

HANOVER INSURANCE GROUP, INC.

Form 11-K

June 26, 2008

[Table of Contents](#)

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, 2007

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)

THE HANOVER INSURANCE GROUP, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction)

04-3263626
(I.R.S. Employer

of incorporation)

Identification No.)

440 Lincoln Street, Worcester, Massachusetts 01653

(Address of principal executive offices)

(Zip Code)

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

Table of Contents

**The Allmerica Financial
Agents Retirement Plan**

Financial Statements

and Additional Information

December 31, 2007 and 2006

Table of Contents

The Allmerica Financial Agents Retirement Plan

December 31, 2007 and 2006

TABLE OF CONTENTS

<u>Report of Independent Registered Public Accounting Firm</u>	1
<u>Statements of Net Assets Available for Benefits</u>	2
<u>Statements of Changes in Net Assets Available for Benefits</u>	3
<u>Notes to Financial Statements</u>	4-9

Additional Information*

<u>Schedule H, line 4i Schedule of Assets (Held at End of Year)</u>	10-11
---	-------

* 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.

Table of Contents

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 statements 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, 2007 and 2006, 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, 2007 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 5 to the financial statements, the Board of Directors of First Allmerica Financial Life Insurance Company, the Plan's sponsor, voted to terminate the Plan. The request for termination was approved by the Internal Revenue Service on March 29, 2007.

Boston, Massachusetts

June 26, 2008

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

	2007	2006
Assets		
Investments, at fair value:		
Non-affiliated mutual funds:		
Fidelity Equity Income Fund	\$ 188,567*	\$ 3,592,491*
PIMCO Total Return Fund Administrative Class	95,653*	813,596*
Spartan U.S. Equity Index Fund Investor Class	88,452*	1,507,689*
Fidelity Retirement Money Market Portfolio	81,453*	693,594*
Fidelity Low Priced Stock Fund	53,910	513,643
Fidelity Diversified International Fund	51,721	764,632*
American Funds Growth Fund of America Class R4	36,858	1,005,920*
Fidelity Small Cap Stock Fund	32,074	418,564
Fidelity Freedom Income Fund	4,138	29,370
Artisan Mid Cap Investor Class	2,567	783,624*
Fidelity Freedom 2000 Fund		16,526
Fidelity Freedom 2040 Fund		1,224
	635,393	10,140,873
Commingled Pool:		
Fidelity Managed Income Portfolio II Class 2	709,084*	1,853,906*
The Hanover Insurance Group Stock Fund:		
The Hanover Insurance Group, Inc. Common Stock	12,230	511,101
Cash and equivalents	526	20,067
	12,756	531,168
Net assets available for benefits at fair value	1,357,233	12,525,947
Adjustment from fair value to contract value for interest in collective trust relating to fully benefit-responsive contracts	5,376	22,229
Net assets available for benefits	\$ 1,362,609	\$ 12,548,176

* Amount represents 5% or more of net assets available for benefits at December 31, 2007 and 2006, respectively.
The accompanying notes are an integral part of these financial statements.

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

	2007	2006
Net investment gains:		
Net appreciation (depreciation) of:		
Non-affiliated mutual funds	\$ 663,889	\$ 728,905
The Hanover Insurance Group Stock Fund	(31,412)	100,705
Interest and dividend income	304,015	711,429
Total net investment gains	936,492	1,541,039
Distributions to participants	(12,122,059)	(2,071,530)
Net decrease during year	(11,185,567)	(530,491)
Net assets available for benefits, beginning of year	12,548,176	13,078,667
Net assets available for benefits, end of year	\$ 1,362,609	\$ 12,548,176

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

Table of Contents

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 qualified defined contribution plan for certain common-law employees and statutory insurance agents previously employed by or contracted with First Allmerica Financial Life Insurance Company (FAFLIC, the Sponsor or the Company) and Allmerica Financial Life Insurance and Annuity Company (AFLIAC). FAFLIC is a wholly-owned subsidiary of The Hanover Insurance Group, Inc. (THG). Prior to the sale of AFLIAC to The Goldman Sachs Group, Inc. on December 30, 2005, AFLIAC was also a wholly-owned subsidiary of THG. The sale of AFLIAC did not result in any changes in the obligations or administration of this Plan.

On June 22, 2004, the Board of Directors of FAFLIC voted to terminate the Plan. This termination was preceded by a partial Plan termination in 2002, which resulted from a decision to terminate all agent contracts. On March 29, 2007, the Plan Sponsor received approval from the Internal Revenue Service (IRS) to terminate the Plan and distribute all assets (see Note 5 Plan termination).

The Recordkeeper of the Plan is Fidelity Investments Institutional Operations Company, Inc., and the Trustee of the Plan is Fidelity Management Trust Company. In addition, 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).

Eligibility

The Company no longer employs any eligible insurance agents (see Note 5 Plan termination).

Employer contributions

No contributions were made for the 2007 or 2006 Plan years pursuant to the provisions of the Plan's partial termination (see Note 5 Plan termination).

Reallocated forfeitures

In accordance with rules and procedures that were approved by the IRS, forfeitures of employer contributions which related to non-vested participants are to be reallocated among eligible Plan participants. There were no forfeitures in 2007 or 2006, as all remaining participant account balances are fully vested.

Table of Contents

The Allmerica Financial Agents Retirement Plan

Notes to Financial Statements

NOTE 1 Description of plan (continued)

Participant accounts

Pursuant to the 2002 partial Plan termination (see Note 5 Plan termination), participants in the Plan were not eligible to make 401(k) contributions during either 2007 or 2006.

For existing accounts that remain in the Plan, each participant has the ability to continue to monitor and re-direct his or her funds in accordance with the provisions of the Plan. All investment income is reinvested in the same investment vehicle as the investment election and is credited to the respective participant account. Pursuant to the termination of the Plan, account balances will be distributed to each participant in accordance with IRS regulations (see Note 5 Plan termination).

Participant loans

There were no outstanding loan balances as of December 31, 2007 and 2006, respectively.

Distributions and vesting provisions

At December 31, 2002, pursuant to the Plan's partial termination provisions (see Note 5 Plan termination) all employer contributions for participants became 100% vested. 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 his or her balance in the THG Stock Fund in-kind.

Payments from the Plan 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 liquidation basis of accounting, in accordance with generally accepted accounting principles. There currently is no difference between the liquidation and accrual bases of accounting for this Plan.

Table of Contents

The Allmerica Financial Agents Retirement Plan

Notes to Financial Statements

NOTE 2 Significant accounting policies (continued)

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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

New accounting pronouncements

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* (Statement No. 157). This statement creates a common definition of fair value to be used throughout generally accepted accounting principles. Statement No. 157 will apply whenever another standard requires or permits assets or liabilities to be measured at fair value, with certain exceptions. The standard establishes a hierarchy for determining fair value which emphasizes the use of observable market data whenever available. The statement also requires expanded disclosures which include the extent to which assets and liabilities are measured at fair value, the methods and assumptions used to measure fair value and the effect of fair value measures on earnings. Statement No. 157 was effective for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. The difference between the carrying amounts and fair values of those financial instruments held at the date this statement is initially applied should be recognized as a cumulative effect adjustment to the opening balance of retained earnings for the fiscal year in which this statement is initially applied. Additionally, in February 2008, the FASB issued Staff Position FAS 157-2, Effective Date of FASB Statement No. 157, which delays the effective date of Statement No. 157 for all non-recurring fair value measurements of nonfinancial assets and nonfinancial liabilities until the fiscal year beginning after November 15, 2008. The Plan does not believe that the effect of adopting Statement No. 157 will be material to its financial statements.

Recently adopted accounting pronouncements

As of December 31, 2006, the Plan adopted FASB Staff Position FSP AAG INV-1 and Statement of Position No. 94-4-1, *Reporting of Fully Benefit-Responsive Investment Contracts Held by Certain Investment Companies Subject to the AICPA Investment Company Guide and Defined-Contribution Health and Welfare and Pension Plans* (the FSP). The FSP requires companies to present, in the Statement of Net Assets Available for Benefits, investments which are fully benefit-responsive contracts, at fair value. Additionally, it further states that contract value is the relevant measurement attribute for that portion of the net assets available for benefits of a defined-contribution plan attributable to fully benefit-responsive investment contracts because contract value is the amount participants would receive if they were to initiate permitted transactions under the terms of the plan. Therefore, the FSP further requires an adjustment from fair

Table of Contents

The Allmerica Financial Agents Retirement Plan

Notes to Financial Statements

NOTE 2 Significant accounting policies (continued)

value to contract value for these fully benefit-responsive investment contracts to be included in the Statement of Net Assets Available for Benefits. The Statement of Changes in Net Assets Available for Benefits is prepared on a contract value basis for the fully benefit-responsive investment contracts.

Valuation of investments

Investments in non-affiliated mutual funds are priced using the end of day fair market value of the underlying funds as recorded by Fidelity Management Trust Company, which are based on the published net asset values of the funds.

Investments in Fidelity Managed Income Portfolio II Class 2, a commingled pool of the Fidelity Group Trust for Employee Benefit Plans, are priced daily. This pool primarily invests in short or long-term contracts issued by insurance companies (GICs), investment contracts issued by commercial banks (BICs), synthetic investment contracts, fixed income securities, and money market mutual funds. The portfolio seeks to maintain a stable \$1 unit price. Investments in GICs, BICs and synthetic investment contracts are carried at fair value in accordance with the aforementioned FSP. Additionally, an adjustment to contract value is presented in accordance with the FSP as this investment is fully benefit-responsive. Fixed income securities for which quotations are readily available are valued at their most recent bid price. For those securities for which quotations are not readily available, the security is valued based upon a method that the Trustee of the portfolio deems to be reflective of fair value. Investments in money market funds are valued at the net asset value each day.

The Hanover Insurance Group Stock Fund is stated at fair value as determined by quoted market prices of both THG common stock and cash equivalents held in the Fund.

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 investments includes realized gains (losses) and unrealized appreciation (depreciation) of the investments.

Administrative expenses and other fees

Expenses related to the management of investments are reflected in the value of each investment vehicle in 2007 and 2006. All other fees incurred in 2007 and 2006 in the administration of the Plan were paid by the Sponsor.

Payment of benefits

Benefits are recorded when paid.

Table of Contents

The Allmerica Financial Agents Retirement Plan

Notes to Financial Statements

NOTE 3 Related party transactions

Certain Plan investments are shares of mutual funds managed by Fidelity Management Trust Company, the trustee, as defined by the Plan (see Note 1 Description of plan) and, therefore, transactions related to these investments, such as purchases and sales, qualify as party-in-interest transactions.

The Plan invests in The Hanover Insurance Group Stock Fund which holds THG stock. This is the common stock of the Sponsor's parent company, therefore, purchases and sales of THG stock are party-in-interest transactions.

NOTE 4 Federal income taxes

The IRS had determined and informed the Sponsor by a letter dated July 10, 2002, that the Plan was qualified and the trust established under the Plan was tax exempt under the appropriate sections of the Internal Revenue Code. In a letter from the IRS dated March 29, 2007, the Sponsor was informed that the proposed termination of this Plan effective June 28, 2004 did not adversely affect its qualification for federal tax purposes (see Note 5 Plan termination). The Plan Administrator believes that the Plan has complied with all requests of the IRS in respect to the termination of the Plan and 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 5 Plan 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 non-forfeitable. In addition, upon termination of the Plan, the assets become either payable to the participant or applied to purchase a non-forfeitable retirement annuity at the participant's option subject to notification requirements.

On June 22, 2004, the Board of Directors of FAFLIC voted to terminate the Plan. In a letter from the IRS dated March 29, 2007, the Sponsor received approval to terminate the Plan. The plan had previously vested all remaining participant accounts as a result of a partial plan termination. In 2007, the sponsor initiated a formal plan of distribution for all remaining assets to plan participants. The Sponsor continued to execute this plan in the first half of 2008 and will continue until such time all assets have been distributed to Plan participants.

Table of Contents

The Allmerica Financial Agents Retirement Plan

Notes to Financial Statements

NOTE 6 Subsequent events

Effective January 1, 2008, The Hanover Insurance Company (Hanover Insurance), a subsidiary of THG and affiliate of FAFLIC, became the common employer for all employees of THG and its subsidiaries. As such, sponsorship of all employee benefit and pension plans was transferred from FAFLIC to Hanover Insurance.

During the first five months of 2008, there have been participant initiated withdrawals of approximately \$0.2 million.

Table of Contents**The Allmerica Financial Agents Retirement Plan**

Form 5500, Schedule H, Line 4i

Schedule of Assets (Held at End of Year)

At December 31, 2007

Identity of		Description of	Shares or	
Issue		Investments	Units	Current Value
Investments with non-affiliated mutual funds:				
*	Fidelity Equity Income Fund	Diversified portfolio of large-cap value companies.	3,419	\$188,567
	PIMCO Total Return Fund Administrative Class	Invests primarily in debt securities, such as: U.S. government securities, corporate bonds, and mortgage-related securities.	8,948	95,653
*	Spartan U.S. Equity Index Fund Investor Class	Common stocks primarily those included in the S&P Composite Stock Index.	1,704	88,452
*	Fidelity Retirement Money Market Portfolio	Invests in U.S. dollar-denominated money market securities as well as repurchase agreements of domestic and foreign issuers.	81,453	81,453
*	Fidelity Low Priced Stock Fund	Small-cap blend fund seeking capital appreciation.	1,311	53,910
*	Fidelity Diversified International Fund	Large-cap growth fund invested primarily in non-U.S. dollar-denominated common stocks.	1,296	51,721
	American Funds Growth Fund of America Class R4	Large-cap growth fund invested primarily in common stocks.	1,092	36,858
*	Fidelity Small Cap Stock Fund	Small-cap fund focused on long-term growth of capital by investing in both growth and value oriented securities.	1,840	32,074
*	Fidelity Freedom Income Fund	Invests in a combination of Fidelity equity, fixed-income, and money	361	4,138

Edgar Filing: HANOVER INSURANCE GROUP, INC. - Form 11-K

market funds. Designed for
investors already in
retirement.

Artisan Mid Cap Investor Class	Long-term capital growth fund of mid-size companies.	83	2,567
--------------------------------	---	----	-------

Table of Contents**The Allmerica Financial Agents' Retirement Plan**

Form 5500, Schedule H, Line 4i (continued)

Schedule of Assets (Held at End of Year)

At December 31, 2007

Identity of Issue	Description of Investments	Shares or Units	Current Value
Commingled Pool:			
* Fidelity Managed Income Portfolio II Class 2 **	Stable value fund invested in investment contracts issued by insurance companies and other financial institutions, and in fixed income securities and money markets.	714,460	714,460
* The Hanover Insurance Group Stock Fund	The Hanover Insurance Group, Inc. Common Stock, traded on the New York Stock Exchange.		12,230
	Cash and equivalents		526
Total investments			\$1,362,609

* Represents party-in-interest.

** At contract value.

Table of Contents

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/ Peter Dupell

Plan Administrator: The Hanover Insurance

Group, Inc. by Peter Dupell

June 26, 2008

Table of Contents

Exhibit Index

Exhibit 23.1 Consent of Independent Registered Public Accounting Firm.