# THE COMMONWEALTH OF MASSSACHUSETTS

# OFFICE OF CONSUMER AFFAIRS AND BUSINESS REGULATION

## Division of Insurance



***Report on the examination of***

***Massachusetts Mutual Life Insurance Company***

***Springfield, Massachusetts***

***As of December 31, 2004***

**NAIC GROUP CODE 0435**

**NAIC COMPANY CODE 65935**

**EMPLOYERS ID NO. 04-1590850**

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# COMMONWEALTH OF MASSSACHUSETTS
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April 12, 2006

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Commissioner of Insurance
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Commonwealth of Massachusetts
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Dear Commissioners and Directors:

Pursuant to your instructions and in accordance with Massachusetts General Law, Chapter 175, Section 4, an examination has been made of the financial condition and affairs of:

**MASSACHUSETTS MUTUAL LIFE INSURANCE COMPANY**

at its home office located at 1295 State Street, Springfield, Massachusetts 01111

The following report thereon is respectfully submitted.

## SCOPE OF EXAMINATION

Massachusetts Mutual Life Insurance Company, hereinafter referred to as the "Company" or "MassMutual," was last examined as of December 31, 1999 under the Association Plan of the National Association of Insurance Commissioners (NAIC) by the Massachusetts Division of Insurance (the "Division").

The current examination was conducted at the direction of, and under the overall management and control of the examination staff of the Division, according to the Association Plan of the NAIC. The examination was performed at the Company's home office in Springfield, Massachusetts. Representatives from the independent accounting and actuarial firm of Ernst & Young LLP were engaged to complete certain agreed-upon procedures. There was no zone participation for the current statutory examination.

This examination covers the five year period from January 1, 2000 through December 31, 2004, including any material transactions and/or events occurring subsequent to the examination date and noted during the course of the examination. Ernst & Young LLP has applied certain agreed upon procedures to selected records and transactions of the Company. Such procedures were reviewed and approved prior to commencement and during the course of the examination by the Division.

The examination was conducted in accordance with standards and procedures established by the NAIC Financial Condition (E) Committee and prescribed by the current NAIC Financial Condition Examiners Handbook.

In addition to a review of the financial condition of the Company, the examination included a review of the Company's business policies and practices, corporate records, reinsurance treaties, conflict of interest disclosure statements, fidelity bonds and other insurance, employees' pension and benefits plans, disaster recovery plan, treatment of policyholders, and other pertinent matters to provide reasonable assurance that the Company was in compliance with applicable laws, rules and regulations. In planning and conducting the examination, consideration was given to the concepts of materiality and risk and examination efforts were directed accordingly.

In determining the scope of the examination, after review and evaluation, the Division placed reliance on certain workpapers provided by the Company's external auditors, KPMG LLP and by the Company's internal auditors. Wherever possible and wherever deemed appropriate and effective, their independent work product was used to define, support, document and expedite the overall examination process.

## HISTORY

### General

MassMutual is a mutual life insurance company organized as a Massachusetts corporation and was originally chartered in 1851. Although the Company's primary business is ordinary life insurance, the Company also provides, either directly or through its subsidiaries, a wide range of pension products and services to individuals, corporations and other institutions in all 50 states of the United States and the District of Columbia. The Company is also licensed to transact business in Puerto Rico and six provinces of Canada.

## Growth of the Company

The growth of the Company for the years 2000 to 2004 is shown in the following table, which was prepared from the Company's Annual Statements.

| | Admitted Assets | | Liabilities | | Surplus | | |
|---|---|---|---|---|---|---|---|
| Annual Statement Year | Excluding Separate Account Assets | Separate Account Assets | Excluding Separate Account Liabilities | Separate Account Liabilities | Special Surplus Funds | Surplus Notes | Unassigned Surplus Funds (Surplus) |
| 2004 | $66,212,130,366 | $29,374,577,865 | $60,537,698,318 | $28,758,835,888 | $3,250,000 | $600,000,000 | $5,686,924,025 |
| 2003 | 62,801,244,421 | 22,942,864,519 | 56,549,898,159 | 22,911,944,490 | 3,250,000 | 600,000,000 | 5,679,016,291 |
| 2002 | 58,322,714,282 | 16,439,388,781 | 52,240,430,641 | 16,417,069,712 | 3,250,000 | 350,000,000 | 5,751,352,710 |
| 2001 | 52,319,095,840 | 17,919,952,560 | 47,178,349,395 | 17,909,509,322 | 3,250,000 | 350,000,000 | 4,797,939,683 |
| 2000 | 46,964,214,028 | 18,820,614,062 | 43,129,681,321 | 18,819,593,817 | 3,250,000 | 350,000,000 | 3,482,302,952 |

## MANAGEMENT AND CONTROL

In accordance with the Bylaws, the annual meeting of the Company is held on the second Wednesday of April in each year, at two o'clock in the afternoon, at the Home Office of the Company in Springfield, Massachusetts, for the election of Directors and for the transaction of such other business as may properly come before the meeting. The members present, in person or by proxy, at meetings of the Company shall constitute a quorum. The minutes of the annual meetings indicated that a quorum was obtained at each annual meeting held during the examination period.

### Board of Directors

The Bylaws provide that the business and affairs of the Company shall be managed by the Board of Directors except as otherwise provided by the Articles of Incorporation. The Board of Directors shall consist of not fewer than 11 or more than 21 Directors with the number determined by resolution at each annual meeting.

All Directors shall be elected by the members of the Company, except when the provisions of Section 5 of Article II (i.e. *Vacancies*) shall apply. The Directors shall be divided into four classes, with each class to consist of approximately one-fourth of the number of Directors, and the term of one class shall expire each year. Except as provided in the next succeeding sentence, the term of office of each director elected by the numbers shall continue until the fourth annual meeting of the members after the election of such Director and until any successor shall have been elected, unless a Director sooner dies, resigns or is removed. At each annual meeting of the members, the Directors elected to succeed those whose terms then expire shall be of one class, except that in order to achieve a more equal division of classes, to provide for additional directors upon an increase in the size of the Board of Directors, or to provide for the retirement of a Director prior to the fourth subsequent annual meeting, the Directors may authorize the election of Directors at the annual meeting to more than one class and to terms of less than four years and the terms of such Directors shall expire with the terms of the members of the class to which they shall have been elected.

Seven Directors, a majority of who shall not be officers of the Company, shall constitute a quorum for the transaction of business at any regular or special meeting of the Board of Directors.

At December 31, 2004, the Board was comprised of 14 Directors, as set forth below along with the principal occupation of each Director and the year in which each Director's term expires. Other than Mr. O'Connell, no Director is believed to have any relationship to MassMutual other than in the ordinary course of the Company's business. All Directors are either policyholders or insureds under MassMutual insurance or annuity policies.

| Director | Principal Occupation | Term Expires |
|---|---|---|
| Roger G. Ackerman<br>Corning, NY | Chairman & CEO, Retired<br>Corning Inc. | 2008 |
| James R. Birle<br>Greenwich, CT | Chairman<br>Resolute Partners, LLC | 2007 |
| Gene Chao<br>Portland, OR | President, Retired<br>Computer Projections, Inc. | 2007 |
| James DeGraffenreidt<br>Baltimore, MD | Chairman & CEO<br>WGL Holdings, Inc. | 2005 |
| Patricia Diaz Dennis<br>San Antonio, TX | Senior VP and Assistant General Counsel<br>SBC | 2005 |
| James L. Dunlap<br>Houston, TX | Vice Chairman, Retired<br>Ocean Energy, Inc. | 2006 |
| William B. Ellis<br>Glastonbury, CT | Chairman & CEO, Retired<br>Northeast Utilities | 2006 |
| Robert A. Essner<br>Morristown, NJ | Chairman, President and CEO<br>Wyeth | 2006 |
| Robert M. Furek<br>West Hartford, CT | President<br>Heublein, Inc. | 2008 |
| Carol A. Leary<br>Longmeadow, MA | President<br>Bay Path College | 2005 |
| William B. Marx JR.<br>Chatham, NJ | Sr. Executive VP, Retired<br>Lucent Technologies, Inc. | 2007 |
| John F. Maypole<br>Sarasota, FL | Managing Partner<br>Peach State Real Estate Holding Co. | 2006 |
| * Robert J. O'Connell<br>Springfield, MA | Chairman of the Board, President & CEO<br>MassMutual | 2005 |
| Marc Racicot<br>Arlington, VA | Partner<br>Bracewell & Guiliani LLP | 2005 |

***** Replaced as President and CEO by Mr. Stuart H. Reese, effective June 23, 2005, and as Chairman of the Board by Mr. James R. Birle. See additional details in the following section titled "Corporate Governance".

## Corporate Governance

The Company's corporate governance structure, policies and procedures are designed to provide oversight of the Company's affairs. On June 23, 2005, Robert J. O'Connell, the Company's Chairman of the Board, President and Chief Executive Officer, was terminated for cause by the Board of Directors ("the Board"). According to public statements made by the Company the termination was based on numerous acts of misconduct and violations of the Company's Code of Conduct. As a result of the events leading to the termination, the Board conducted a comprehensive review of its corporate governance program. The comprehensive review was performed by a team of senior executives, Board members, and outside consultants from a law firm and the Company's external auditor. Based upon the comprehensive review, numerous enhancements were adopted to strengthen the Company's corporate governance program including the following:

*Corporate Governance Guidelines*

- The Board amended the Rules and Regulations of the Board and Committee Charters of the Board to enhance the Company's corporate governance program.
- Written Corporate Governance Guidelines were adopted by the Board to provide standards of conduct for the Board and executive management with regard to governance, interaction between Directors and management, ethics and compliance, oversight of subsidiaries, and public disclosure.
- The Company also adopted an enhanced Compliance Guide, Code of Conduct and Code of Ethics applying to all Directors, officers and employees of the Company. All employees must acknowledge agreement with the Compliance Guide when hired, and periodically thereafter.

*Roles and Responsibilities of the Board and its Committees*

- Membership of the Board must be comprised 75% of independent Directors and membership of the Audit and Human Resource Committees must be comprised 100% of independent Directors.
- The Chairman of the Board and Chief Executive Officer Duties were separated.
- The Board is solely responsible for the hiring of a Chief Financial Officer, General Auditor and General Counsel. In addition, the Board must be involved in the decision to terminate Executive Vice-Presidents and other key officers.
- An Executive Committee has been formed to act as a "sounding board" to the CEO with respect to new opportunities, threats or changing business environments, and to make immediate decisions where Board involvement is warranted.
- An Operations Committee has been formed with oversight over strategic, operating and financial plans of the Company, including making recommendations concerning the distribution of surplus funds to policyholders of the Company.
- The Board's Executive, Audit, Human Resources, Corporate Governance, Operations and Investment Committees have written charters defining their purpose, duties and responsibilities. These committees are empowered to hire independent consultants and legal advisors. In addition, each committee is required to perform an annual self-evaluation comparing its performance with the provisions of its charter, set forth its objectives for the following year, and recommend changes to its charter.

*Financial Oversight and Control*

- The Company is working with its external auditor and planning voluntarily to implement processes that are substantially similar to the requirements of Section 404 of The Sarbanes-Oxley Act related to evaluation of internal controls for 2006.
- Mission statements for the Company's law division, corporate compliance and corporate audit departments were updated.
- Written policy statements were approved by the Board to address disbursement authority, anti-nepotism, employee and officer severance, use of corporate aircraft and business courtesies.

The Company is also evaluating industry best practices for communicating its corporate governance polices and guidelines to the Company's members, policyholders and the public.

## Officers

| Officer | Principal Occupation |
|---|---|
| * Robert J. O'Connell | President and Chief Executive Officer |
| Patricia A. Futter Lomeli | Secretary |
| Edward M. Kline | Treasurer |
| Isadore Jermyn | Actuary |
| Howard E. Gunton | Executive Vice President and Chief Financial Officer |
| Frederick C. Castellani | Executive Vice President |
| John V. Murphy | Executive Vice President |
| Stuart H. Reese | Executive Vice President |
| Matthew E. Winter | Executive Vice President |
| Susan A. Alfano | Executive Vice President |
| James E. Miller | Executive Vice President |
| Andrew Oleksiw | Executive Vice President |
| Toby J. Slodden | Executive Vice President |

* Replaced by Mr. Stuart H. Reese, effective June 23, 2005. See "Corporate Governance" section on page five of this report.

## Committees of the Board of Directors

Set forth below is a description of the duties assigned and performed by each standing committee of the Board of Directors, along with a list of Board Committee memberships as of December 31, 2004.

## Investment Committee

The Investment Committee exercises supervision and control of investments and related financial matters, including the approval of banks of deposit for Company funds. The Investment Committee approves investment policies and guidelines and reviews investment strategies and investment performance.

Investment Committee

* Robert J. O'Connell (Chair)
James R. Birle
Patricia Diaz Dennis
William B. Ellis
Carol A. Leary

* Replaced by Mr. Stuart H. Reese, effective June 23, 2005. See "Corporate Governance" section on page five of this report.

**Audit Committee**

The Audit Committee reviews the Company's policies and practices with respect to accounting, financial controls and financial reporting. In addition, the Audit Committee reviews the terms of engagement of the Company's independent auditors and confers, as it deems appropriate, with such auditors, with the Company's internal auditors and with Company officers.

The Audit Committee reports on its activities at the annual meeting of the Company and from time to time reports on such activities to the Board of Directors.

Audit Committee

William B. Ellis (Chair)
James DeGraffenreidt
Patricia Diaz Dennis
James L. Dunlap
Robert A. Essner
Carol A. Leary

**Human Resources Committee**

The Human Resources Committee reviews and makes recommendations to the Board of Directors as to the compensation to be paid to Directors and to the executive officers of the Company. In addition, the Human Resources Committee reviews and approves the compensation to be paid to any officer or employee, other than an executive officer, which is required by law to be approved by the Board of Directors or a committee thereof.

The Human Resources Committee reports to the Board of Directors at its first regular meeting in each calendar year with respect to the Committee's annual review of compensation, and reports at such other times as the Board may request.

Human Resources Committee

John F. Maypole (Chair)
Roger G. Ackerman
Gene Chao
James L. Dunlap
Marc Racicot

## Dividend Policy Committee

The Dividend Policy Committee studies and makes recommendations to the Board of Directors concerning the distribution of surplus funds to policy owners of the Company, with the objective of assuring that such distribution is carried out in accordance with the contribution to surplus principle. The Dividend Policy Committee reports to the Board of Directors at least annually and at such other times as the Board may request.

Dividend Policy Committee

William B. Marx Jr. (Chair)
Robert A. Essner
Robert M. Furek
** Robert J. O'Connell
Marc Racicot

** Removed effective June 23, 2005. See "Corporate Governance" section on page five of this report.

## Board of Affairs Committee

The Board of Affairs Committee studies and makes reports and recommendations to the Board of Directors concerning the composition, organization, operations, functions and procedures of the Board of Directors and Board Committees. The Board of Affairs Committee submits, at its first regular meeting of the Board of Directors in each calendar year, a list of nominees for election to the Board of Directors at the next annual meeting of the Company to succeed those Directors whose terms will then expire.

The Board of Affairs Committee reports to the Board of Directors at least once each year in addition to its report on nominations to the Board of Directors.

Board of Affairs Committee

Roger G. Ackerman (Chair)
James R. Birle
Gene Chao
James DeGraffenreidt
Robert M. Furek
William B. Marx JR.
John F. Maypole
** Robert J. O'Connell

** Removed effective June 23, 2005. See "Corporate Governance" section on page five of this report.

## Conflict of Interest Procedures

The Company maintains a written Compliance Guide which is given to all new employees along with an acknowledgement form which certifies that they have reviewed and are not in violation of anything contained in the guide. All employees are required to complete the acknowledgement process whenever a new edition is published, and approximately every two years if a revision is not scheduled. The Compliance Guide covers not only conflict of interest, but all aspects of an employee's dealings with the Company, its suppliers, customers, and the laws and regulations that govern it.

**Corporate Records**

The minutes of the Board of Directors and Committees thereof for the period under examination were read and reviewed. Minutes of meetings indicate that all meetings were held in accordance with the Company Bylaws. In accordance with the Company Bylaws, Directors were elected at each Annual Meeting of the Members. Activities of the Committees were ratified at each of the Board of Directors' meetings.

The minutes of the Board of Directors disclosed that the previous statutory examination report was reviewed and accepted by the Board.

**Surplus Notes**

Surplus notes of $250 million at 5.625% due in 2033, $100 million at 7.500 % due in 2024, and $250 million at 7.625% due in 2023 were issued by the Company in 2003, 1994, and 1993 respectively. These notes are unsecured and subordinate to all present and future indebtedness of the Company, policy claims and prior claims against the Company as provided by Massachusetts General Laws. Issuance was approved by the Massachusetts Commissioner of Insurance and all payments of interest and principal are subject to the prior approval of the Commissioner. Anticipated sinking fund payments are due as follows: $62.5 million in 2021, $87.5 million in 2022, $150 million in 2023 and $50 million in 2024. There are no sinking fund requirements for the notes issued in 2003.

Interest on the notes issued in 1994 is payable on March 1 and September 1 of each year to holders of record on the preceding February 15 or August 15, respectively. Interest on the notes issued in 2003 and 1993 is payable on May 15 and November 15 of each year to holders of record on the preceding May 1 or November 1, respectively. Interest expense is not recorded until approval for payment is received from the Commissioner. Interest of $195 million was approved and paid from 2000 to 2004.

## MANAGEMENT CONTINUITY AND NATIONAL EMERGENCY

The Company provides for the continuity of management in the event of a catastrophe or other emergency in accordance with sections 180M through 180Q of Chapter 175 of the Massachusetts General Laws.

## AFFILIATED COMPANIES

Per Form B filings, the Company is a member of a holding company system known as "Massachusetts Mutual Life Insurance Company" and is subject to the registration requirements of Chapter 175, Section 206C, of the Massachusetts General laws. The "ultimate controlling person" of the group is Massachusetts Mutual Life Insurance Company. Filings made with the Division during the examination period were read and noted.

**Transactions and Agreements with Affiliates**

The Company has management and service contracts or cost sharing arrangements with various subsidiaries and affiliates whereby the Company, for a fee, will furnish a subsidiary or affiliate, as required, operating facilities, human resources, computer software development and managerial services.

The Company has reinsurance agreements with its subsidiaries, C.M. Life Insurance Company and MML Bay State Life Insurance Company, including stop-loss and modified coinsurance agreements and yearly renewable term agreements on life insurance products.

The Company filed its 2004 federal income tax return on a consolidated basis with its eligible life insurance affiliates and its non-life affiliates. The Company and its eligible life affiliates and non-life affiliates are subject to a written tax allocation agreement that allocates the group's consolidated tax liability for payment purposes. Generally, the agreement provides that group members shall be compensated for the use of their loss and credits by other group members.

## ANNUAL STATEMENT SCHEDULE Y

| | State of Domiciled |
|---|---|
| **MASSACHUSETTS MUTUAL LIFE INSURANCE COMPANY** | **MA** |
| **Direct & Indirect Owned Subsidiaries** | |
| C.M. Life Insurance Company | CT |
| MML Bay State Life Insurance Company | CT |
| CM Assurance Company | CT |
| CM Benefit insurance Company | CT |
| MassMutual Investment Management (Japan) | Japan |
| MassMutual Owners Association, Inc. | MA |
| MassMutual Holdings, LLC | DE |
| MassMutual Financial, LLC | DE |
| MassMutual Assurance, Inc. (Pending) | NY |
| MassMutual Holdings MSC, Inc. | MA |
| MassMutual Corporate Value Limited | Cayman Islands |
| MassMutual Corporate Value Partners Ltd. | Cayman Islands |
| Antares capital Corporation | DE |
| Babson Capital management, LLC | MA |
| Cornerstone Real Estate Advisors, LLC | MA |
| MassMutual Benefits Management, Inc. | DE |
| MMHC Investment, LLC | DE |
| MassMutual/Darby CBO, LLC | DE |
| MML Investor Services, Inc. | MA |
| Oppenheimer Acquisition Corp. | DE |
| OppenheimerFunds, Inc. | CO |
| MassMutual International, Inc. | DE |
| MassMutual Asia Limited | Hong Kong |
| MassMutual International Holdings MSC, Inc. | MA |
| MassMutual Mercuries Life Insurance Company | Taiwan |
| Fuh Hwa Investment Trust Co. Ltd. | Taiwan |
| MassMutual Life Insurance Company, KK | Japan |
| MassMutual International (Chile) S.A. | Chili |
| MassMutual (Bermuda) Ltd. | Bermuda |
| MassMutual Europe S.A. | Luxembourg |

## ANNUAL STATEMENT SCHEDULE Y, continued

**Affiliates:**

| | State of Domiciled |
|---|---|
| Cornerstone Affiliates and Funds | |
| Cornerstone Suburban Office, LP | CT |
| Cornerstone Apartment Venture 1, LLC | NY |
| Cornerstone Apartment Fund 1, LLC | CT |
| CREA/PPC Venture, LLC | CT |
| Cornerstone Rotational Fund, LLC | CT |
| LCV-APTS, LP | TX |
| West Conshohocken, LP | PA |
| West Conshohocken, LLC | PA |
| Rockville Town Center, LLC | MD |
| Marco Island Condominium, LLC | FL |
| 300 Third Street, LLC | MA |
| Hickory Creek Industrial, LLC | IL |
| VPRH, LLC | MI |
| Corporate Crossings, LLC | IL |
| MML Series Investment Funds | |
| MML Equity Index Fund | MA |
| MML Managed Bond Fund | MA |
| MML Blend Fund | MA |
| MML Equity Fund | MA |
| MM Premier Funds | |
| MM Small Company Opportunities Fund | MA |
| MM International Equity Fund | MA |
| MM Premier Short Duration Bond Fund | MA |
| MassMutual Indexed Equity Fund | MA |
| MassMutual Money Market Fund | MA |
| MassMutual Core Bond Fund | MA |
| MassMutual Value Fund | MA |
| MM Select Funds | |
| MassMutual Overseas Fund | MA |
| MassMutual Fundamental Value Fund | MA |
| MassMutual Growth Equity Fund | MA |
| MassMutual Small Cap Growth Equity Fund | MA |
| MassMutual Large Cap Value Fund | MA |
| MassMutual Focused Value Fund | MA |
| MassMutual Mid Cap Growth Equity II Fund | MA |
| Other Affiliates | |
| Towers Square Capital Partners, LP | MA |
| MassMutual Mortgage Finance, LLC | MA |
| Mill River Partners, LP | MA |
| WFC-Apt, LP | TX |
| Winterset Capital Partners, LP | MA |
| Winmark Equipment Finance LLC | MA |
| Winmark Limited Funding, LLC | MA |

## ANNUAL STATEMENT SCHEDULE Y, continued

| | State of Domiciled |
|---|---|
| Babson Capital High Yield LLC | MA |
| Babson Capital Small Cap Growth LLC | MA |
| Alerion Investment Partners I, LP | CT |
| Leland Fund, LP | DC |
| Braemar Power and Communications | NY |
| CRF, LLC | |
| Babson CLO LTD 2004 | Cayman Islands |
| Storrs CDO LTD | Cayman Islands |
| Enhanced Mortgage-Backed Securities Fund Limited I | Cayman Islands |
| Enhanced Mortgage-Backed Securities Fund Limited II | Cayman Islands |
| Enhanced Mortgage-Backed Securities Fund Limited III | Cayman Islands |
| Enhanced Mortgage-Backed Securities Fund Limited IV | Cayman Islands |

## FIDELITY BOND AND OTHER INSURANCE

The Company maintains fidelity coverage, covering itself and its subsidiaries, with an authorized Massachusetts insurer, consistent with Massachusetts General Laws, Chapter 175, Section 60. The limit of liability on the various bonds is not less than $15,000,000, well in excess of the highest range of $4,500,000 to $5,000,000 suggested by the NAIC.

The Company and various subsidiaries are also named insured on policies that provide various coverages, including: general liability, commercial auto, excess liability umbrella, directors and officer's liability, property insurance, aviation insurance, professional liability including errors and omissions, and various specialty policies required by one or more of the states. In addition, the Company maintained specialty insurance on the various hotels owned by the Company. All policies evidencing the above coverages were with licensed carriers and were in force at December 31, 2004.

## PENSION AND INSURANCE PLANS

### Benefit plans

The Company provides multiple benefit plans including retirement plans and life and health insurance benefits to employees, certain employees of unconsolidated subsidiaries, agents and retirees.

The Company has funded and unfunded non-contributory defined benefit pension plans. The plans cover substantially all employees and agents. For some participants, benefits are calculated in the greater formula based on either final average earnings and length of service or the cash balance formula which calculates benefits based on amounts allocated to participants that take into consideration age, service and salary during their careers.

The Company's policy is to fund pension costs in accordance with the requirements of the Employee Retirement Income Security Act of 1974. The assets of the Plan are invested in the Company's general account and separate accounts.

The Company sponsors funded and unfunded defined contribution plans for substantially all of its employees and agents. The Company contributes to the funded plan by matching participant contributions up to three percent of pay, within certain limits, based on years of service and the financial results of the Company each year. Company contributions, and any related earnings, are vested based on years of service using a graduated vesting schedule with full vesting after three years of service.

**Life and Health**

The Company provides certain life insurance and health care benefits for its retired employees and agents, and their beneficiaries and dependents. The health care plan is contributory; a portion of the basic life insurance plan is non-contributory. Substantially all of the Company's employees and agents may become eligible to receive these benefits. These benefits are funded as considered necessary by the Company's management. The postretirement health care plans include a limit on the Company's share of costs for recent and future retirees.

The initial transition obligation of $138 million is being amortized over twenty years through 2012. At December 31, 2004 and 2003, the net unfunded accumulated benefit obligation was $247 million and $266 million, respectively, for employees and agents eligible to retire or currently retired and $39 million and $37 million, respectively, for participants not eligible to retire.

## STATUTORY DEPOSITS

The statutory deposits of the Company at December 31, 2004 are as follows:

| Location | Type of Security | Par Value | Statement Value | Market Value |
|---|---|---|---|---|
| Arkansas | US Treasury Notes | $ 325,000 | $ 342,852 | $ 384,644 |
| Connecticut | US Treasury Notes | 1,600,000 | 1,696,004 | 2,161,744 |
| Georgia | US Treasury Notes | 55,000 | 57,947 | 57,847 |
| Kansas | US Treasury Notes | 450,000 | 473,291 | 485,456 |
| New Mexico | US Treasury Notes | 110,000 | 115,693 | 118,667 |
| North Carolina | US Treasury Notes | 550,000 | 579,703 | 634,180 |
| South Carolina | US Treasury Notes | 2,500,000 | 2,649,781 | 3,431,750 |
| Other | Various Canadian/Industrial Bonds | 28,850,000 | 29,454,848 | 37,801,578 |
| Special Deposits Not Held for the Benefit of All Policyholders | | $34,440,000 | $35,370,119 | $45,075,866 |
| Special Deposit for the Benefit Of All Policyholders | | 2,000,000 | 2,081,659 | 2,265,860 |
| | Total | $36,440,000 | $37,451,778 | $47,341,726 |

## INSURANCE PRODUCTS AND RELATED PRACTICES

**Territory and Plan of Operation**

The Company's primary business is ordinary life, annuity, and disability insurance products distributed primarily through career agents. The Company also provides, directly or through its subsidiaries, a wide range of pension products and services, as well as investment services to individuals, corporations, and other institutions in all 50 States and the District of Columbia. The Company is also licensed to transact business in Puerto Rico and six provinces of Canada.

The Company markets its products through a variety of distribution channels, with the core of its distribution system being a sales force of approximately 100 general agents and 4,000 full-time career agents. The Company has approximately 4,400 and 1,300 employees in its home offices in Springfield, Massachusetts and Hartford, Connecticut, respectively.

The Company's principal lines of business are organized into two segments: (1) Domestic Insurance, covering life, annuity, disability and long-term insurance products, and (2) Asset Accumulation Business, covering retirement and financial products. The Domestic Insurance business segment provides a wide range of products and services through a network of general agents, agents and affiliated distributors, broker dealers and banks, to individual and institutional customers primarily in the United States. Products include whole life insurance, universal life insurance, variable universal life insurance, term life insurance, individual annuities, individual disability income insurance, structured settlements and long-term care insurance. The Asset Accumulation business segment offers retirement plan sponsors a full range of products and services in the defined contribution, defined benefit and non-qualified deferred compensation plan markets. In addition, this segment offers guaranteed investment contracts for U.S. retirement plans, funding agreements for domestic and international institutional investors and terminal-funding contracts for defined benefit plans. This business segment provides investment services to individuals, group pension investment products and administrative services (primarily to sponsors of tax qualified retirement plans), advisory services for the Company's general investment account and separate account investment accounts, as well as for various closed-end and open-end investment companies. This is accomplished through its own staff and those of Oppenheimer Management Corporation, Babson Capital Management, LLC., Cornerstone Real Estate Advisors, and Antares Capital Corporation, all of which the Company indirectly owns a controlling interest.

## Treatment of Policyholders – Market Conduct

During the financial examination of the Company, the Division's Market Conduct Department initiated a comprehensive market conduct examination of the Company for the period January 1, 2004 through June 30, 2005. The market conduct examination was called pursuant to authority in Massachusetts General Laws Chapter 175, Section 4. The market conduct examination is being conducted at the direction of, and under the overall management and control of, the market conduct examination staff of the Division. Representatives from the firm of Rudmose & Noller Advisors, LLC were engaged to complete certain agreed upon procedures which were developed using the guidance and standards of the NAIC Market Conduct Examiner's Handbook, the market conduct examination standards of the Division, and the Commonwealth of Massachusetts insurance laws, regulations and bulletins. The basic business areas that are being reviewed under this market conduct examination are Company operations/management; complaint handling; marketing and sales; producer licensing; policyholder services; underwriting and rating; and claims, in addition to an assessment of the Company's internal control environment. Once this market conduct examination is completed a Report on the Comprehensive Market Conduct Examination of the Company for the period January 1, 2004 through June 30, 2005 will be issued and become available as a public document.

## Dividends to Policyholders

The Company annually determines the amount of divisible surplus available as dividends to eligible policyholders. Surplus, in excess of what the Company's Board of Directors determines to be necessary to meet its future policy and operating obligations, is distributed annually in the form of dividends on the

Company's participating policies. The allocation of that distribution is at the discretion of the Board of Directors subject to certain statutory mandates and actuarial professional guidance.

Dividends to policyholders for the period under examination, as reflected in the company's Annual Statements for the years indicated, were as follows:

| Year | Dividends to Policyholders |
|---|---|
| 2004 | $ 995,646,562 |
| 2003 | 1,098,499,790 |
| 2002 | 1,163,238,367 |
| 2001 | 1,097,025,867 |
| 2000 | 1,086,177,863 |
| Total | $5,440,588,449 |

## POLICYHOLDERS' RESERVES AND FUNDS

Policyholders' reserves for life insurance contracts are developed using accepted actuarial methods computed principally on the net level premium and the Commissioners' Reserve Valuation Method bases using the American Experience and the 1941, 1958, and 1980 Commissioners' Standard Ordinary mortality tables with assumed interest rates ranging from 2.50% to 6.75%.

Reserves for individual annuities, guaranteed investment contracts and deposit administration and immediate participation guarantee contracts are based on accepted actuarial methods principally at interest rates ranging from 2.25% to 11.25%.

Disability income policy reserves are generally calculated using the two-year preliminary term, net level premium and fixed net premium methods, and various morbidity tables with assumed interest rates ranging from 2.50% to 5.50%.

## REINSURANCE

The Company utilizes a variety of reinsurance agreements with other insurers to manage its loss exposure. Generally, these agreements are structured either on an automatic basis, where all risks meeting prescribed criteria are automatically covered, or on a facultative basis, where the reinsurer reserves the right to review and accept the specific reinsurance risk before it becomes liable. The amount of each risk retained by the Company depends on its evaluation of the specific risk, subject, in certain circumstances, to maximum limits based on characteristics of coverages.

The reinsurer will be liable under the terms of the reinsurance to reimburse the Company for the ceded risk in the event the full amount of the claim is paid. The Company, however, remains liable for all policyholder obligations, whether or not the reinsurer, performs the obligations ceded to it.

## Cession Agreements

I. Automatic Reinsurance Cession Program

The automatic reinsurance cession program allows for certain risks meeting prescribed criteria to be issued as standard policies, reinsured as first dollar quota share on a yearly renewable term basis. Under this program, the Company currently cedes 20% to each of four reinsurers and retains 20% of each policy.

| | |
|---|---|
| Reinsurers | Allianz Life Insurance Company<br>Cologne Life Reinsurance Company<br>Security Life of Denver (ING)<br>Swiss Reassurance Life Company |
| Ceded | Automatic reinsurance for all plans<br>Minimum \$100,000, maximum ceded \$5,000,000/life. – All plans except Enterprise Plus<br><br>Minimum \$250,000, maximum ceded \$5,000,000/life. – Only Enterprise Plus |
| Termination | Requires 90 day notice by either the Company or the reinsurer. |

II. Facultative Substandard Shopping Program

Also known as "Salvage" reinsurance, this program seeks the best offer on MassMutual's substandard cases not qualifying for the automatic reinsurance program.

| | |
|---|---|
| Reinsurers | Allianz Life Insurance Company<br>Continental Assurance (CNA)<br>Cologne Life Reinsurance Company<br>Reinsurance Group of America (RGA)<br>Security Life of Denver (ING)<br>Swiss Reassurance Life Company |
| Ceded | Facultative reinsurance for all plans |
| Coverage | Varies |
| Retention | Varies |
| Termination | Requires 90 day notice by either the Company or reinsurer. |

III. Excess of Retention Reinsurance

Under this program, the excess of retention on any one life is reinsured. Current maximum retention limits are $15 million on a single life and $20 million on Survivorship Whole Life. This program includes certain automatic and facultative reinsurance agreements for current business on a yearly renewable term basis. Facultative submissions are made when cases do not qualify for automatic reinsurance.

| | |
|---|---|
| Reinsurer | Security Life of Denver (ING) – 50%<br>Continental Assurance (CNA) – 50% |
| Ceded | Automatic reinsurance for all plans. |
| Coverage | 90% of each policy. |
| Retention | 10% of each policy. |
| Termination | Requires 90 day notice by either the Company or reinsurer. |

IV. Term Reinsurance

Certain of MassMutual's term products have been automatically reinsured on a first dollar quota share, yearly renewable term basis. Facultative submissions are also allowed under these reinsurance agreements.

- Adjustable Premium Term (APT) 80 Reinsurance Pool – effective 6/15/99; standard and substandard lives allowed; 90% of each APT 80 policy is reinsured; $50 million issue and jumbo limit applies; Four reinsurers participate on the first $15 million as follows: Lincoln National 25%, Security Life of Denver (ING) 25%, Life Reassurance 20%, and General American 20%. Security Life reinsures 90% of excess between $10 million and $20 million; Security Life's participation is experience refunding; reinsured on a policy year basis. Termination requires 90 day notice by either the Company or reinsurers.

- Term – 10 Reinsurance Pool – effective 9/8/97; standard and substandard lives allowed; 90% of each Term 10 policy is reinsured; $20 million issue and jumbo limit applies; five reinsurers participate on the first $15 million as follows: American United 25%, Continental Assurance 15%, Employer's Reinsurance 15%, Life Reinsurance 20%, and Swiss Reassurance Life 15%, with the Company retaining 10%. Termination requires 90 day notice of either the Company or reinsurers.

V. Catastrophe Reinsurance

MassMutual contracts for catastrophe coverage on an annual basis with numerous reinsurers. At December 31, 1999, catastrophe coverage consists of a total of $100 million in excess of a net loss of $10 million as a result of any one loss event. This is structured in 5 layers of coverage as follows:

| | |
|---|---|
| 1st Excess | $20MM excess of $10MM |
| 2nd Excess | $20MM excess of $30MM |
| 3rd Excess | $20MM excess of $50MM |
| 4th Excess | $20MM excess of $70MM |
| 5th Excess | $20MM excess of $90MM |

Special loss coverage was established for up to a $5 million excess on each and every net loss of $5 million on the company's Survivorship Whole Life as a result of any one event.

**Assumed Agreements**

I. MML Bay State Life Insurance Company

MassMutual has two reinsurance agreements with MML Bay State Life Insurance Company (MML Bay State), an indirectly wholly-owned subsidiary of MassMutual. The first agreement is for excess of retention and business to be reinsured with professional reinsurers outside of the Company. MassMutual also has a coinsurance arrangement with MML Bay State.

MassMutual – effective 12/31/92 for business issued 1/1/92 and later; coinsures 100% of Strategic Life and 80% of Variable Life Plus policies not otherwise reinsured. Termination requires 90 day notice of either MML Bay State or MassMutual.

## ACCOUNTS AND RECORDS

The Company utilizes software by SAP for its general ledger and financial reporting. All accounting entries have specific elements for company and statutory accounting basis. These elements serve as the basis for proper posting to the appropriate entity and accounting basis. Additionally, information is broken down into the appropriate segment, line of business and cost center. Cost center information is used to capture expense information and then to allocate those expenses to various reporting entities by ratios determined by line of business and function.

The core financial application systems including general ledger, accounts payable, payroll and cash disbursements run on a distributed environment of Hewlett Packard UNIX servers. In addition the Company operates a multi-vendor distributed environment including an IBM mainframe, IBM AIX and Sun Solaris for various applications including investment management and pension and 401(K) administration. Local area network systems (converting from Novell NetWare to NT) are used widely throughout the organization at the home office headquarters, field services, and for real estate processing.

In 2002 the Company completed the implementation of an enhanced continuity program, which combined business recovery and disaster recovery into a new Enterprise Continuity Program or ECP.

The accounts and records of the Company are subject to review by the Company's Corporate Auditing Department and are audited annually by KPMG LLP, independent certified public accountants.

No material deficiencies were noted in the Company's accounts and records in the course of this examination.

## SUBSEQUENT EVENTS

As noted previously under the "Corporate Governance" section on page five of this report, on June 23, 2005, the Board of Directors terminated for cause Robert J. O'Connell's employment as the Company's Chairman, President, Chief Executive Officer, and all other Board Committee posts. The Board unanimously determined that O'Connell had engaged in a systematic and pervasive pattern of willful abuse of authority, violations of the Company's code of conduct, and other acts of willful gross misconduct. The Company appointed Stuart H. Reese as Chief Executive Officer and President and James R. Birle as Non-Executive Chairman of the Board of Directors.

## COMMITMENTS AND CONTINGENCIES

The Company is involved in litigation arising in and out of the normal course of business including class action and purported class action suits which seek both compensatory and punitive damages. While the Company is not aware of any actions or allegations which should reasonably give rise to any material adverse effect, the outcome of litigation cannot be foreseen with certainty. It is the opinion of management, after consultation with legal counsel, that the ultimate resolution of these matters will not materially affect its financial position, results of operations or liquidity.

During 2004, the Company entered into a settlement agreement and received court approval resolving litigation proceedings involving alleged sales practices claims. The settlement class includes all policyholders, with certain limited exceptions, who have or had an ownership interest in permanent life policies, term life policies, or disability income policies issued between January 1, 1983 and December 31, 2003. The settlement agreement resulted in the establishment of a liability of approximately $262 million during 2004. This estimated amount represents the cost to the Company of the settlement, including related expenses.

## FINANCIAL STATEMENTS

The Company prepares its financial statements in conformity with accounting practices and procedures of the NAIC and the accounting practices prescribed and/or permitted by the Massachusetts Division of Insurance. The Company has not requested, nor been issued, any "Permitted Practices" from the Division.

In December 2004, the NAIC's Emerging Accounting Issues Working Group issued Interpretation ("INT") 04-17, "Impact of Medicare Modernization Act on Postretirement Benefits". The Company adopted INT 04-17 during 2004 and has elected retrospective application with a measurement date of January 1, 2004. The effect of adoption was a reduction in the accumulated postretirement benefit obligation of approximately $36.1 million.

In December, 2003, the Company adopted SSAP No. 89 "Accounting for Pensions." SSAP No. 89 supercedes SSAP No. 8 "Pensions". SSAP No. 89 clarifies changes in the minimum pension liability are to be recorded as a component of policyholders' contingency reserves and not as a component of net income. Accordingly, the Company reported the increase in minimum liability for the year ended December 31, 2003 of $16.0 million.

On January 1, 2003, the Company adopted SSAP No. 86. SSAP No 86 supercedes SSAP No. 31 and establishes statutory accounting for derivative instruments and hedging, income generation, and replication (synthetic asset) transactions using selected concepts outlined in Financial Accounting Standards Board Statement No. 133 "Accounting for Derivative Instruments and Hedging Activities." SSAP No 86 requires that derivative instruments used in hedging transactions that meet the criteria of a highly effective hedge shall be valued and reported in a manner that is consistent with the hedged asset or liability. SSAP No. 86 also require that derivative instruments used in hedging transactions that do not meet or no longer meet the criteria of an effective hedge shall be accounted for at fair value and the changes in fair value shall be recorded as unrealized capital gains or losses. SSAP No. 86 also require that entities that have derivative instruments used in hedging transactions that meet the required hedge criteria but choose not to apply hedge accounting, account for them at fair value and the changes in the fair value shall be recorded in surplus as unrealized gains or unrealized losses (referred to as "fair value accounting"). SSAP No. 86 is effective for derivative transactions entered into or modified on or after January 1, 2003. For derivative contracts entered into prior to January 1, 2003, insurers could choose to either follow SSAP No. 31 or apply the provisions of SSAP No. 86 to all of its open derivative positions as of January 1, 2003. The Company elected to apply the provisions of SSAP No. 86 to all open derivative positions as of January 1, 2003. The Company uses derivative financial instruments in the normal course of business to manage investment risks, primarily to reduce interest rate and duration imbalances determined in asset/liability analysis. The Company's derivative strategy employs a variety of derivative financial instruments, including interest rate swaps, currency swaps, asset and equity swaps, options, interest rate caps and floors, forward commitments, and financial futures. Investment risk is assessed on a portfolio basis and individual derivative financial instruments are not designated in hedging relationships, and therefore, the criteria for hedge accounting are not met.

Adoption of SSAP No. 86 by the Company changes the reporting of derivatives mark-to-market that do not qualify for hedge accounting from realized capital gains and losses to unrealized capital gains and losses with no impact on policyholders' surplus. Accordingly, the Company reported the change in the market value of its open derivative contracts for the year ended December 31, 2003 of $89 million as a change in net unrealized capital gains on the Statutory Statements of Changes in Policyholders' Surplus.

The Company has chosen not to apply hedge accounting to derivative instruments used in hedging transactions and therefore uses "fair value accounting" for hedging transactions – see above description of SSAP No. 86.

The following financial statements reflect the assets, liabilities, capital and surplus as determined by this examination, showing the Statement of Assets, Liabilities, Surplus, and Other Funds as of December 31, 2004, together with a Summary of Operations for the year ended December 31, 2004, Capital and Surplus for the Year Ended December 31, 2004, and a Reconciliation of Capital and Surplus for the Years Ended December 31, 2004, 2003, 2002, 2001, and 2000.

The following financial statements are presented on the basis of accounting practices prescribed or permitted by the Commonwealth of Massachusetts Division of Insurance and by the National Association of Insurance Commissioners as of December 31, 2004.

**Massachusetts Mutual Life Insurance Company**
**Statement of Assets, Liabilities, Surplus and Other Funds**
**As of December 31, 2004**

| Assets | As Reported by the Company | Examination Changes | Per Statutory Examination |
|---|---|---|---|
| Bonds | $ 38,493,297,380 | $ 0 | $ 38,493,297,380 |
| Stocks: | | | |
| Preferred stocks | 161,101,553 | | 161,101,553 |
| Common stocks | 2,890,640,985 | | 2,890,640,985 |
| Mortgage loans on real estate: | | | |
| First liens | 8,792,401,127 | | 8,792,401,127 |
| Other than first liens | 12,250,000 | | 12,250,000 |
| Real estate: | | | |
| Properties occupied by the company | 102,297,269 | | 102,297,269 |
| Properties held for production of income | 1,289,624,310 | | 1,289,624,310 |
| Properties held for sale | 93,262,172 | | 93,262,172 |
| Cash, cash equivalents and short-term investments | 2,295,806,509 | | 2,295,806,509 |
| Contract loans | 6,911,504,742 | | 6,911,504,742 |
| Other invested assets | 1,829,143,949 | | 1,829,143,949 |
| Receivable for securities | 2,693,824 | | 2,693,824 |
| Aggregate write-ins for invested assets | 1,477,510,736 | | 1,477,510,736 |
| Subtotals, cash and invested assets | 64,351,534,556 | | 64,351,534,556 |
| Investment income due and accrued | 746,809,438 | | 746,809,438 |
| Premiums and considerations: | | | |
| Uncollected premiums and agents' balances | 98,494,535 | | 98,494,535 |
| Deferred premiums booked but not yet due | 444,146,624 | | 444,146,624 |
| Reinsurance ceded: | | | |
| Amounts recoverable from reinsurers | 14,639,573 | | 14,639,573 |
| Other amounts receivable under reinsurance contracts | 18,202,867 | | 18,202,867 |
| Net deferred tax asset | 395,853,569 | | 395,853,569 |
| Guaranty funds receivable or on deposit | 8,011,758 | | 8,011,758 |
| Electronic data processing equipment | 14,623,579 | | 14,623,579 |
| Net adjustment in assets due to foreign exchange rate | 625,094 | | 625,094 |
| Receivable from parent, subsidiaries and affiliates | 82,221,655 | | 82,221,655 |
| Aggregate write-ins for other than invested assets | 36,967,118 | | 36,967,118 |
| Total assets excluding Separate Accounts business | 66,212,130,366 | | 66,212,130,366 |
| From Separate Accounts statement | 29,374,577,865 | | 29,374,577,865 |
| Total Assets | $ 95,586,708,231 | $ 0 | $ 95,586,708,231 |

**Massachusett Mutual Life Insurance Company**
**Statement of Assets, Liabilities, Surplus and Other Funds (Continued)**
**As of December 31, 2004**

| Liabilities | As Reported by the Company | Examination Changes | Per Statutory Examination |
|---|---|---|---|
| Aggregate reserve for life contracts | $48,639,995,836 | $ 0 | $48,639,995,836 |
| Aggregate reserve for accident and health contracts | 2,104,004,719 | | 2,104,004,719 |
| Liability for deopsit-type contracts | 5,046,521,650 | | 5,046,521,650 |
| Contract claims: | | | |
| Life | 183,465,129 | | 183,465,129 |
| Accident and health | 33,929,621 | | 33,929,621 |
| Policyholders' dividends due and unpaid | 9,942,000 | | 9,942,000 |
| Provision for policyholders' dividends and coupons payable in following calendar year-estimated amounts: | | | |
| Dividends apportioned to December 2005 | 1,006,510,038 | | 1,006,510,038 |
| Premiums and annuity considerations received in advance | 19,383,198 | | 19,383,198 |
| Contract liabilities not included elsewhere: | | | |
| Provision for experience rating refunds | 5,412,452 | | 5,412,452 |
| Other amounts payable on reinsurance | 14,271,427 | | 14,271,427 |
| Commissions to agents due or accrued | 11,422,428 | | 11,422,428 |
| Commissions and expense allowances payable on reinsurance assumed | 15,294,364 | | 15,294,364 |
| General expenses due or accrued | 652,868,624 | | 652,868,624 |
| Transfers to Separate Accounts due or accrued | (167,784,487) | | (167,784,487) |
| Taxes, licenses and fees due or accrued, excluding federal income taxes | 16,608,414 | | 16,608,414 |
| Current federal and foreign income taxes due | 339,178,934 | | 339,178,934 |
| Unearned investment income | 74,723,326 | | 74,723,326 |
| Amounts withheld or retained by company as agent or trustee | 44,894,629 | | 44,894,629 |
| Amounts held for agent's account | 156,266,864 | | 156,266,864 |
| Remittances and items not allocated | 223,739,686 | | 223,739,686 |
| Liability for benefitsfor employees and agents | 95,106,262 | | 95,106,262 |
| Asset valuation reserve | 1,140,230,204 | | 1,140,230,204 |
| Payable for securities | 27,064,015 | | 27,064,015 |
| Drafts outstanding | 1,324,955 | | 1,324,955 |
| Payable for securities | 127,189,909 | | 127,189,909 |
| Aggregate write-ins for liabilities | 716,134,121 | | 716,134,121 |
| Total liabilities excluding Separate Accounts | 60,537,698,318 | | 60,537,698,318 |
| From Separate Accounts statement | 28,758,835,888 | | 28,758,835,888 |
| Total Liabilities | 89,296,534,206 | | 89,296,534,206 |
| | | | |
| Surplus Notes | 600,000,000 | | 600,000,000 |
| Aggregate write-ins for special surplus funds | 3,250,000 | | 3,250,000 |
| Unassigned funds (surplus) | 5,686,924,025 | | 5,686,924,025 |
| Surplus | 6,290,174,025 | | 6,290,174,025 |
| | | | |
| Total Liabilities, Capital and Surplus | $95,586,708,231 | $ 0 | $95,586,708,231 |

**Massachusetts Mutual Life Insurance Company**
**Summary of Operations**
**For the Year Ended December 31, 2004**

| | As Reported by the Company | Examination Changes | Per Statutory Examination |
|---|---|---|---|
| Premium and annuity considerations | $ 12,495,400,810 | $ 0 | $12,495,400,810 |
| Considerations for supplementary contracts with life contingencies | 4,292,818 | | 4,292,818 |
| Net investment income | 3,791,890,695 | | 3,791,890,695 |
| Amortization of interest maintenance reserve | 34,292,770 | | 34,292,770 |
| Separate Accounts net gain from operations | 11,411,081 | | 11,411,081 |
| Commissions and expense allowances on reinsurance ceded | 84,458,474 | | 84,458,474 |
| Reserve adjustments on reinsurance ceded | 21,359,275 | | 21,359,275 |
| Income from fees associated with investment management, administration and contract guarantees from Sep. Accounts | 158,173,444 | | 158,173,444 |
| Aggregate write-ins for miscellaneous income | 47,331,262 | | 47,331,262 |
| Total | 16,648,610,629 | | 16,648,610,629 |
| Death benefits | 785,721,542 | | 785,721,542 |
| Matured endowments | 11,076,598 | | 11,076,598 |
| Annuity benefits | 600,553,671 | | 600,553,671 |
| Disability benefits and benefits under A&H policies | 251,591,694 | | 251,591,694 |
| Surrender benefits and other fund withdrawals | 5,933,551,358 | | 5,933,551,358 |
| Interest and adjustments on contract or deposit-type contract funds | 198,698,953 | | 198,698,953 |
| Payments on supplementary contracts with life contingencies | 12,979,604 | | 12,979,604 |
| Increase in aggregate reserves for life and accident and health policies and contracts | 3,560,452,080 | | - 3,560,452,080 |
| Sub-total | 11,354,625,500 | | 11,354,625,500 |
| Commissions on premiums, annuity considerations and deposit-type funds | 428,212,036 | | 428,212,036 |
| Commissions and expense allowances on reinsurance assumed | 91,903,735 | | 91,903,735 |
| General insurance expenses | 1,112,695,370 | | 1,112,695,370 |
| Insurance taxes, licenses and fees, excl. federal income taxes | 106,905,773 | | 106,905,773 |
| Increase in loading on deferred and uncollected premiums | (6,141,828) | | (6,141,828) |
| Net transfers to or (from) Separate Accounts | 2,267,055,167 | | 2,267,055,167 |
| Aggregate write-ins for deductions | 6,595,661 | | 6,595,661 |
| Total | 15,361,851,414 | | 15,361,851,414 |
| Net gain from operations before dividends to policyholders and federal income taxes | 1,286,759,215 | | 1,286,759,215 |
| Dividends to policyholders | 995,646,562 | | 995,646,562 |
| Net gain from operations after dividends to policyholders and before federal income taxes | 291,112,653 | | 291,112,653 |
| Federal income taxes incurred (excluding tax on capital gains) | 131,797,809 | | 131,797,809 |
| Net gain from operations after dividends to policyholders and federal income taxes and before realized capital gains or (losses) | 159,314,844 | | 159,314,844 |
| Net realized capital gains or (losses) | 137,304,625 | | 137,304,625 |
| Net Income | $ 296,619,469 | $ 0 | $ 296,619,469 |

**Massachusetts Mutual Life Insurance Company**
**Capital and Surplus**
**For the Year Ended December 31, 2004**

| | As Reported by the Company | Examination Changes | Per Statutory Examination |
|---|---|---|---|
| Capital and surplus, December 31, 2003 | $ 6,282,266,291 | $ 0 | $ 6,282,266,291 |
| Net income | 296,619,469 | | 296,619,469 |
| Change in net unrealized capital gains or (losses) | 119,598,258 | | 119,598,258 |
| Change in net unrealized foreign exchange capital gains and (loss) | 38,857,040 | | 38,857,040 |
| Change in net deferred income tax | 59,131,335 | | 59,131,335 |
| Change in nonadmitted assets and related items | (246,086,053) | | (246,086,053) |
| Change in reserve on account of change in valuation basis(increase) or decrease | 6,480,233 | | 6,480,233 |
| Change in asset valuation reserve | (252,767,915) | | (252,767,915) |
| Change in liability for reinsurance in unauthorized companies | 0 | | |
| Surplus (contributed to) withdrawn from Separate Accounts during period | (559,074,829) | | (559,074,829) |
| Other changes in surplus in Separate Accounts statement statement | 559,841,087 | | 559,841,087 |
| Cumulative effect of changes in accounting principals | 0 | | |
| Aggregate write-ins for gains and losses in surplus | (14,690,891) | | (14,690,891) |
| Net change in capital and surplus for the year | 7,907,734 | | 7,907,734 |
| Capital and surplus, December 31, 2004 | $ 6,290,174,025 | $ 0 | $ 6,290,174,025 |

**Massachusetts Mutual Life Insurance Company**
**Reconciliation of Capital and Surplus**
**For the Four Year Period Ended December 31, 2004**

| | 2004 | 2003 | 2002 | 2001 | 2000 |
|---|---|---|---|---|---|
| Capital and surplus, December 31, prior year | $6,282,266,291 | $6,104,602,710 | $5,151,189,683 | $3,835,552,953 | $3,411,263,392 |
| Net income | 296,619,469 | 374,301,083 | 1,392,468,550 | 819,744,834 | 744,801,741 |
| Change in net unrealized capital gains or (losses) | 119,598,258 | 249,194,829 | (332,572,346) | (474,354,895) | (321,744,284) |
| Change in net unrealized foreign exchange capital gains and (loss) | 38,857,040 | (129,511,109) | (122,928,119) | 0 | 0 |
| Change in net deferred income tax | 59,131,335 | 560,367,960 | 19,451,907 | 22,875,296 | 0 |
| Change in nonadmitted assets and related items | (246,086,053) | (717,479,951) | (146,280,256) | (210,131,328) | (100,319,484) |
| Change in reserve on account of change in valuation basis (increase) or decrease | 6,480,233 | 0 | (57,393,710) | 0 | (246,088) |
| Change in asset valuation reserve | (252,767,915) | (398,458,331) | 189,308,121 | 197,946,955 | 60,729,169 |
| Change in liability for reinsurance in unauthorized companies | 0 | 292,201 | (292,201) | 0 | |
| Surplus (contributed to) withdrawn from Separate Accounts during period | (559,074,829) | (6,608,692) | (9,969,170) | (9,278,376) | |
| Other changes in surplus in Separate Accounts statement | 559,841,087 | 7,856,692 | 11,283,232 | 9,129,107 | (266,001) |
| Change in surplus notes | 0 | 250,000,000 | 0 | 0 | 6,666,667 |
| Cumulative effect of changes in accounting principles | | | | 981,223,685 | 0 |
| Capital changes - paid in | | | | | |
| Surplus adjustments - paid in | | | | | |
| Surplus adjustments - transferred from capital | | | | | |
| Dividends to stockholders | | | | | |
| Aggregate write-ins for gains and (losses) in surplus | (14,690,891) | (12,291,101) | 10,337,019 | (21,518,549) | 34,667,841 |
| Net change in capital and surplus for the year | 7,907,734 | 177,663,581 | 953,413,027 | 1,315,636,729 | 424,289,561 |
| Capital and surplus, December 31, current year | $6,290,174,025 | $6,282,266,291 | $6,104,602,710 | $5,151,189,682 | $3,835,552,953 |

## SEPARATE ACCOUNTS

### History

The Company established its Separate Account business in 1963, when it began issuing contracts in conjunction with group pension, profit-sharing and annuity plans, qualified under Section 401 (a) of the Internal Revenue Code of 1954.

### Statutes

Sections 132F and 132G, Chapter 175 of the Massachusetts General Laws were enacted in 1960 and 1968, respectively, and amended several times there after. These laws provide for the establishment by life insurance companies of one or more Separate Investment Accounts, independent of the insurer's General Investment Account.

Business

Separate Account assets and liabilities represent segregated funds administered and invested by the Company for the benefit of pension, variable annuity and variable life insurance contract holders. Assets consist principally of marketable securities reported at fair value and are not available to satisfy liabilities that arise from any other business of the Company. Separate account liabilities represent segregated policyholder funds administered and invested by the Company to meet specific investment objectives of the policyholders. The Company receives administrative and investment advisory fees from these accounts.

Premium income, benefits and expenses of the Separate Accounts are reported in net income. Investment income and realized and unrealized capital gains and losses on the assets of Separate Accounts accrue to policyholders and, accordingly, are not recorded in net income.

### Subsidiaries

MML Series Investment Fund (the "Trust") is a Massachusetts business trust, registered as a no-load, open-end diversified management investment company under the Investment Company Act of 1940. The Trust has four separate series of shares (the "Funds"), each of which have different investment objectives. The Funds are MML Blend Fund, MML Equity Fund, MML Equity Index Fund, and MML Managed Bond Fund.

The Company serves as investment manager, pursuant to a separate investment agreement with each Fund. Pursuant to these agreements, the Company engages in portfolio transactions on behalf of the Funds, subject to such general or specified instructions as may be given by the Boards of Trustees of the Trust, performs all administrative functions relating to the Funds, and bears all expenses of the Funds, except for certain expenses specified in the management agreement.

The Company and its wholly-owned subsidiaries, MML Bay State Life Insurance Company and C.M. Life Insurance Company, own 100% of the shares of the Funds; however, the right to instruct as to the voting of shares held in the Separate Accounts, which are investment companies registered under the Investment company Act of 1940, is given to contract owners participating in such Separate Accounts.

## Financial Statements

The Company included in its financial statements its Separate Account business, in summary form, which pertains to the variable benefits associated with its Separate Account operations. The Separate Account business was subjected to the examination procedures (see Appendix) applied in the examination of the statutory financial statements of MassMutual.

A Statement of Assets, Liabilities and Surplus as of December 31, 2004, and a Summary of Operations and a Statement of Surplus for the year then ended, as determined by this examination, are presented.

**Massachusetts Mutual Life Insurance Company**
**Separate Account Business**
**Statement of Assets, Liabilities, and Surplus**
**As of December 31, 2004**

| **Assets** | **As Reported by the Company** | **Examination Changes** | **Per Statutory Examination** |
|---|---|---|---|
| Bonds | $ 1,336,161,928 | $ 0 | $ 1,336,161,928 |
| Preferred stocks | 11,439,911 | | 11,439,911 |
| Common stocks | 26,506,826,102 | | 26,506,826,102 |
| Real Estate | 542,822,556 | | 542,822,556 |
| Cash and cash equivalents | 460,787,692 | | 460,787,692 |
| Short term investments | 326,109,956 | | 326,109,956 |
| Other invested assets | 155,490,767 | | 155,490,767 |
| Aggregate write-ins for invested assets | 550,660 | | 550,660 |
| Investment income due and accrued | 18,820,675 | | 18,820,675 |
| Receivable for securities | 3,039,930 | | 3,039,930 |
| Aggregate writeins for other than invested assets | 12,527,688 | | 12,527,688 |
| Total Assets | $ 29,374,577,865 | $ 0 | $ 29,374,577,865 |

| **Liabilities and Surplus** | | | |
|---|---|---|---|
| Aggregate reserve for life, annuity and accident and health policies and contracts | $ 27,544,596,080 | $ 0 | $ 27,544,596,080 |
| Liability for deposit-type contracts | 1,010,284,247 | | 1,010,284,247 |
| Charge for investment management, administration and contract guarantees due or accrued | 15,246,438 | | 15,246,438 |
| Investment expenses due or accrued | 643,570 | | 643,570 |
| Investment taxes, licenses and fees due or accrued, excluding federal income taxes | 3,204,090 | | 3,204,090 |
| Unearned investment income | 111,817 | | 111,817 |
| Other transfers to general account due or accrued | 152,553,046 | | 152,553,046 |
| Remittances and items not allocated | 10,335,334 | | 10,335,334 |
| Payable for securities | 14,388,302 | | 14,388,302 |
| Net adjustment in assets and liabilities due to foreign exchange rates | 914,620 | | 914,620 |
| Aggregate write-ins for liabilities | 6,558,354 | | 6,558,354 |
| Total Liabilities | 28,758,835,897 | | 28,758,835,897 |
| Contributed surplus | 587,025,730 | | 587,025,730 |
| Unassigned funds | 28,716,238 | | 28,716,238 |
| Total Surplus | 615,741,968 | | 615,741,968 |
| Total Liabilities and Surplus | $ 29,374,577,865 | $ 0 | $ 29,374,577,865 |

**Massachusetts Mutual Life Insurance Company**
**Separate Account Business**
**Summary of Operations**
**For the Year Ended December 31, 2004**

| | As Reported by the Company | Examination Changes | Per Statutory Examination |
|---|---|---|---|
| Transfers to separate accounts: | | | |
| Net premiums and annuity considerations | $ 7,555,974,975 | $ 0 | $ 7,555,974,975 |
| Transfers on account of deposit-type contracts | 1,000,573,463 | | 1,000,573,463 |
| Net Investment income and capital gains and losses | 2,677,006,234 | | 2,677,006,234 |
| Aggregatw write-ins for other income | (8,548) | | |
| Totals | 11,233,546,124 | | 11,233,554,672 |
| DEDUCT: | | | |
| Transfers from the separate accounts on account of contract benefits: | | | |
| Death benefits | 2,202,319 | | 2,202,319 |
| Annuity benefits | 138,211,782 | | 138,211,782 |
| Surrender benefits and withdrawals for life contracts | 5,095,477,303 | | 5,095,477,303 |
| Transfers on account of policy loans | 1,819,332 | | 1,819,332 |
| Other transfers from the separate accounts: | | | |
| Federal and foreign income taxes incurred | (489) | | (489) |
| Change in expense allowances recognized in reserves | 51,714,323 | | 51,714,323 |
| Aggregate write-ins for other transfers from Separate Accounts | 81,162 | | 81,162 |
| Fees associated with changes for investment management administration and contract guarantees | 158,173,444 | | 158,173,444 |
| Increase in aggregate reserve for life and accident and health poicies and contracts | 4,759,153,509 | | 4,759,153,509 |
| Increase in liability for deposit-type contracts | 1,000,533,800 | | 1,000,533,800 |
| Aggregatw write-ins for reserves and funds | (10,949) | | (10,949) |
| Totals | 11,207,355,535 | | 11,207,355,535 |
| Net gain from operations | $ 26,190,589 | $ 0 | $ 26,199,137 |
| SURPLUS ACCOUNT | | | |
| Surplus, December 31, previous year | $ 30,920,029 | $ 0 | $ 30,920,029 |
| Net gain from operations | 26,190,586 | | 26,190,586 |
| Surplus contributed or (withdrawn) during year | 558,631,353 | | 558,631,353 |
| Surplus, December 31, current year | $ 615,741,968 | $ 0 | $ 615,741,968 |

## ACKNOWLEDGMENT

This is to certify that the undersigned is a duly qualified Certified Financial Examiner (CFE) and that, in conjunction with Ernst & Young LLP, applied certain agreed upon procedures to the accounting and corporate records of the Massachusetts Mutual Life Insurance Company in order to assist the Division of Insurance of the Commonwealth of Massachusetts in fulfilling the Commonwealth's requirements regarding periodic examination of Massachusetts domiciled insurers.

The undersigned's participation in this Association Financial Examination as the Examiner-in-Charge encompassed responsibility for the coordination and direction of the examination performed which was in accordance with, and substantially complied with, those standards established by the Financial Condition (E) Committee of the National Association of Insurance Commissioners and the NAIC Financial Condition Examiners Handbook. This participation consisted of involvement in the planning (development, supervision and review of agreed upon procedures), administration, review of work papers and preparation of the statutory examination report.

The cooperation and assistance of the officers and employees of Massachusetts Mutual Life Insurance Company extended to all examiners during the course of the examination is hereby acknowledged.

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John Curran, CFE
Examiner-In-Charge
Supervising Examiner
Commonwealth of Massachusetts
Division of Insurance