

Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

Our fixed maturity and marketable equity securities are subject to the risk of potential losses from adverse market conditions. To manage the potential for economic losses, we regularly evaluate certain risks, as well as the appropriateness of the investments, to ensure the portfolio is managed within its risk guidelines. The result is a portfolio that is well diversified. Our primary risk exposures are changes in market interest rates, credit quality and changes in equity prices. The market value of our investments varies from time to time depending on economic and market conditions. Our investment portfolio is not significantly concentrated in any particular industry or geographic region.

Interest Rate Risk

Interest rate risk is defined as the potential for economic losses on fixed-rate securities due to an adverse change in market interest rates. Our fixed maturity portfolio consists exclusively of U.S. dollar-denominated assets, invested primarily in U.S. government securities, corporate bonds, asset-backed bonds and mortgage-related securities, all of which represent an exposure to changes in the level of market interest rates. We manage interest rate risk by maintaining a duration commensurate with our insurance liabilities and policyholders' surplus. Further, we do not engage in the use of derivatives to manage interest rate risk. A hypothetical increase in interest rates of 100 basis points would result in an estimated decrease in the fair value of the fixed income portfolio at December 31, 2004 of approximately \$38.7 million.

Credit Quality Risk

Credit quality risk is defined as the risk of a credit downgrade to an individual fixed income security and the potential loss attributable to that downgrade. We manage this risk through our investment policy, which establishes credit quality limitations on the overall portfolio as well as dollar limits for individual issuers. The result is a well-diversified portfolio of fixed income securities, with an average credit rating of approximately "AA+."

Fixed Maturity Securities Quality Distribution

The following chart shows the quality distribution of our fixed maturity securities portfolio as of December 31, 2004 and December 31, 2003 (at fair value):

	<u>December 31, 2004</u>	<u>Percent of Total</u>	<u>December 31, 2003</u>	<u>Percent of Total</u>
	(dollars in millions)			
Total fixed maturity				
Aaa	\$1,144.4	74.6%	\$ 995.3	78.4%
Aa	175.7	11.5	72.7	5.7
A	212.3	13.9	193.1	15.2
Baa	0.0	0.0	8.6	0.7
Total fixed maturity	<u>\$1,532.4</u>	<u>100.0%</u>	<u>\$1,269.7</u>	<u>100.0%</u>
Total fixed maturity corporate securities:				
Industrial	\$ 72.7	12.8%	\$ 28.8	6.7%
Finance	397.5	69.8	347.5	80.8
Utility	20.8	3.7	5.3	1.2
Asset-backed securities	25.8	4.5	13.5	3.1
Other	52.5	9.2	35.1	8.2
Total fixed maturity corporate securities	<u>\$ 569.3</u>	<u>100.0%</u>	<u>\$ 430.2</u>	<u>100.0%</u>
Total mortgage-related securities:				
Mortgage pass through certificates	\$ 19.6	8.2%	\$ 6.3	3.0%
Collateralized mortgage obligations	218.6	91.8	203.6	97.0
Total mortgage-related securities	<u>\$ 238.2</u>	<u>100.0%</u>	<u>\$ 209.9</u>	<u>100.0%</u>

Equity Price Risk

Equity price risk for stocks is defined as the potential for economic losses due to an adverse change in equity prices. Equity risk exposure is managed through our investment in an indexed mutual fund. Specifically, we are invested in the ML S&P 500 Index LLC, which is an S&P 500 index mutual fund, resulting in a well-diversified and liquid portfolio that replicates the risk and performance of the broad U.S. stock market. We also hold a direct common stock investments and equity investments in our non-qualified employee benefit plans. We estimate our equity price risk from a hypothetical 10% decline in the S&P 500 and the relative effect of that decline in the value of our marketable equity portfolio at December 31, 2004 to be a decrease in fair value of \$5.3 million.

Fixed Income Securities

Our fixed income strategy is to construct and manage a high quality, diversified portfolio of securities. Additionally, our investment policy establishes minimum quality and diversification requirements resulting in an average credit rating of approximately "AA+." The average duration of our portfolio as of December 31, 2004 was 2.4 years.