

**COMMONWEALTH OF MASSACHUSETTS
OFFICE OF CONSUMER AFFAIRS AND BUSINESS REGULATION
DIVISION OF INSURANCE**

SUFFOLK, ss.

**DOCKET NO.
F2005-01**

**IN THE MATTER OF THE ACQUISITION OF CONTROL OF
ALLMERICA FINANCIAL LIFE INSURANCE AND ANNUITY
COMPANY
BY THE GOLDMAN SACHS GROUP, INC.**

DECISION

I. Introduction

On August 26, 2005, The Goldman Sachs Group, Inc., (the "Applicant" or "Goldman Sachs"), a Delaware corporation, submitted an application to the Massachusetts Division of Insurance ("the Division") on Form A pursuant to section 206B of Chapter 175 of the Massachusetts General Laws ("§ 206B") and 211 CMR 7.00, seeking approval of its plan to acquire control of Allmerica Financial Life Insurance and Annuity Company ("AFLIAC"), a Massachusetts insurance company and wholly owned subsidiary of Allmerica Financial Corporation ("AFC"). AFC changed its name to The Hanover Insurance Group, Inc. effective December 1, 2005. Goldman Sachs is an investment banking, securities and investment management firm that provides a wide range of services to a substantial and diversified client base. For the fiscal year ended November 26, 2004, Goldman Sachs had total net revenue of \$20.6 billion, pre-tax earnings of \$6.7 billion, total assets of \$531.4 billion, and total shareholders' equity of \$25.1 billion. At the close of this fiscal year's third quarter, total assets had increased to \$669.5 billion and shareholders' equity had increased to \$26.6 billion. Goldman Sachs has ratings of Aa3 from Moody's Investors Service and A+ from Standard & Poor's.

Goldman Sachs serves clients in the U.S. and internationally and is one of the leading financial advisors in the world to the insurance industry. The Applicant has a leading market share in mergers and acquisitions and in raising capital for insurers. Its asset management division manages a total of \$490 billion in assets, including over \$24 billion of assets under management for insurance clients.

Goldman Sachs also currently is licensed to engage in life and annuity insurance and reinsurance activities through certain subsidiaries, including Columbia Capital Life Reinsurance Company ("Columbia Capital"), a South Carolina life insurance company, Charleston Capital Reinsurance, L.L.C. ("Charleston Re"), a South Carolina captive insurance company, and Arrow Reinsurance Company, Limited ("Arrow Re"), a Bermuda insurance company.

The Applicant proposes to acquire control of AFLIAC by purchasing 100% of the capital stock of AFLIAC, thus resulting in AFLIAC becoming a directly-owned subsidiary of the Applicant. The Applicant seeks to acquire the variable annuity and variable universal life insurance business of AFC by purchasing the common stock of AFLIAC from AFC and by reinsuring into AFLIAC the remaining variable annuity and variable universal life insurance business of AFC housed in First Allmerica Financial Life Insurance Company ("FAFLIC"). Following the consummation of the Acquisition, AFLIAC will be a directly-owned subsidiary of Goldman Sachs. The Acquisition is being made pursuant to the stock purchase agreement between Goldman Sachs and AFC dated August 22, 2005 and a number of reinsurance agreements and other agreements among Goldman Sachs, AFC, and related parties that will be executed at the closing of the Acquisition.

In addition, in order to facilitate the Acquisition, AFC has agreed to reorganize the assets and liabilities of AFLIAC and FAFLIC and their affiliates. As part of this reorganization: (i) AFC and its affiliates will transfer specified assets to AFLIAC, (ii) AFLIAC will transfer specified assets to AFC and its affiliates, (iii) AFC, FAFLIC and their affiliates will assume specified liabilities from AFLIAC, (iv) AFLIAC will assume specified liabilities from AFC, FAFLIC and their affiliates, (v) specified interaffiliate accounts between AFLIAC and AFC and its affiliates will be settled, and (vi) specified interaffiliate agreements between AFLIAC and AFC and its affiliates will be terminated. In addition, AFLIAC will contribute 100% of the issued and outstanding common stock of each of its subsidiaries, other than FAFLIC and any of FAFLIC's subsidiaries, VeraVest Investments, Inc. ("VeraVest") and Allmerica Financial Investment Management Services, Inc. ("AFIMS") to FAFLIC and will dividend 100% of the issued and outstanding common stock of FAFLIC, VeraVest and AFIMS to AFC.

Pursuant to § 206B(d)(1), the proposed transaction cannot take effect without the approval of the Commissioner of Insurance ("Commissioner"). She is required under the statute to hold a public hearing on the proposed transaction at which the companies, any person to whom notice was sent, and "any other person whose interest may be affected ... have the right to present evidence, examine and cross-examine witnesses, offer oral and written arguments therewith, and ... conduct discovery proceedings ... ". § 206B(d)(2). Following the hearing, the Commissioner must approve the proposed transaction unless certain conditions exist that would

prohibit such approval under § 206B.

II. Procedural History

The Applicant submitted its "Form A Statement Regarding Acquisition Of Control Or Merger With Domestic Insurer Allmerica Financial Life Insurance and Annuity Company, a wholly-owned subsidiary of Allmerica Financial Corporation" ("Form A"), and accompanying exhibits to the Division on August 26, 2005, and submitted its First Amendment to the Form A to the Division on September 16, 2005 (collectively the "Application").

The Commissioner appointed Elisabeth Ditomassi, Esq., Deputy Commissioner and General Counsel of the Division, and Mindy Merow Rubin, Esq., Counsel to the Commissioner, to serve as co-Presiding Officers for the public hearing on the proposed transaction. Neither the Commissioner nor the other Presiding Officers participated in the review or analysis of the proposed transaction prior to the hearing.

On November 18, 2005 the Commissioner issued a Notice of Hearing ("Notice") regarding the proposed transaction. The Notice scheduled a public hearing at the Division on December 9, 2005. The Notice also stated that information about the proposed transaction was available for inspection at the Division. It was also posted on the Division's website on November 21, 2005. The Notice offered an opportunity for any person whose statutory interests may be affected by the Form A proceedings, or to whom the Notice was sent, to submit a written notice of intent to participate at the hearing to the Division by December 2, 2005. The Notice also fixed the close of any discovery proceedings as of December 5, 2005. Additionally, the Notice was published in The Boston Globe, The Worcester Telegram & Gazette, and Business Insurance between November 22 and November 28, 2005. No person or entity filed a notice of intent to participate, or sought discovery in the proposed transaction.

On December 9, 2005, the Presiding Officers conducted the public hearing. Participating in the hearing were Peter Rice of Leboeuf, Lamb, Greene & MacRae, counsel for the Applicant, Allan S. Levine, a Managing Director of Goldman Sachs Group, Inc., Nicholas H. von Moltke, a Vice President of Goldman Sachs & Co., Samuel Ramos, in-house counsel

for Goldman Sachs & Co., Michael A. Reardon, President and Chief Executive Officer of First Allmerica Financial Life Insurance and Annuity Company and First Allmerica Financial Life Insurance Company, J. Kendall Huber, Senior Vice President and General Counsel of Allmerica Financial Corporation and Robert Dynan, Deputy Commissioner for Financial Analysis of the Massachusetts Division of Insurance. No one other than the parties and a working group from the Division appeared at the hearing seeking to participate. Furthermore, the Presiding Officers made inquiry into whether any other interested parties were present or wished to participate both at the beginning and end of the public hearing. There was no response.

Allan S. Levine presented a description of the proposed transaction, including the business plan and capital structure of AFLIAC following the closing of the transaction. Goldman Sachs plans to continue to service AFLIAC's and FAFLIC's in-force variable annuity and variable universal life insurance business at the same or higher levels than policyholders currently enjoy, and to use AFLIAC as a platform to purchase or reinsure additional in-force variable annuity and variable life insurance blocks of business. Mr. Levine testified that Goldman Sachs believes that its insurance, capital, and asset and risk management capabilities will allow it to manage AFLIAC both efficiently and profitably. Goldman Sachs also has extensive derivatives hedging expertise to enable it to significantly reduce the downside market exposure associated with guaranteed minimum death benefits in AFLIAC's variable annuity and life insurance business. In addition, Goldman Sachs will be able to lower operating costs by outsourcing administration services to a third party administrator that is a division of Security Benefit Life Insurance Company. AFLIAC will be managed by a team consisting of both current employees of Goldman Sachs and current employees of AFC with experience in the life and annuity business and in managing market risks and derivative exposures.

Nicholas von Moltke then provided testimony to explain the hedging strategy that AFLIAC will use following the closing of the transaction. AFLIAC will enter into a hedge of the market exposure resulting from the guaranteed minimum death benefits provided by AFLIAC's variable annuity contracts and the variable annuity contracts of FAFLIC that AFLIAC will reinsure. AFLIAC's hedging strategy will substantially reduce downside market exposure and extreme tail risk associated with the guaranteed minimum death benefits provided by this

variable annuity business. AFLIAC will initially purchase long dated equity and fixed income hedges. These hedges will be based on indices/benchmarks mapped from the funds policyholder assets are invested in and the estimated duration of the liabilities to those policyholders. The hedges will be adjusted over time by AFLIAC's management based on realized experience and changes in expectations of policyholder behavior, taking into consideration market liquidity, pricing, and new product offerings, both market-based and reinsurance-based, to improve cost effectiveness and risk-mitigation. Mr. von Moltke testified that the terms of the hedge are fair and reasonable to AFLIAC and the proposed hedge is believed to be a meaningful improvement on AFLIAC's existing hedging program. The hedge will be documented under an industry standard agreement (the ISDA Master Agreement). The counterparty to the hedge will be Goldman Sachs International, an affiliate of AFLIAC as of the closing of the Acquisition.

Mr. von Moltke also testified as to the arrangements made for AFLIAC to receive services from a third party administrator. Goldman Sachs has determined that it will be in the interest of AFLIAC to outsource certain elements of the administration of its operations. The use of a third party administrator, under the supervision of AFLIAC's management, will enable AFLIAC to maintain or improve servicing standards, while allowing AFLIAC to benefit from economies of scale over the lifetime of its business. After conducting extensive due diligence and engaging in discussions with a number of experienced service providers, Goldman Sachs will engage Security Benefit Life Insurance Company ("SBL") as the third party administrator. An agreement between the AFLIAC and SBL will set forth the terms of the third party administration agreement pursuant to which SBL will provide customary third party administrative services, including operations of a call center, premium accounting, claims payment and disbursement accounting. SBL will not solicit new sales or underwrite risks on behalf of AFLIAC. A "schedule of work" with SBL will be executed at the consummation of the Acquisition that details the administrative services to be provided and the related service standards, which will be equal to or better than the current service standards of AFLIAC. SBL will charge an upfront fee for the conversion of AFLIAC's business of approximately \$5,000,000 and ongoing charges of approximately \$40 per policy to reflect the ongoing provision of certain administrative services, totaling approximately \$50,000,000 over the life of AFLIAC's business. The agreement will have an initial term of ten years, with renewal provisions and early termination options for AFLIAC for reasons that may include substandard service or a run-off of

the business that is the subject of the agreement. AFLIAC's management team and individuals from operations and technology at Goldman Sachs will closely oversee the third party administration, with the commitment to maintain or improve AFLIAC's current servicing standards and to assure that the transaction that is the subject of these proceedings will be seamless to AFLIAC's policyholders.

Mr. von Moltke also provided testimony that described certain inter-affiliate agreements that AFLIAC will enter into with the Applicant or its affiliates immediately following the closing of the transaction. His testimony noted five (5) separate inter-affiliate agreements. The first agreement pertains to back office services. AFLIAC will enter into a Shared Services and Expense Agreement, whereby Goldman Sachs and its affiliates will provide support to AFLIAC in administrative, legal, compliance, technology, operations, financial reporting, human resources, risk management and other areas. The Shared Services and Expense Agreement sets forth details related to the types of services to be provided and related charges for those services. All transfer pricing will be based on cost, there will be no markup for a profit component. This Shared Services and Expense Agreement is consistent with the type of services and charges for similar agreements used by Goldman Sachs with others of its affiliates, including its other insurance affiliates.

The second agreement is for asset management services. AFLIAC will enter into a Discretionary Advisory Agreement with Goldman Sachs Asset Management, L.P. ("GSAM"), whereby GSAM will provide investment management services to AFLIAC. AFLIAC will pay GSAM an annual investment management fee based upon the market value of assets under management. This fee will be consistent with the arms-length rates GSAM charges to non-affiliates, including other third party insurance companies.

The third agreement is for brokerage services. AFLIAC will enter into a Brokerage Agreement with Goldman Sachs & Co., which will establish a brokerage account for AFLIAC through which AFLIAC may buy and sell securities using the services of Goldman Sachs. Consistent with Goldman Sachs' policy toward affiliates with respect to the provision of brokerage services, AFLIAC will not be charged a fee for these services.

The fourth agreement is a Participation Agreement. AFLIAC will enter into a Participation Agreement with Goldman, Sachs & Co. and Goldman Sachs Variable Insurance Trust ("GSVIT"). GSVIT is an open-end management investment company that offers its shares of beneficial interest exclusively to separate accounts of life insurance companies and various qualifying retirement plans or accounts. GSVIT is independent from Goldman Sachs and its affiliates and is governed by its own independent board of directors. GSAM, the Goldman Sachs affiliate which may provide asset management services to AFLIAC, serves as investment manager to GSVIT. Pursuant to the Participation Agreement, the separate accounts of AFLIAC and FAFLIC may purchase shares of funds of GSVIT for the contracts supported by such separate accounts. AFLIAC will not pay any fees under this agreement. The last agreement is an administrative services agreement. AFLIAC will enter into an Administrative Services Agreement with GSAM, pursuant to which AFLIAC will assist GSAM with the provision of certain administrative services to GSVIT or GSAM, relating to investments in shares of funds of GSVIT by the separate accounts of AFLIAC and FAFLIC pursuant to the Participation Agreement. GSAM will pay AFLIAC a fee equal to a fixed percentage rate of the average aggregate net asset value. The rate of compensation will be comparable to that paid to other insurers whose separate accounts invest in shares of GSVIT.

Mr. von Moltke testified that the terms of each of these agreements will be fair and reasonable to AFLIAC and the charges or fees for services performed will be reasonable within the meaning of M.G.L. c. 175, § 206C(m) and meet the other applicable criteria of said statute.

Testimony was then heard from Mr. Reardon of AFLIAC, regarding the effect of the transaction on the current employees of AFC who directly support the operations of AFLIAC and the variable business of FAFLIC. Mr. Reardon testified that during the negotiations between AFC and Goldman Sachs that led to the proposed transaction, AFC was extremely interested in ensuring that services to the policyholders would continue to be provided seamlessly during the transition to Goldman Sachs. Mr. Reardon stated that he firmly believes that AFC has achieved that objective. Moreover, the insurance coverage and benefits provided by AFLIAC's policies and the FAFLIC policies that AFLIAC will reinsure will be unchanged. In addition, certain of the elements of Goldman Sachs' business plan for AFLIAC are consistent with plans that AFC was considering prior to this transaction. AFC believed that using a TPA was in the best interest

of AFLIAC and its policyholders to control costs and ensure consistent service levels as the in-force business declined. Also, the hedging strategy that Goldman Sachs proposes to use is superior to AFLIAC's current hedging program, and would be very hard for AFC to implement for AFLIAC. He concluded that the terms of this transaction are not unfair and unreasonable to AFLIAC's policyholders. To the contrary, AFLIAC's policyholders should benefit from this transaction.

Testimony was then heard from J. Kendall Huber of AFC. Mr. Huber advised the Hearing Officers that FAFLIC had received a subpoena from the United States Attorney's Office in Worcester, Massachusetts relating to a single finite reinsurance agreement to which FAFLIC is a party, but has not been advised that either FAFLIC or AFC are the target of any investigation. The Applicant had been previously advised of this matter. Mr. Huber pointed to one of the standards for review set forth in M.G.L. c.175, §206B(d)(1)(vi), relating to the integrity of the people who would control the operation of the insurer after the transaction is complete, and stated that none of the employees of AFC who are expected to become employees of Goldman Sachs upon the closing of the transaction worked on the finite reinsurance agreement in question.

The last witness to testify was Mr. Robert Dynan of the Division. Mr. Dynan testified that a working group of Division staff, consisting of himself and representatives of the Financial Surveillance, Financial Examination and Legal Units, reviewed the following documents in connection with the proposed transaction. The Form A, including the Stock Purchase Agreement between Goldman Sachs and Allmerica Financial Corporation, Inc., the Allmerica Restructuring Agreement entered into as a result of the proposed acquisition of AFLIAC by Goldman Sachs and all other exhibits, schedules, appendices and amendments to the Form A. A request by Allmerica Financial Life Insurance and Annuity Company for an extraordinary distribution of all of the capital stock of First Allmerica Financial Life Insurance Company, Vera Vest Investments, Inc. and Allmerica Financial Investment Management Services, Inc. to its immediate parent, AFC. A Form A exemption request whereby AFC requests an exemption for the change in direct ownership of FAFLIC from AFLIAC to AFC. A request for a release of the commitment from AFC to maintain AFLIAC's RBC ratio at 100% of the Company Action Level. A request for a \$40,000,000 ordinary dividend from other than Unassigned Funds from FAFLIC to AFC. A request for an \$8,600,000 ordinary dividend from other than Unassigned Funds from FAFLIC to

AFC upon consummation of the coinsurance agreement between FAFLIC and AFLIAC. The Form D filed by the Applicant seeking approval of an administrative services agreement between AFLIAC and Goldman Sachs Asset Management with respect to the Goldman Sachs Variable Unit Trust. The Form D filed by the Applicant seeking approval for a Participation Agreement by and among Goldman Sachs, Goldman Sachs Variable Insurance Trust and AFLIAC. The Form D filed by the Applicant seeking approval for a Discretionary Advisory Agreement whereby Goldman Sachs Asset Management will provide investment advice to AFLIAC. The Form D filed by the Applicant seeking approval for a Brokerage Agreement between Goldman Sachs and AFLIAC. The Form D filed by the Applicant seeking approval for a shared services and expense agreement between Goldman Sachs and AFLIAC. The Form D filed by the Applicant seeking approval for a Hedge Contract with supporting agreements between Goldman Sachs International and AFLIAC. The Form D filed by the Applicant seeking approval for a \$350,000,000 Keepwell Agreement. The Form D filed by the Applicant seeking approval for the Keepwell Side Letter. A request by AFC to provide a commitment to maintain FAFLIC's RBC ratio at 100% of the Company Action Level.

Mr. Dynan stated that after an extensive review of the transaction in light of the above standards, the Working Group noted no matters that would lead to an adverse determination on any of the above standards.

He also noted that the working group views certain aspects of the transaction to be critical because of the protection provided to policyholders. Some of such aspects include the Goldman Sachs \$350,000,000 Keepwell Agreement, the Goldman Sachs Keepwell side letter, the AFC Keepwell Agreement, and the Goldman Sachs branding of the company. Mr. Dynan requested that any approval of the acquisition be subject to these conditions.

Finally, Mr. Dynan testified that as to the issue involving the finite reinsurance matter involving FAFLIC, the Division staff is aware of the matter and has been assisting the Federal authorities in their review. Staff has met with the company on this matter and has discussed the nature of the inquiry and the implications, if any, on the proposed transaction and concluded that based on the information presently available, the Division working group is not aware of any reasons why this matter should prevent the sale of AFLIAC to Goldman Sachs.

III. Analysis of the Proposed Transaction

Massachusetts General Laws, chapter 175, section 206B of requires the Commissioner to determine whether the proposed transaction satisfies certain requirements. Specifically, the Commissioner must approve the proposed transaction unless she finds that such approval would result in any of the conditions set forth in subsections (i) through (vii) of § 206B(d)(I). Those conditions are discussed in turn, as follows:

(i) after the change of control, the domestic insurer ... would not be able to satisfy the requirements for the issuance of a license to write the line or lines of insurance for which it is presently licensed

Section 206B(d)(I)(i) requires the domestic insurer, post-merger, to be able to satisfy the same licensing requirements as required for the writing of the lines of insurance currently written by the insurer. Mr. Levine testified that he does not expect that the proposed acquisition will in any manner adversely impact AFLIAC's ability to satisfy the requirements for the issuance of a license to write the lines of business for which it is presently licensed. AFLIAC meets Massachusetts' statutory standards for capital and surplus and the experience of AFLIAC's management satisfies any reasonable standard the Division might apply. AFLIAC has complied and will continue to comply with all Massachusetts licensing standards following the consummation of the proposed transaction.

For these reasons, we find that subsection (i) of § 206B(d)(I) does not present an obstacle to approval of the proposed transaction.

(ii) the effect of the merger or other acquisition of control would be substantially to lessen competition in insurance in this commonwealth or tend to create a monopoly therein

Section 206B(d)(I)(ii) requires that the proposed transaction not have the effect of lessening competition or creating a monopoly in the Massachusetts insurance market. Mr.

Levine has testified that AFLIAC is currently not engaging in new sales activity, and the Applicant does not intend to change that plan. The Applicant does not intend to market new products under AFLIAC, but intends to use it as a platform for acquiring other in-force closed blocks of business from existing companies, policies that have already been underwritten.

Accordingly, the proposed merger will not substantially lessen competition or tend to create a monopoly in the Commonwealth of Massachusetts in the life and annuity market as a whole or in the lines of business.

(iii) the financial condition of any acquiring party is such as might jeopardize the financial stability of the insurer, or prejudice the interest of its policyholders

Subsection (iii) of § 206B(d)(1) requires that the acquiring company be in sufficiently sound financial condition such that the acquisition does not jeopardize the financial stability of the domestic insurers or prejudice the interests of policyholders. Mr. Levine's testimony indicates that for the fiscal year ended November 26, 2004, Goldman Sachs had total net revenue of \$20.6 billion, pre-tax earnings of \$6.7 billion, total assets of \$531.4 billion, and total shareholders' equity of \$25.1 billion. At the close of this fiscal year's third quarter, total assets had increased to \$669.5 billion and shareholders' equity had increased to \$26.6 billion. Goldman Sachs has ratings of Aa3 from Moody's Investors Service and A+ from Standard & Poor's. The Presiding Officers also inquired into whether there are any contingent liabilities which may affect AFLIAC. Mr. Huber responded that while there are various litigation and regulatory matters, there are indemnification provisions within the stock purchase agreement under which AFC indemnifies the Applicant and AFLIAC for pending litigation and regulatory matters.

For these reasons, we conclude that subsection (iii) of § 206B(d)(I) does not present an obstacle to approval of the proposed transaction.

(iv) the terms of the offer, request, invitation, agreement of acquisition referred to in said subsection (a) are unfair and unreasonable to the policyholders of the insurer

Subsection (iv) of § 206B(d)(I) requires that the terms of the offer or agreement of acquisition not be unfair or unreasonable to policyholders of the domestic insurers. Mr. Levine testified that the terms of the Acquisition were negotiated at arms-length and are not unfair or unreasonable to AFLIAC's policyholders. Services to policyholders will continue to be provided on a consistent basis and contract benefits will be unchanged. AFLIAC's policyholders will benefit from the fact that AFLIAC will have a financially strong parent company that is committed to the life insurance business, with experience in risk and asset management. Additionally, in arriving at the value to be paid for the shares of AFLIAC, the Applicant reviewed and evaluated information from various sources, including the financial statements of AFLIAC and other information with respect to past and current business operations of AFLIAC, the financial condition and future prospects of AFLIAC, and such other studies and analyses as the Applicant considered relevant. An opinion as to the fairness of the consideration issued by Lehman Brothers to AFC was submitted with the filing.

For these reasons, we find that the proposed terms of the acquisition by MFC are not unfair or unreasonable to policyholders, and that subsection (iv) of § 206B(d)(I) does not present an obstacle to approval of the proposed transaction.

(v) the plans or proposals which the acquiring party has to liquidate the insurer, sell its assets or consolidate or merge it with any person, or to make any other material change in its business or corporate structure or management, are unfair and unreasonable to policyholders of the insurer and not in the public interest

Subsection (v) of § 206B(d)(I) requires that the acquiring party not be contemplating any material changes in its business that would be unfair and unreasonable to policyholders, or otherwise would not be in the public interest. Mr. Levine testified that the Applicant has no plans or proposals to make any major change to AFLIAC's business or corporate structure. Additionally, the current president and chief executive officer of AFLIAC, Mr. Reardon, will remain in that position with AFLIAC, and also serve as a director of the company following the closing of the transaction.

For these reasons, we find that subsection (v) of § 206B(d)(I) does not present an obstacle to approval of the proposed transaction.

(vi) the competence, experience and integrity of those persons who would control the operation of the insurer are such that it would not be in the interest of policyholders of the insurer and of the public to permit the merger or other acquisition of control

Subsection (vi) requires that the competence, experience and integrity of those who will control the operations of the domestic insurers subsequent to the merger be of a sufficient level so as not to be prejudicial or contrary to the interests of the policyholders and the insuring public. Mr. Levine testified that AFLIAC's operations will be controlled on a day-to-day basis by a competent management team with experience in insurance, including senior people who currently manage AFLIAC. The management team will consist of both current employees of Goldman Sachs and current employees of AFC with experience in the life and annuity business and in managing market risks and derivative exposures. Policyholder services will be provided by an experienced and highly qualified third party administrator ("TPA").

The Hearing Officers asked several questions regarding the use of Security Benefit Life as the TPA. Mr. von Moltke testified that the Applicant, as part of the due diligence process, had checked with other clients of the TPA regarding the TPA's integrity and services provided and learned that such other clients are satisfied. The Applicant also reviewed and is comfortable with the financial condition of Security Benefit Life. Thus we find that subsection (vi) of § 206B(d)(I) does not present an obstacle to approval of the proposed transaction.

(vii) the acquisition is likely to be hazardous or prejudicial to the insurance buying public

Finally, subsection (vii) of § 206B(d)(1) requires that the acquisition not be hazardous or prejudicial, to the insurance buying public. Mr. Levine's testified that AFLIAC is and will

remain closed to new sales. However, to the extent that this standard applies to policies currently in-force, after the close of this transaction AFLIAC will be very well capitalized and prudently managed by an experienced management team and serviced by an experienced TPA. Therefore, the proposed transaction will not be hazardous or prejudicial to the insurance buying public. Mr. Levine also noted that successfully managing AFLIAC's in-force book of business consists primarily of asset management and risk management. These activities call for the kind of business skills and experience which Goldman Sachs has developed in connection with dozens of different business activities in a wide variety of contexts.

The Hearing Officers questioned whether there are any other state or federal regulatory bodies that must sign-off on the proposed transaction. Mr. Ramos testified that that the Applicant did seek approval of the transaction by the Federal Trade Commission through a Hart Scott-Rodino filing. The FTC notified the Applicant that no review of the transaction was planned, thus issuing a deemed approval of the transaction.

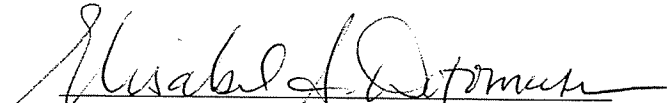
Accordingly, we find that subsection (vii) of § 206B(d)(1) does not present an obstacle to approval of the proposed transaction.

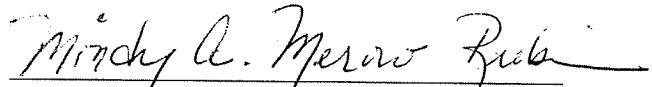
IV. Conclusion

For all of the reasons set forth herein and based on all of the documents in the docket, we find and conclude that the Proposed Acquisition Of Control of Allmerica Financial Life Insurance and Annuity Company, a subsidiary of Allmerica Financial Corporation by The Goldman Sachs Group, Inc. complies with the requirements of Section 206B of Chapter 175 of the Massachusetts General Laws, and is not prejudicial to policyholders or to the insuring public. Therefore, the proposed transaction is hereby APPROVED.

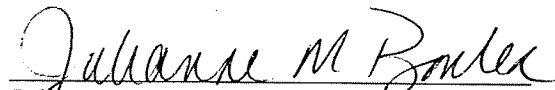
SO ORDERED.

DATE: December 28, 2005


Elisabeth A. Ditomassi, Hearing Officer


Mindy A. Merow Rubin, Hearing Officer

AFFIRMED:


Julianne M. Bowler, Commissioner