplus	515,554	786,552
	-----	-----
Total capital stock and surplus	521,454	792,452
	-----	-----
	\$13,197,572	\$12,499,682
	-----	-----
	-----	-----

Note: The balance sheet at December 31, 1995 has been taken from the audited financial statements at that date.

See notes to unaudited financial statements.

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SUN LIFE ASSURANCE COMPANY OF CANADA (U.S.)  
(WHOLLY-OWNED SUBSIDIARY OF  
SUN LIFE ASSURANCE COMPANY OF CANADA)

STATEMENTS OF OPERATIONS

(IN 000'S)

INCOME	THREE MONTHS ENDED SEPTEMBER 30,	
	1996	1995
Premiums and annuity considerations	\$ 60,473	\$ 70,663
Annuity and other deposit funds	97,803	103,761
Transfers to separate accounts - net	(31,581)	(852)
Net investment income	86,663	96,878
Amortization of interest maintenance reserve	613	(125)
Realized losses on investments	(2,884)	(361)
Mortality and expense risk charges	21,194	15,981
Other income - net	13,848	7,608
	-----	-----
	246,129	293,553
	-----	-----
BENEFITS AND EXPENSES		
Increase (decrease) in liability for annuity and other deposit funds	(77,847)	30,216
Increase in policy reserves	36,087	33,641
Death, surrender benefits, and annuity payments	48,742	51,526
Annuity and other deposit fund withdrawals	177,255	111,556
Transfers to (from) non-unitized separate account	(2,110)	3,655
	-----	-----
	182,127	230,594
	-----	-----
Operating expenses	9,532	8,617
Commissions	30,943	24,759
Dividends	6,188	3,887
Taxes, licenses and fees	672	(425)
	-----	-----
	229,462	267,432
	-----	-----
Net income from operations before surplus note interest and equity in income of subsidiaries	16,667	26,121
Surplus note interest	(5,432)	(7,788)
	-----	-----

Net income from operations before equity in income of subsidiaries and federal income tax	11,235	18,333
Equity in income of subsidiaries	23,474	19,593
Federal income tax expense	(7,019)	(14,201)
	-----	-----
Net income	\$ 27,690	\$ 23,725
	-----	-----

See notes to unaudited financial statements.

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SUN LIFE ASSURANCE COMPANY OF CANADA (U.S.)  
(WHOLLY-OWNED SUBSIDIARY OF  
SUN LIFE ASSURANCE COMPANY OF CANADA)

STATEMENTS OF OPERATIONS

(IN 000'S)

INCOME	NINE MONTHS ENDED SEPTEMBER 30,	
	1996	1995
	-----	-----
Premiums and annuity considerations	\$ 200,672	\$ 199,730
Annuity and other deposit funds	327,986	622,587
Transfers from (to) separate accounts - net	(89,323)	27,870
Net investment income	262,271	269,529
Amortization of interest maintenance reserve	994	439
Realized losses on investments	(4,325)	(2,421)
Mortality and expense risk charges	59,490	44,046
Other income - net	53,959	7,605
	-----	-----
	811,724	1,169,385
	-----	-----
BENEFITS AND EXPENSES		
Increase (decrease) in liability for annuity and other deposit funds	(293,567)	41,351
Increase in policy reserves	126,179	119,218
Death, surrender benefits, and annuity payments	141,416	139,547
Annuity and other deposit fund withdrawals	723,536	363,881
Transfers to (from) non-unitized separate account	(80,815)	337,203
	-----	-----
	616,749	1,001,200
Operating expenses	31,578	27,356
Commissions	93,938	82,694
Dividends	19,480	16,598
Taxes, licenses and fees	2,145	4,537
	-----	-----

	763,890	1,132,385
	-----	-----
NET INCOME FROM OPERATIONS BEFORE SURPLUS NOTE INTEREST AND EQUITY IN INCOME OF SUBSIDIARIES	47,834	37,000
Surplus note interest	(17,636)	(23,363)
	-----	-----
NET INCOME FROM OPERATIONS BEFORE EQUITY IN INCOME OF SUBSIDIARIES AND FEDERAL INCOME TAX	30,198	13,637
Equity in income of subsidiaries	61,068	40,259
Federal income tax expense	(14,136)	(21,525)
	-----	-----
Net income	\$ 77,130	\$ 32,371
	-----	-----
	-----	-----

See notes to unaudited financial statements.

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SUN LIFE ASSURANCE COMPANY OF CANADA (U.S.)  
(WHOLLY-OWNED SUBSIDIARY OF  
SUN LIFE ASSURANCE COMPANY OF CANADA)

STATEMENTS OF CAPITAL AND SURPLUS

(IN 000'S)

	NINE MONTHS ENDED SEPTEMBER 30,	
	1996	1995
	-----	-----
CAPITAL STOCK	\$ 5,900	\$ 5,900
PAID-IN SURPLUS	199,355	199,355
SURPLUS NOTES		
Balance, beginning of period	650,000	335,000
Paid during period	(335,000)	0
	-----	-----
Balance, end of period	315,000	335,000
UNASSIGNED SURPLUS		
Balance, beginning of period	(62,801)	(84,767)
Net income	77,130	32,371

Change in non-admitted assets	(877)	(2,435)
Unrealized gains (losses) on real estate	(51)	1,096
Change in and transfers of separate account surplus	0	(1)
Change in asset valuation reserve	(12,202)	(7,990)
	-----	-----
Balance, end of period	1,199	(61,726)
	-----	-----
Total surplus	515,554	472,629
	-----	-----
Total capital stock and surplus	\$ 521,454	\$478,529
	-----	-----
	-----	-----

See notes to unaudited financial statements.

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SUN LIFE ASSURANCE COMPANY OF CANADA (U.S.)  
(WHOLLY-OWNED SUBSIDIARY OF  
SUN LIFE ASSURANCE COMPANY OF CANADA)

STATEMENTS OF CASH FLOWS

<TABLE>  
<CAPTION>  
(IN 000'S)

	NINE MONTHS ENDED SEPTEMBER 30,	
	1996	1995
	-----	-----
	<C>	<C>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income from operations before surplus note interest and equity in income of subsidiaries	\$ 47,832	\$ 37,001
ADJUSTMENTS TO RECONCILE NET INCOME FROM OPERATIONS TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES:		
Increase (decrease) in liability for annuity and other deposit funds	(293,567)	41,351
Increase in policy reserves	126,180	119,218
Increase in investment income due and accrued	15,015	590
Net accrual and amortization of discount and premium on investments	1,518	1,820
Realized losses on investments	4,325	2,421
Change in non-admitted assets	(877)	(2,435)
Change in funds withheld on reinsurance	(124,396)	(121,103)



Other	(8,532)	(12,626)
	-----	-----
Net cash provided by (used in) operating activities	(232,502)	66,237
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale and maturity of investments	985,589	1,295,015
Purchase of investments	(624,195)	(1,288,636)
Net change in short-term investments	211,770	(58,997)
Investment in subsidiaries	(1,000)	
Dividends from subsidiaries	27,298	13,077
	-----	-----
Net cash provided by (used in) investing activities	599,462	(39,541)
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayment of surplus notes	(335,000)	0
Payment of interest on surplus note	(17,636)	(23,363)
Repayment of seed capital	0	4,036
	-----	-----
Net cash used in financing activities	(352,636)	(19,327)
	-----	-----
Increase in cash during the period	14,323	7,369
Cash balance, beginning of period	(20,280)	(11,460)
	-----	-----
Cash balance, end of period	\$ (5,957)	\$ (4,091)
	-----	-----
	-----	-----

</TABLE>

See notes to unaudited financial statements.

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SUN LIFE ASSURANCE COMPANY OF CANADA (U.S.)

NOTES TO UNAUDITED FINANCIAL STATEMENTS

(1) GENERAL

In management's opinion all adjustments, which include only normal recurring adjustments, necessary for a fair presentation of the financial statements have been made.

(2) MANAGEMENT AND SERVICE CONTRACTS

Expenses under the agreement with the parent which enables the parent to provide certain services amounted to approximately \$3,294,000 and \$13,562,000 for the three and nine month periods in 1996 and \$3,673,000 and \$13,708,000 for the same periods in 1995.

(3) INVESTMENTS IN SUBSIDIARIES

The following is combined unaudited summarized financial information of the subsidiaries as of September 30, 1996 and 1995 and for the nine months then ended:

	1996	1995
	----	----
	(000's)	
	-----	-----
Intangible assets	\$ 10,668	\$ 12,676
Other assets, net of liabilities	140,119	133,093
	-----	-----
Total net assets	\$ 150,787	\$ 145,769
	-----	-----
	-----	-----
Total income	\$ 513,021	\$ 426,027
Total expenses	(439,852)	(381,082)
Income tax expense	(32,437)	(20,905)
	-----	-----
Net income	\$ 40,732	\$ 24,040
	-----	-----
	-----	-----

The following is combined unaudited summarized financial information of the subsidiaries for the three months ended September 30, 1995 and 1994:

Total income	\$ 183,931	\$ 140,805
Total expenses	(154,191)	(119,698)
Income tax expense	(12,983)	(11,217)
	-----	-----
Net income	\$ 16,757	\$ 9,890
	-----	-----
	-----	-----

NOTES TO UNAUDITED FINANCIAL STATEMENTS (CONTINUED)

In determining the equity in income of subsidiaries for the periods, the Registrant has excluded federal income tax expenses of approximately \$10,355,000 and \$25,365,000 for the three month and nine month periods in 1996 and \$9,703,000 and \$16,219,000 for the same periods in 1995.

The change in equity in income of subsidiaries reported in the summary of operations, differs from the net income above, due to federal income taxes and a minority shareholder interest not held by the Registrant.

(4) SURPLUS NOTES

The Registrant repaid \$335,000,000 of surplus notes to its parent on January 16, 1996 after having received permission from the Delaware Department of Insurance.

(5) INVESTMENT INCOME

Net investment income consisted of:

	NINE MONTHS ENDED SEPTEMBER 30,	
	1996	1995
	(000's)	
	-----	-----
Interest income from bonds	\$135,661	\$150,962
Interest income from mortgage loans	71,410	74,888
Interest income from policy loans	2,043	2,026
Real estate investment income	7,958	9,150
Interest income on funds withheld	51,589	41,267
Other	1,124	1,723
	-----	-----
Gross investment income	\$269,785	\$280,016
Investment expenses	7,514	10,487
	\$262,271	\$269,529
	-----	-----
	-----	-----
	THREE MONTHS ENDED SEPTEMBER 30,	
	1996	1995
	(000's)	
	-----	-----
Interest income from bonds	\$ 42,418	\$ 52,665
Interest income from mortgage loans	23,271	24,227

Interest income from policy loans	711	671
Real estate investment income	2,966	3,752
Interest income on funds withheld	19,886	20,447
Other	(53)	39
	-----	-----
Gross investment income	\$ 89,199	\$101,801
Investment expenses	2,536	4,923
	-----	-----
	\$ 86,663	\$ 96,878
	-----	-----
	-----	-----

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ITEM 2  
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL  
CONDITION AND RESULTS OF OPERATIONS

RESULTS OF OPERATIONS

NINE MONTHS ENDED SEPTEMBER 30, 1996 AND 1995

NET INCOME

Net income from operations before surplus note interest, equity in income of subsidiaries and federal income tax increased by \$10,834,000 from \$37,000,000 for the nine months ended September 30, 1995 to \$47,834,000 for the same period in 1996. Reinsurance agreements with the parent had the effect of increasing net income by \$16,645,000 for the nine months ended September 30, 1996 as compared to the same period in 1995. Prior to reinsurance, net income from operations decreased by \$5,811,000 from \$29,968,000 in 1995 to \$24,157,000 for the same period in 1996. Mortality and expense risk charges increased by \$15,444,000 reflecting an increase in sales related to unitized separate account assets due to both increased sales and appreciation. Commissions increased by \$13,995,000 reflecting an increase in sales of annuity deposits held in the separate accounts. There is also strain associated with the additional sales of deposit funds. The remaining charge to net income of over \$7,000,000 reflects the change in earnings with respect to the individual market value adjusted annuities for the nine months ended September 30, 1996. The earnings on this product line fluctuate due to the interplay between the market value of the assets and the timing of changes in interest rates credited to contracts which impact the calculation of the market value adjusted cash values and, in turn, the reserves.

REVENUES

Total revenues decreased by \$357,661,000 from \$1,169,385,000 for the nine months ended September 30, 1995, to \$811,724,000 for the same period in 1996. Revenues from reinsurance transactions increased by \$2,018,000. Premiums and annuity transactions on a pre-reinsurance basis increased by \$10,008,000 reflecting increased annuitizations. Fixed annuity deposit funds decreased

by \$294,601,000 as interest rates remained at low levels. Pre-reinsurance net investment income decreased by \$18,131,000 reflecting a decrease in the general account invested assets and lower yields. Realized losses on investments and amortizations of the interest maintenance reserve increased by \$1,349,000 reflecting a higher provision for losses on bonds and mortgages. Net transfers from separate accounts decreased by \$117,193,000 reflecting the decline in interest rates and less movement of monies into the fixed rate environment. Mortality and expense risk charges increased by \$15,444,000 reflecting the increase in the unitized separate account assets. Other income increased by \$46,354,000 reflecting an increase in the surplus transfer from the separate accounts.

#### Benefits and Expenses

Benefits and expenses decreased by \$368,495,000 from \$1,132,385,000 for the nine months ended September 30, 1995 to \$763,890,000 for the same period in 1996. Reinsurance had the effect of decreasing benefits and expenses by \$14,627,000 primarily from lower commissions due to no assumption of new contract issues. Prior to reinsurance, benefits and expenses decreased by \$353,868,000. The change in liability for annuity and other deposit funds decreased by \$334,918,000 reflecting the lower sales due to lower interest credited rates and the increase in surrenders and maturities of contracts. Policy reserves increased by \$20,032,000 reflecting increased annuitizations and increased reserves for minimum death benefit guarantees. Annuity and other deposit fund withdrawals increased by \$359,655,000 as a result of increased surrenders of fixed annuities for which interest rate guarantee periods have expired. Transfers to the non-unitized separate account decreased by \$418,018,000 reflecting the lower interest credited rates. Commissions increased by \$13,995,000 reflecting an increase in unitized separate account deposits. Deaths, surrender benefits and annuity payments increased by \$5,320,000 primarily reflecting the increased number of annuitants receiving payments.

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## ITEM 2 MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### RESULTS OF OPERATIONS

THREE MONTHS ENDED SEPTEMBER 30, 1996 AND 1995

#### NET INCOME

Net income from operations before surplus note interest, equity in income of subsidiaries, and federal income tax, decreased by \$9,454,000 from \$26,121,000 for the nine months ended September 30, 1995 to \$16,667,000 for the same period in 1996. Reinsurance agreements with the parent had the effect of decreasing net income by \$1,895,000. Prior to reinsurance, net income decreased by \$7,559,000 from \$10,397,000 for the three months ended September 30, 1996 to \$2,838,000. This decrease in net income primarily reflects the change in earnings with respect to the individual market value adjusted annuities for the three months ended September 30, 1996 as compared to the same period in 1995. The earnings on this product line fluctuate due to the interplay between the market value of the assets and the timing of changes in interest rates credited to contracts which impact the calculation

of the market value adjusted cash values and, in turn, the reserves.

#### REVENUES

Total revenue decreased by \$47,424,000 from \$293,553,000 for the three months ended September 30, 1995 to \$246,129,000 for the same period in 1996. Revenues from reinsurance transactions decreased by \$4,336,000. Premiums and annuity considerations on a pre-reinsurance basis decreased by \$6,336,000 reflecting fewer annuitizations. Fixed annuity deposit funds decreased by \$5,958,000 as interest rates remained at low levels. Net transfers from the separate accounts decreased by \$30,729,000 reflecting the decline in interest rates and less movement of monies into the fixed rate environment. Pre-reinsurance net investment income decreased by \$10,025,000 reflecting a decrease in the general account invested assets base and lower yields. Realized losses and amortization of the interest maintenance reserve decreased revenues by \$1,785,000. Mortality and expense risk charges increased by \$5,213,000 reflecting an increase in sales related to unitized separate account assets. Other income increased by \$6,240,000 reflecting an increase in the surplus transfer from the separate accounts.

#### BENEFITS AND EXPENSES

Benefits and expenses decreased by \$37,970,000 from \$267,432,000 for the three months ended September 30, 1995 to \$229,462,000 for the same period in 1996. Reinsurance had the effect of decreasing revenues by \$2,439,000. Prior to reinsurance, benefits and expenses decreased by \$35,531,000. The change in the liability for annuity and other deposit funds decreased by \$108,063,000 reflecting lower interest credited rates and higher surrenders and maturities of these contracts. Annuity and other deposit fund withdrawals increased by \$65,699,000 reflecting the increase in surrenders of fixed annuities. Transfers to the non-unitized separate account decreased by \$5,765,000 reflecting lower interest credited rates. Commissions increased by \$7,399,000 reflecting an increase in unitized separate account deposits. Policy reserves increased by \$3,622,000 reflecting an increase in the minimum death benefit reserves. Death, surrender benefits and annuity payments increased by \$795,000, reflecting increased number of annuitants receiving payments. Taxes, licenses and fees increased by \$1,097,000 reflecting an increase in regulatory filing fees.

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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.

Sun Life Assurance Company  
of Canada (U.S.)

Date November 13, 1996

s/Margaret S. Mead

-----  
Margaret S. Mead  
Secretary

Date November 13, 1996

s/Robert P. Vrolyk  
-----

Robert P. Vrolyk  
Vice President  
and Actuary

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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.

Sun Life Assurance Company  
of Canada (U.S.)

Date November 13, 1996

-----  
Margaret S. Mead  
Secretary

Date November 13, 1996

-----  
Robert P. Vrolyk  
Vice President  
and Actuary





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This schedule contains summary information extracted from the balance sheet and statement of operations found on pages 3 and 5 of the company's Form 10Q for the year-to-date.

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