ALLMERICA FINANCIAL CORP
Form 11-K
June 29, 2004

FORM 11-K

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549
(Mark One)
[X] ANNUAL REPORT PURSUANT TO SECTION 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended: December 31, 2003

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934
For the transition period from:____________ to ____________
Commission file number: 1-13754

THE ALLMERICA FINANCIAL
AGENTS' RETIREMENT PLAN
(Full title of the plan)

ALLMERICA FINANCIAL CORPORATION
(Exact name of registrant as specified in its charter)

| | |
|---|---|
| Delaware | 04-3263626 |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification Number) |

440 Lincoln Street, Worcester, Massachusetts 01653
(Address of principal executive offices)
(Zip Code)

(508) 855-1000
(Registrant's telephone number, including area code)

____________________________________________________________
(Former name,former address and former fiscal year, if changed since last report)

The Allmerica Financial
Agents' Retirement Plan
Financial Statements
and Additional Information
December 31, 2003 and 2002

The Allmerica Financial Agents' Retirement Plan
December 31, 2003 and 2002

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* Other schedules required by the Department of Labor Rules and Regulations on reporting and disclosure under the Employee Retirement Income Security Act of 1974, as amended, have been omitted because they are not applicable.

Report of Independent Registered Public Accounting Firm

To the Participants and Administrator of
The Allmerica Financial Agents' Retirement Plan:

In our opinion, the accompanying statements of net assets available for benefits and the related statement of changes in net assets available for benefits present fairly, in all material respects, the net assets available for benefits of The Allmerica Financial Agents' Retirement Plan (the "Plan") at December 31, 2003 and 2002, and the changes in net assets available for benefits for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental schedule of assets (held at end of year) as of December 31, 2003 is presented for the purpose of additional analysis and is not a required part of the basic financial statements but is supplementary information required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. The supplemental schedule is the responsibility of the Plan's management. The supplemental schedule has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

As described in Note 6 to the financial statements, on June 22, 2004, the Board of Directors of First Allmerica Financial Life Insurance Company, the Sponsor of the Plan, voted to terminate the Plan.

Boston, MA
June 23, 2004

The Allmerica Financial Agents'Retirement Plan
Statements of Net Assets Available for Benefits
At December 31,

| | 2003 | 2002 |
|---|---|---|
| Assets | | |
| Investments, at fair value: | | |
| Non-affiliated mutual funds: | | |
| Fidelity Advisor Equity Income Fund | $ 7,490,730 * | $ 15,058,786 |
| Dreyfus Cash Management Plus Fund | 5,905,727 * | 7,635,641 |
| SSgA S&P 500 Index Fund | 4,311,296 * | 9,335,946 |
| Putnam Vista Fund | 2,124,769 * | 5,243,759 |
| Dreyfus Premier Core Bond Fund | 2,101,767 * | 5,604,367 |
| CRM Small Cap Value Fund | 1,775,030 * | 4,223,438 |
| Alliance Bernstein Premier Growth Institutional Fund | 1,770,177 * | 4,463,315 |
| TCW Galileo Small Cap Growth Fund | 765,737 | 1,177,917 |
| MFS High-Income Fund | 261,488 | 390,149 |
| Berger International Core Fund | - | 5,184,238 |
| | 26,506,721 | 58,317,556 |
| Allmerica Financial Corporation Stock Fund, at fair value: | | |
| Allmerica Financial Corporation Stock | 1,857,274 | 2,926,352 |
| Cash and equivalents | 82,439 | 146,429 |

| | | |
|---|---|---|
| | 1,939,713 * | 3,072,781 |
| Investment with First Allmerica Financial Life Insurance Company, at contract value: | | |
| Fixed Fund | 3,607,260 * | 6,905,989 |
| Participant loans | 182,815 | 2,606,097 |
| Other assets | - | 160,842 |
| | 32,236,509 | 71,063,265 |
| Other receivables | 127,996 | 1,055,472 |
| Net assets available for benefits | $ 32,364,505 | $ 72,118,737 |

*Amount represents five percent or more of net assets available for benefits at December 31, 2003.

The accompanying notes are an integral part of these financial statements.



The Allmerica Financial Agents' Retirement Plan
Statements of Changes in Net Assets Available for Benefits
For the Years Ended December 31,

| | 2003 | 2002 |
|---|---|---|
| Investment income (loss): | | |
| Net appreciation (depreciation) of: | | |
| Non-affiliated mutual funds | $ 5,135,030 | $(14,907,004) |
| Allmerica Financial Corporation Stock Fund | 3,106,412 | (8,265,695) |
| Interest and dividend income | 471,004 | 1,391,877 |
| Other gain (loss) | 148,771 | (83,154) |
| | 8,861,217 | (21,863,976) |
| Contributions: | | |
| Employer contributions | - | 914,523 |
| Participant contributions | - | 3,084,337 |
| | - | 3,998,860 |
| Total investment gain (loss) and contributions | 8,861,217 | (17,865,116) |

| | | |
|---|---|---|
| Benefit payments | (48,615,449) | (5,908,674) |
| Net decrease during year | (39,754,232) | (23,773,790) |
| Transfers into Plan | - | 202,916 |
| Net assets available for benefits, beginning of year | 72,118,737 | 95,689,611 |
| Net assets available for benefits, end of year | $ 32,364,505 | $ 72,118,737 |

The accompanying notes are an integral part of these financial statements.



The Allmerica Financial Agents' Retirement Plan
Notes to Financial Statements

NOTE 1 - Description of plan

The following description of The Allmerica Financial Agents' Retirement Plan (the "Plan") is provided for general informational purposes only. More complete information is provided in the Summary Plan Description, which is available from the Plan Administrator.

General

The Plan is a defined contribution plan for certain common-law employees and insurance agents of First Allmerica Financial Life Insurance Company ("FAFLIC", "the Sponsor" or "the Company") and Allmerica Financial Life Insurance and Annuity Company ("AFLIAC"). FAFLIC and AFLIAC are wholly-owned subsidiaries of Allmerica Financial Corporation ("AFC").

The Plan is administered by the Sponsor ("the Plan Administrator") and is subject to the provisions of the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974, as amended ("ERISA"). The Plan's recordkeeper is Hewitt Associates LLC. State Street Bank and Trust Company is the Trustee of the Plan and of the AFC Stock Fund. The Sponsor holds those assets invested in its Fixed Fund.

During 2002, the Sponsor adopted a restructuring plan related to its life insurance and annuity business. As a result of this initiative, all agent contracts were terminated as of December 31, 2002, which resulted in a partial termination of the Plan (see Note 4 - Plan partial termination).

On October 13, 2003, the Board of Directors of First Allmerica Financial Life

Insurance Company voted to change its recordkeeper from Hewitt Associates LLC to Fidelity Management Trust Company, effective January 1, 2004. Additionally, the Board of Directors voted to appoint Fidelity Management Trust Company Trustee of the Plan, effective January 1, 2004. The Fixed Fund was liquidated at fair value effective January 1, 2004 upon the appointment of Fidelity Management Trust Company as the recordkeeper and Trustee. These funds were reinvested in other investment vehicles offered by the Plan.

Eligibility

Prior to the close of business on December 31, 2002, any eligible insurance agent was permitted to participate in the Plan on the first day of employment with the Company, as defined by the Plan document. Subsequent to that date, the Company no longer employed any eligible insurance agents (see Note 4 - Plan partial termination).

Employer contributions

For the 2002 Plan year, the plan allowed the employer to contribute a minimum contribution of 0.5% of the total eligible compensation paid all eligible participants during the year comprised of up to 2% as a 401(k) employer contribution, with the



NOTE 1 - Description of plan (continued)

remainder comprised of an employer profit sharing contribution. Prior to January 1, 2002, the minimum contribution was 7% of the total eligible compensation paid all eligible participants. Participants were eligible to receive this contribution once they completed one year of service from the first of the quarter following their date of hire, and provided they were employed on December 31st. Based on the discretion of the Sponsor's Board of Directors, the Sponsor may have contributed more than the 0.5% contribution, subject to the established limitations under ERISA. Employer contributions were allocated to the same investment vehicles as the participant contributions. For the Plan year ended December 31, 2002, the Board elected to provide for a 3% contribution. This contribution was made to the Plan in March 2003. No contribution was made for the 2003 Plan year pursuant to the aforementioned provisions as a result of the Plan's partial termination (see Note 4 - Plan partial termination).

Reallocated forfeitures

Forfeitures of employer contributions related to nonvested terminated participants have been transferred to the Dreyfus Cash Management Plus Fund in 2003 and 2002. Balances forfeited prior to 2002 remain in this fund until such time that the Plan Administrator reallocates them to the remaining eligible participants of the Plan. At December 31, 2003 unallocated forfeitures of $1,181,832 were available for reallocation to the remaining eligible participants. In accordance with rules and procedures that have been approved by the IRS, these funds were reallocated in 2004. Beginning in 2001, the Board of Directors authorized the Plan to use forfeitures to reduce employer contributions. Forfeitures in the amount of $215,298 were used to reduce employer contributions in 2002. Forfeited amounts are allocated to the Plan's investment vehicles based upon the investment elections of each eligible participant. The other receivables represent interest attributed to prior year forfeited balances and reinstatement of forfeited balances.

Participant accounts

Due to the partial termination of the Plan (see Note 4 - Plan partial termination), participants in the Plan were not eligible to make 401(k) contributions during 2003. Active participants in the Plan were eligible to make 401(k) contributions through the use of a salary reduction plan up to a maximum of $11,000 for 2002.

As a result of the Tax Relief Reconciliation Act of 2001, a "Catch-up Contribution" provision was established to allow employees, who reach at least 50 years of age during the year, to accelerate the amount they defer up to a maximum of $12,000 for 2002. The amount deferred in excess of the annual limit is not eligible to receive a company match. This provision was effective January 1, 2002. During 2002, 24 employees accelerated their deferrals resulting in additional contributions of $23,589.

As directed by participant election, contributions are invested in the Fixed Fund, the non-affiliated mutual funds, or the Allmerica Financial Corporation Stock Fund. All investment income is reinvested in the same investment vehicle and is credited to the respective participant account.



NOTE 1 - Description of plan (continued)

Participant loans

Loans made to participants are secured by the vested portion of the participant's account up to the limit as defined in the Plan document. Loans vary in duration, depending upon purpose, and are at an interest rate determined by the Plan Administrator. A participant is limited to a maximum of two loans outstanding at any one time from all plans of the Company combined. Loan fees are not charged to participants. Interest income on participant loans totaled $50,141 and $254,966 in 2003 and 2002, respectively. Effective January 1, 2003, no new loans could be initiated by participants.

Distributions and vesting provisions

At December 31, 2002, all employer contributions for participants became 100% vested, pursuant to the Plan's partial termination (see Note 4 - Plan partial termination). Prior to the Plan's partial termination, vested account balances were payable in the event of retirement, death, or separation from service (including disability) as defined in the Plan document. After the Plan's partial termination, account balances are payable at the request of the participant. Distributions to participants are payable either through a lump sum payment or through periodic payments. If a lump sum distribution is elected, the participant has the option of taking the AFC Stock Fund in-kind.

The amounts vested at December 31, 2003 and 2002 were $32,364,505 and $70,810,360, respectively. Unvested amounts in 2002 relate to forfeited employer contributions of terminated participants who generally have withdrawn their funds from the Plan and whose forfeited balances were not yet used to offset employer contributions.

Payments from the fund are subject to limitations and requirements specified in the Plan document.

Note 2 - Significant accounting policies

Significant accounting and reporting policies followed by the Plan are summarized as follows:

Basis of presentation

The accompanying financial statements have been presented on the accrual basis of accounting, in accordance with generally accepted accounting principles.

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of those estimates.



NOTE 2 - Significant accounting policies (continued)

Valuation of investments

The Fixed Fund is held in the Sponsor's general account and provides for guaranteed rates of interest reset annually. The credited interest rates were 1.85% and 3.36% for monies invested during 2003 and 2002, respectively. The average rate of return for the Fixed Fund for the years ended December 31, 2003 and 2002 were 4.22% and 5.41%, respectively.

The insurance contracts underlying the Fixed Fund of the Plan are fully benefit-responsive and are therefore exempt from fair value accounting for certain contracts under the provisions of Statement of Position 94-4, Reporting Investment Contracts Held by Health and Welfare Benefit Plans and Defined Contribution Plans. As such, these investments are recorded at contract value, which approximates fair value at December 31, 2003 and 2002.

Investments in non-affiliated mutual funds are priced using the end of day fair market value of the underlying funds as recorded by State Street Bank and Trust Company, which are based on the published net asset values of the funds. The investment returns of the non-affiliated mutual funds of the Sponsor were as follows:

| Non-Affiliated Mutual Funds | Year Ended December 31, 2003 | Year Ended December 31, 2002 |
|---|---|---|
| Fidelity Advisor Equity Income Fund | 29.16 % | (15.20)% |
| Dreyfus Cash Management Plus Fund | 0.84 % | 1.59 % |
| SSgA S&P 500 Index Fund | 28.59 % | (22.34)% |
| Putnam Vista Fund | 33.39 % | (30.67)% |
| Dreyfus Premier Core Bond Fund | 7.32 % | 5.88 % |
| CRM Small Cap Value Fund | 48.33 % | (17.83)% |
| Alliance Bernstein Premier Growth Institutional Fund | 22.68 % | (30.81)% |
| TCW Galileo Small Cap Growth Fund | 48.78 % | (47.50)% |
| MFS High-Income Fund | 22.76 % | 0.76 % |
| Berger International Core Fund* | (11.39)% | (19.56)% |

*The Berger International Core Fund was liquidated as of March 31, 2003, due to a reorganization by Berger's parent company. The return for the year ended December 31, 2003 represents the return recognized for the three months ended March 31, 2003, which is the period in which the Plan had assets invested in the fund.

Due to participant-directed investment activity, actual investment returns experienced by the participants in the Plan may differ from those displayed in the above fund returns.

The AFC Stock Fund is stated at fair value as determined by quoted market prices of both AFC common stock and cash equivalents held in the Fund. The average investment return for 2003 and 2002 was 190.75% and (75.34)%, respectively.



NOTE 2 - Significant accounting policies (continued)

Participant loans are valued at their outstanding values, which approximate fair value.

Purchases and sales of securities are accounted for as of the trade date. Dividends are recorded on the ex-dividend date and interest income is recorded on an accrual basis.

Net appreciation (depreciation) on the fair value of investment includes realized gains and (losses) and unrealized appreciation (depreciation) of the investments.

Other assets

Other assets represent the value of individual annuities purchased from the Sponsor and the annual interest earned plus the cash surrender value of life insurance contracts held within the Plan.

Administrative expenses

Hewitt Associates LLC maintains agreements with certain non-affiliated mutual funds and for such agreements receives a portion of certain asset-based fees (12b-1 fees) charged by the fund. These fees are calculated based on the average daily asset value of Plan assets in each respective fund. These fees are used to reduce charges by Hewitt Associates LLC to the Sponsor for certain administrative and professional services.

Fees to State Street Bank and Trust for trustee related services are voluntarily assumed and paid directly by the Sponsor. The Sponsor pays all other expenses incurred in the administration of the Plan.

Payments of Benefits

Benefits are recorded when paid.

NOTE 3 - Federal income taxes

The Internal Revenue Service has determined and informed the Sponsor by a letter dated July 10, 2002, that the Plan is qualified and the trust established under the Plan is tax exempt under the appropriate sections of the Internal Revenue Code. The Plan Administrator believes that the Plan continues to be designed and is currently being operated in compliance with the applicable provisions of the Internal Revenue Code. Therefore, no provision for income tax is required.

NOTE 4 - Plan partial termination

The Plan provides that in the event the Plan is wholly or partially terminated, or upon the complete discontinuance of contributions under the Plan by the Sponsor, each affected participant's interest in the Plan's assets as of the termination date shall become 100% vested and nonforfeitable. As such, in accordance with Plan provisions, the Sponsor has vested all affected agents 100% as of December 31, 2002, including

NOTE 4 - Plan partial termination (continued)

previously terminated agents whose non-vested account balances had not been forfeited by December 31, 2002. In addition, upon termination of the Plan, the assets become either payable to the participant or applied to purchase a nonforfeitable retirement annuity at the participant's option.

As a result of the termination of all agent contracts, there will be no future agent or Sponsor contributions to the Plan. For the agents' current balances, each agent has the option to roll over their funds to another qualified plan or individual retirement account, receive a distribution, or remain in the Plan until such time that the Plan is fully terminated. For those accounts that remain in the Plan, each agent has the ability to continue to monitor and direct their funds, in accordance with Plan provisions.

NOTE 5 - Other matters

Effective January 1, 2003, certain agents became employees of the Company. The AFC Board of Directors approved eligibility for immediate participation in the Employees' 401(k) Matched Savings Plan for these former agents.

During 2002, certain employees became agents of the Company. This resulted in the transfer of $202,916 from The Allmerica Financial Employees' 401(k) Matched Savings Plan to the Plan. There were no assets transferred between plans during 2003.

NOTE 6 - Subsequent events

During the first five months of 2004, there have been participant initiated withdrawals of approximately $8 million, primarily resulting from the aforementioned termination of agent contracts.

On June 22, 2004, the Board of Directors of First Allmerica Financial Life Insurance Company voted to terminate the Plan as a result of the aforementioned termination of Agent contracts. Pending approval from the IRS, the Sponsor is developing a plan regarding the timing and the distribution of Plan assets.



The Allmerica Financial Agents' Retirement Plan
Form 5500, Schedule H, Line 4i
Schedule of Assets (Held at End of Year)
At December 31, 2003

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| Identity of Issue | Description of Investments | Shares or Units | Current |
|---|---|---|---|
| Investment with First Allmerica Financial Life Insurance Company**: | | | |
| Fixed Fund | Group annuity contracts with interest rates from 1.85% to 5.90% | | $ 3,607, |

| | | | |
|---|---|---|---|
| Investments with non-affiliated mutual funds: | | | |
| Fidelity Advisor Equity Income Fund | Diversified portfolio of mid- to large-cap value companies. | 286,781 | 7,490, |
| Dreyfus Cash Management Plus Fund | Short-term money market fund that invests primarily in high-quality domestic and foreign U.S. Dollar denominated money market instruments. | 453,071 | 5,905, |
| SSgA S&P 500 Index Fund | Common stocks which comprise S&P 500 Composite Stock Index | 234,820 | 4,311, |
| Putnam Vista Fund | Growth oriented, mid-cap fund with domestic focus. | 265,929 | 2,124, |
| Dreyfus Premier Core Bond Fund | Broad-based, intermediate-term bond fund designed to offer diversified exposure to the domestic fixed-income market. | 185,140 | 2,101, |
| CRM Small Cap Value Fund | Small-cap fund focused on long term capital appreciation by investing in value oriented securities. | 72,837 | 1,775, |
| Alliance Bernstein Premier Growth Institutional Fund | Large-cap growth fund investing in companies with above average earnings growth. | 197,124 | 1,770, |
| TCW Galileo Small Cap Growth Fund | Small- to mid-cap aggressive growth fund | 52,197 | 765, |

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The Allmerica Financial Agents' Retirement Plan
Form 5500, Schedule H, Line 4i (continued)
Schedule of Assets (Held at End of Year)
At December 31, 2003

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| Identity of Issue | Description of Investments | Shares or Units | Current |
|---|---|---|---|
| MFS High-Income Fund | Portfolio that seeks high current income by investing in higher yielding, lower rated debt of financially weaker companies | 21,705 | 261, |
| Allmerica Financial Corporation Stock Fund**: | | | |
| Allmerica Financial Corporation Stock | Common stock traded on the New York Stock Exchange | | 1,857, |

| | | |
|---|---|---|
| Cash and equivalents | | 82, |
| Participant loans | Interest rates from 5.75% to 10.50% | 182, |
| Total investments | | 32,236, |
| Other receivables | | 127, |
| Total assets held at end of year | | $ 32,364, |

* Amount represents five percent or more of net assets available for benefits.
** Represents party-in-interest.



SIGNATURES

The Plan. Pursuant to the requirements of the Securities Exchange Act of 1934, the trustees (or other persons who administer the employee benefit plan) have duly caused this annual report to be signed on its behalf by the undersigned hereunto duly authorized.

THE ALLMERICA FINANCIAL
AGENTS' RETIREMENT PLAN
(Name of Plan)

/s/ Barbara Z. Rieck

Plan Administrator: First Allmerica Financial
Life Insurance Company by Barbara Z. Rieck
Manager of Retirement Services

June 24, 2004



Exhibit Index

Exhibit 23.1 Consent of Independent Registered Public Accounting Firm