

**NEW YORK LIFE INSURANCE COMPANY AND SUBSIDIARIES  
CONSOLIDATED FINANCIAL STATEMENTS  
(GAAP BASIS)**

**DECEMBER 31, 2010 and 2009**



## Report of Independent Auditors

To the Board of Directors of  
New York Life Insurance Company:

In our opinion, the accompanying consolidated balance sheet and the related consolidated statements of income, of equity and of cash flow present fairly, in all material respects, the financial position of New York Life Insurance Company and its subsidiaries (the "Company") at December 31, 2010 and 2009, and the results of their operations and their cash flows 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 Company'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 auditing standards generally accepted in the United States of America. 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.

As described in Note 3 to the consolidated financial statements, the Company changed its method of accounting for other-than-temporary impairments of fixed maturity investments and its method of presenting non-controlling interests in partially-owned consolidated subsidiaries in 2009, and changed its method of accounting for variable interest entities in 2010.

*PricewaterhouseCoopers LLP*

March 16, 2011

**NEW YORK LIFE INSURANCE COMPANY AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEET**

	<b>December 31,</b>	
	<b>2010</b>	<b>2009</b>
	<b>(in millions)</b>	
<b>ASSETS</b>		
Fixed maturities (includes securities pledged as collateral that can be sold or replugged of \$1,102 in 2010 and \$1,111 in 2009)		
Available for sale, at fair value	\$ 139,304	\$ 128,138
Trading securities, at fair value	5,381	4,585
Equity securities (includes securities pledged as collateral that can be sold or replugged of \$1,643 in 2010 and \$1,314 in 2009)		
Unaffiliated, available for sale, at fair value	345	411
Affiliated	83	104
Trading securities, at fair value	2,688	2,381
Mortgage loans, net of allowances	15,203	15,264
Policy loans	8,903	8,564
Securities purchased under agreements to resell	401	450
Other investments	13,833	10,406
<b>Total investments</b>	<b>186,141</b>	<b>170,303</b>
Cash and cash equivalents	4,627	4,415
Deferred policy acquisition costs	7,038	8,930
Investment income due and accrued	1,764	1,764
Goodwill	543	520
Other assets	3,679	3,616
Separate account assets	22,573	18,605
Assets of subsidiaries held-for-sale	2,600	-
<b>Total assets</b>	<b>\$ 228,965</b>	<b>\$ 208,153</b>
<b>LIABILITIES AND EQUITY</b>		
Policyholders' account balances	\$ 84,256	\$ 80,879
Future policy benefits	75,891	71,730
Dividends payable to policyowners	1,365	1,283
Policy claims	926	913
Debt	5,120	3,481
Collateral received on securities lending	1,121	1,146
Other liabilities	10,244	9,648
Separate account liabilities	22,573	18,605
Liabilities of subsidiaries held-for-sale	1,974	-
<b>Total liabilities</b>	<b>203,470</b>	<b>187,685</b>
<b>Equity</b>		
Accumulated other comprehensive gain (loss)	914	(1,451)
Retained earnings	22,522	20,867
Appropriated retained earnings of certain consolidated VIEs	208	-
<b>Total New York Life equity</b>	<b>23,644</b>	<b>19,416</b>
Non-controlling interest	1,851	1,052
<b>Total equity</b>	<b>25,495</b>	<b>20,468</b>
<b>Total liabilities and equity</b>	<b>\$ 228,965</b>	<b>\$ 208,153</b>

The accompanying notes are an integral part of the consolidated financial statements.

**NEW YORK LIFE INSURANCE COMPANY AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF INCOME**

	<b>Year Ended December 31,</b>	
	<b>2010</b>	<b>2009</b>
	(in millions)	
<b>REVENUE</b>		
Premiums	\$ 11,984	\$ 11,264
Fees - universal life and annuity policies	1,112	1,006
Net investment income	9,521	8,790
Net investment gains:		
Total other-than-temporary impairments on fixed maturity securities	(404)	(894)
Total other-than-temporary impairments on fixed maturity securities recognized in accumulated other comprehensive gain	147	508
All other net investment gains	1,115	723
Total net investment gains	858	337
Other income	673	444
Total revenue	24,148	21,841
<b>EXPENSES</b>		
Policyholder benefits	7,323	6,856
Increase in liabilities for future policy benefits	4,588	4,364
Interest credited to policyholders' account balances	3,264	3,215
Operating expenses	5,024	4,195
Dividends to policyholders	1,430	1,452
Total expenses	21,629	20,082
Income from continuing operations before income tax expense and non-controlling interest	2,519	1,759
Income tax expense	665	446
Net income from continuing operations before non-controlling interest	1,854	1,313
Net loss from discontinued operations, net of income tax benefit	(29)	(23)
<b>Net income</b>	<b>1,825</b>	<b>1,290</b>
Non-controlling interest (income) expense	(215)	37
Net loss of certain consolidated VIEs	45	-
<b>Net income attributable to New York Life</b>	<b>\$ 1,655</b>	<b>\$ 1,327</b>

The accompanying notes are an integral part of the consolidated financial statements.

**NEW YORK LIFE INSURANCE COMPANY AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF EQUITY**  
**Years Ended December 31, 2010 and 2009**  
(in millions)

	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Appropriated Retained Earnings of Certain Consolidated VIEs	Total New York Life Equity	Non- Controlling Interest	Total Equity
<b>Balance, December 31, 2008</b>	\$ (5,745)	\$ 19,424	\$ -	\$ 13,679	\$ 1,227	\$ 14,906
Cumulative effect of changes in accounting principles, net of related offsets, reclassification adjustments and income taxes	(116)	116	-	-	-	-
<b>Balance, January 1, 2009, as adjusted</b>	<b>\$ (5,861)</b>	<b>\$ 19,540</b>	<b>\$ -</b>	<b>\$ 13,679</b>	<b>\$ 1,227</b>	<b>\$ 14,906</b>
Contributions (Purchases) from non-controlling interests				-	(62)	(62)
Consolidation/Deconsolidation of less than 100% owned entities				-	(29)	(29)
Comprehensive income						
Net income		1,327		1,327	(37)	1,290
Other comprehensive income (loss), net of tax						
Change in foreign currency translation adjustment	(16)			(16)	3	(13)
Change in net unrealized investment gains (losses)	4,546			4,546	(50)	4,496
Defined benefit plans	(120)			(120)		(120)
Other comprehensive income (loss), net of tax				4,410	(47)	4,363
Total comprehensive income (loss), net of tax				5,737	(84)	5,653
<b>Balance, December 31, 2009</b>	<b>\$ (1,451)</b>	<b>\$ 20,867</b>	<b>\$ -</b>	<b>\$ 19,416</b>	<b>\$ 1,052</b>	<b>\$ 20,468</b>
Cumulative effect of changes in accounting principles			253	253	227	480
<b>Balance, January 1, 2010, as adjusted</b>	<b>\$ (1,451)</b>	<b>\$ 20,867</b>	<b>\$ 253</b>	<b>\$ 19,669</b>	<b>\$ 1,279</b>	<b>\$ 20,948</b>
Contributions (Purchases) from non-controlling interests					43	43
Consolidation/Deconsolidation of less than 100% owned entities					278	278
Comprehensive income						
Net income		1,655	(45)	1,610	215	1,825
Other comprehensive income (loss), net of tax						
Change in foreign currency translation adjustment	12			12	11	23
Change in net unrealized investment gains (losses)	2,509			2,509	25	2,534
Defined benefit plans	(156)			(156)		(156)
Other comprehensive income (loss), net of tax				-	36	2,401
Total comprehensive income (loss), net of tax			(45)	3,975	251	4,269
<b>Balance, December 31, 2010</b>	<b>\$ 914</b>	<b>\$ 22,522</b>	<b>\$ 208</b>	<b>\$ 23,644</b>	<b>\$ 1,851</b>	<b>\$ 25,495</b>

The accompanying notes are an integral part of the consolidated financial statements.

**NEW YORK LIFE INSURANCE COMPANY AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF CASH FLOW**

	<b>Year Ended December 31,</b>	
	<b>2010</b>	<b>2009</b>
	<b>(in millions)</b>	
<b>Cash Flows from Operating Activities:</b>		
Net income	\$ 1,825	\$ 1,290
Adjustments to reconcile net income to net cash (used in) provided by Operating activities:		
Depreciation and amortization	(117)	(190)
Net capitalization of deferred policy acquisition costs	(113)	(535)
Universal life and annuity fees	(612)	(572)
Interest credited to policyholders' account balances	3,264	3,215
Net investment (gains) losses	(858)	(337)
Equity in earnings of limited partnerships	(537)	(206)
Equity in earnings of unconsolidated subsidiaries	(27)	(9)
Deferred income taxes	444	441
Net change in unearned revenue liability	50	96
Other	(12)	8
Changes in:		
Investment income due and accrued	(8)	(42)
Other assets and other liabilities	521	721
Trading securities	188	(21)
Acquisition of long-term investments	(296)	(119)
Sale of long-term investments	502	231
Policy claims	26	63
Future policy benefits	4,694	4,402
Operating cash flows provided by (used in) discontinued operations	191	72
<b>Net cash provided by operating activities</b>	<b>9,125</b>	<b>8,508</b>
<b>Cash Flows from Investing Activities:</b>		
Proceeds from:		
Sale of available-for-sale fixed maturities	43,658	39,135
Maturity of available-for-sale fixed maturities	3,360	2,663
Sale of equity securities	413	3,596
Commercial loans	518	792
Repayment of mortgage loans	2,540	1,416
Sale of other investments	1,429	586
Sale of trading securities	1,121	1,093
Cost of:		
Available-for-sale fixed maturities acquired	(52,911)	(53,314)
Equity securities acquired	(161)	(1,537)
Commercial loans	(1,237)	(583)
Mortgage loans acquired	(2,535)	(1,425)
Acquisition of other investments	(1,883)	(1,081)
Acquisition of trading securities	(1,535)	(901)
Securities purchased under agreements to resell	49	243
Cash collateral paid on derivatives	(9)	(211)
Policy loans	(406)	(571)
Capital expenditures	(137)	(133)
Purchase of subsidiaries, net of cash acquired	(25)	-
Consolidation and deconsolidation of entities	65	(83)
Investing cash flows provided by (used in) discontinued operations	(92)	(254)
Other	13	(31)
<b>Net cash used in investing activities</b>	<b>(7,765)</b>	<b>(10,600)</b>
<b>Cash Flows from Financing Activities:</b>		
Policyholders' account balances:		
Deposits	16,455	18,133
Withdrawals	(14,876)	(17,658)
Net transfers to the separate accounts	(567)	(29)
Change in book and bank overdrafts	26	37
Contributions from non-controlling interests	339	(30)
Distributions to non-controlling interests	(296)	(96)
Increase/(Decrease) in loaned securities	(25)	(2,155)
Securities sold under agreements to repurchase	(923)	1,090
Derivatives containing a financing element	109	479
(Paydowns) Proceeds from debt, net	(1,294)	90
Proceeds from issuance of debt	-	1,498
Financing cash flows provided by (used in) discontinued operations	7	92
Other	(8)	-
<b>Net cash provided by (used in) financing activities</b>	<b>(1,053)</b>	<b>1,451</b>
Effect of exchange rate changes on cash and cash equivalents	31	7
Net (decrease) increase in cash and cash equivalents, including discontinued operations	338	(634)
Cash and cash equivalents, including discontinued operations, beginning of year	4,415	5,049
<b>Cash and cash equivalents, including discontinued operations, end of year</b>	<b>\$ 4,753</b>	<b>\$ 4,415</b>

The accompanying notes are an integral part of the consolidated financial statements.

**NEW YORK LIFE INSURANCE COMPANY AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(GAAP BASIS)**

**DECEMBER 31, 2010 AND 2009**

**NOTE 1 - NATURE OF OPERATIONS**

New York Life Insurance Company (“New York Life”), a mutual life insurance company domiciled in New York State, and its subsidiaries (“the Company”) offer a wide range of insurance and investment products and services including life and health insurance, long-term care, annuities (including single premium immediate annuities or guaranteed lifetime income annuities), pension products, mutual funds, and other investments and investment advisory services. Through certain Affinity programs, the Company is the exclusive provider of life insurance and fixed immediate and deferred annuities to members of AARP and underwrites group life, health and disability programs for professional and affinity organizations. The Company is comprised of four primary business operations: U.S. Life Insurance and Agency, Retirement Income Security, Investment Management, and International. U.S. Life Insurance and Agency and Retirement Income Security operations are conducted primarily through New York Life, the parent company, and its wholly owned U.S. insurance subsidiaries New York Life Insurance and Annuity Corporation (“NYLIAC”) and NYLIFE Insurance Company of Arizona (“NYLIFE of Arizona”). Investment Management activities are conducted primarily through New York Life and various registered investment advisory subsidiaries of its wholly owned subsidiary, New York Life Investment Management Holdings LLC (“New York Life Investments”). The Company markets individual insurance and investment products in Asia and Latin America primarily through New York Life International, LLC (“NYL International”), a wholly owned subsidiary of New York Life. NYLIFE LLC is a wholly owned subsidiary of New York Life, and is a holding company for certain non-insurance subsidiaries of New York Life. NYLIFE LLC, through its subsidiaries, offers securities brokerage, financial planning and investment advisory services, trust services and capital financing.

**Basis of Presentation**

The accompanying consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (“GAAP”) and reflect the consolidation of the parent company with its majority owned and controlled subsidiaries: principally NYLIAC, NYLIFE of Arizona, New York Life Investments, NYL International, and NYLIFE LLC, as well as variable interest entities in which the Company is considered the primary beneficiary, and certain investments in joint ventures and limited partnerships in certain instances where the Company is deemed to exercise control. All intercompany transactions have been eliminated in consolidation.

Certain amounts in prior years have been reclassified to conform to the current year presentation. These reclassifications had no effect on net income or equity as previously reported, and were primarily related to the Company’s discontinued operations (refer to Note 21 – Acquisition and Discontinued Operations, for further discussion).

The New York State Insurance Department (the “Department”) recognizes only statutory accounting practices (“SAP”) for determining and reporting the financial condition and results of operations of an insurance company. Accounting practices used to prepare statutory financial statements for regulatory filings of life insurance companies differ in certain instances from GAAP (refer to Note 20 – Statutory Financial Information for further discussion).

## NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

### Use of Estimates

The preparation of consolidated financial statements in accordance with GAAP 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.

The most significant estimates include those used in determining deferred policy acquisition costs and related amortization; measurement of goodwill and any related impairment; valuation of investments including derivatives and recognition of other-than-temporary impairments (“OTTI”); future policy benefits including guarantees; pension and other postretirement benefits; provision for income taxes and valuation of deferred tax assets; and reserve for contingent liabilities, including reserves for losses in connection with unresolved legal matters.

### Investments

Fixed maturity investments classified as available-for-sale or trading are reported at fair value. For a discussion on valuation methods for fixed maturities reported at fair value refer to Note 17 – Fair Value Measurements. The amortized cost of debt securities is adjusted for amortization of premium and accretion of discount. Interest income, as well as the related amortization of premium and accretion of discount, is included in net investment income in the accompanying Consolidated Statement of Income. Unrealized gains and losses on available-for-sale securities are reported in net unrealized investment gains or losses in accumulated other comprehensive income (“AOCI”), net of deferred taxes and related adjustments, in the accompanying Consolidated Balance Sheet. Unrealized gains and losses from fixed maturity investments classified as trading are reflected in net investment gains or losses in the accompanying Consolidated Statement of Income.

Included within fixed maturity investments are mortgage-backed and asset-backed securities. Amortization of the premium or discount from the purchase of these securities considers the estimated timing and amount of cash flows of the underlying loans, including prepayment assumptions based on data obtained from external sources such as Bloomberg, Intex and Blackrock Solutions or internal estimates. For high credit quality mortgage-backed and asset-backed securities (those rated AA or above at date of acquisition), projected future cash flows are updated quarterly, and the amortized cost and effective yield of the security are adjusted as necessary to reflect historical prepayment experience and changes in estimated future prepayments. The adjustments to amortized cost are recorded as a charge or credit to net investment income in accordance with the retrospective method. For mortgage-backed and asset-backed securities that are not of high credit quality (those rated below AA at date of acquisition) certain floating rate securities and securities with the potential for a loss of a portion of the original investment due to contractual prepayments (i.e. interest only securities), the effective yield is adjusted prospectively for any changes in estimated cash flows.

Unaffiliated equity securities are carried at fair value. For a discussion on valuation methods for equity securities refer to Note 17 – Fair Value Measurements. Unrealized gains and losses on equity securities classified as available-for-sale are reflected in net unrealized investment gains or losses in AOCI, net of deferred taxes and related adjustments, in the accompanying Consolidated Balance Sheet. Unrealized gains and losses from investments in equity securities classified as trading are reflected in net investment gains or losses in the accompanying Consolidated Statement of Income.

Affiliated equity securities represent holdings in entities where there is at least 20% ownership or where the Company has the ability to exercise significant influence through its relationship, and are accounted for by the equity method of accounting. Accordingly, respective net earnings or losses are included in net income in the accompanying Consolidated Statement of Income.

The cost basis of fixed maturity and equity securities is adjusted for impairments in value deemed to be other than temporary.

Factors considered in evaluating whether a decline in value is other than temporary include: i) whether the decline is substantial; ii) the duration that the fair value has been less than cost; and iii) the financial condition and near-term prospects of the issuer. For equity securities, the Company also considers in its OTTI analysis its intent and ability to hold a particular equity security for a period of time sufficient to allow for the recovery of its value to an amount equal to or greater than cost. When it is determined that a decline in value is other-than-temporary, the carrying value of the equity security is reduced to its fair value with the associated realized loss reported in net investment gains or losses.

With respect to fixed maturities in an unrealized loss position, an OTTI is recognized in earnings when it is anticipated that the amortized cost will not be recovered. The entire difference between the fixed maturity security's cost and its fair value is recognized in earnings only when either the Company (i) has the intent to sell the fixed maturity security or (ii) more likely than not will be required to sell the fixed maturity security before its anticipated recovery. If neither of these two conditions exists, an OTTI would be recognized in earnings ("credit loss") for the difference between the amortized cost basis of the fixed maturity and the present value of projected future cash flows expected to be collected. If the fair value is less than the present value of projected future cash flows expected to be collected, this portion of OTTI related to other-than-credit factors ("non-credit loss") would be recognized in other comprehensive income or loss ("OCI"). The net present value is calculated by discounting the Company's best estimate of projected future cash flows at the effective interest rate implicit in the debt security prior to impairment.

The determination of cash flow estimates in the net present value is subjective and methodologies will vary, depending on the type of security. The Company considers all information relevant to the collectability of the security, including past events, current conditions, and reasonably supportable assumptions and forecasts in developing the estimate of cash flows expected to be collected. This information generally includes, but may not be limited to, the remaining payment terms of the security, estimated prepayment speeds, defaults, recoveries upon liquidation of the underlying collateral securing the notes, and the financial condition of the issuer(s), credit enhancements and other third-party guarantees. In addition, other information, such as industry analyst reports and forecasts, sector credit ratings, the financial condition of the bond insurer for insured fixed income securities and other market data relevant to the collectability may also be considered, as well as the expected timing of the receipt of insured payments, if any. The estimated fair value of the collateral may be used to estimate recovery value if the Company determines that the security is dependent on the liquidation of the collateral for recovery.

For the non-agency residential mortgage backed security ("RMBS") portfolio, the Company updates cash flow projections quarterly. The projections are determined for each security based upon the evaluation of prepayment, delinquency, and default rates for the pool of mortgages collateralizing each security, and the projected impact on the course of future prepayments, defaults, and loss in the pool of mortgages, but do not include market prices. As a result, forecasts may change from period to period and additional impairments may be recognized over time as a result of deterioration in the fundamentals of a particular security or group of securities and/or a continuation of heightened mortgage defaults for a period longer than the assumptions used for the forecasts. Both qualitative and quantitative factors are used in creating the Company's RMBS cash flow models. As such, any estimate of impairments is subject to the inherent limitation on the Company's ability to predict the aggregate course of future events. It should therefore be expected that actual losses may vary from any estimate and the Company may recognize additional OTTI.

The new cost basis of an impaired security is not adjusted for subsequent increases in estimated fair value. In periods subsequent to the recognition of an OTTI, the impaired fixed maturity security is accounted for as if it had been purchased on the measurement date of the impairment. Accordingly, the discount (or reduced premium) based on the new cost basis may be accreted into net investment income

in future periods based on prospective changes in cash flow estimates, to reflect adjustments to the effective yield.

Mortgage loans on real estate that are funded through the insurance company are carried at unpaid principal balances, net of discounts/premiums and valuation allowances, and are secured. Specific valuation allowances are established for the excess carrying value of the mortgage loan over the estimated fair value of the collateral, when it is probable that based on current information and events, the Company will be unable to collect all amounts due under the contractual terms of the loan agreement. Fair value of the collateral is estimated by a current appraisal. The Company also has a general valuation allowance for probable incurred but not specifically identified losses. The general valuation allowance is determined by applying a factor against the commercial and residential mortgage loan portfolios, excluding loans for which a specific allowance has already been recorded, to estimate potential losses in each portfolio. The general allowance factor for the commercial mortgage loan portfolio is based on the Company's historical loss experience as well as industry data regarding commercial loan delinquency rates. The Company analyzes industry data regarding specific credit risk based on specific metropolitan areas and property types as well as probability of default, timing of default, and loss severity for each loan in a given portfolio. The general allowance factor for the residential mortgage loan portfolio takes into account loan-to-value ratios ("LTV") of the portfolio as well as expected defaults and loss severity of loans deemed to be delinquent.

For commercial and residential mortgage loans, the Company accrues interest income on loans to the extent it is deemed collectible and the loan continues to perform under its original or restructured contractual terms. The Company places loans on non-accrual status and ceases to recognize interest income when management determines that collection of interest and repayment of principal is not probable. Any accrued but uncollected interest is reversed out of interest income once a loan is put on non-accrual status. Interest payments received on loans where interest payments have been deemed uncollectible are recognized on a cash basis and recorded as interest income.

Mortgage loans that are funded through New York Life Investments are reported in other investments in the accompanying Consolidated Balance Sheet, and carried at fair value. These mortgage loans are held in a partially-owned limited partnership that follows the specialized accounting practices for investment companies, which requires that the mortgage loans be fair valued.

Policy loans are stated at the aggregate balance due. A valuation allowance is established for policy loan balances, including capitalized interest that exceeds the related policy's cash surrender value.

Short-term investments include investments with remaining maturities of one year or less, but greater than three months, at the time of acquisition and are carried at fair value. Short-term investments are included in fixed maturities on the Consolidated Balance Sheet.

Other investments consist primarily of direct investments in limited partnerships and limited liability companies, derivatives (see discussion on Derivative Financial Instruments below), real estate and collateralized third-party commercial loans. Investments in limited partnerships and limited liability companies are accounted for using the equity method of accounting. Investments in real estate, which the Company has the intent to hold for the production of income, are carried at depreciated cost, net of write-downs for other than temporary declines in fair value. Properties held for sale are carried at the lower of depreciated cost or fair value, less estimated selling costs.

In many cases, limited partnerships and limited liability companies that the Company invests in qualify as investment companies and apply specialized accounting practices, which result in unrealized gains and losses being recorded in the accompanying Consolidated Statement of Income. The Company retains this specialized accounting practice in consolidation. For consolidated limited partnerships, the underlying investments, which may consist of various classes of assets, are aggregated and stated at fair value in other investments in the accompanying Consolidated Balance Sheet. For limited partnerships accounted for under the equity method, the unrealized gains and losses from the underlying investments are reported in net investment income in the accompanying Consolidated Statement of Income.

Collateralized third-party commercial loans that management has the intent and ability to hold until maturity or payoff are reported at their outstanding unpaid principal balances reduced by any charge off or loss reserve and net of any deferred fees on originated loans, or unamortized premiums or discounts on purchased loans. The Company assesses its loans on a regular basis for collectability in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay and prevailing economic conditions. Specific loans are considered for impairment when it is probable that the Company will be unable to collect the scheduled payments of principal and interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status and the financial condition of the borrower. Impaired loan measurement may be based on the present value of expected future cash flows discounted at the loan's measurement effective interest rate, at the loan's observable market price or the fair value of the collateral if the loan is collateral dependent. A loss reserve is established for the calculated impairment. A general valuation allowance for probable incurred but not specifically identified losses is determined for the remainder of the portfolio. These loans are assigned internal risk ratings and the Company utilizes a specific reserve percentage for each category of risk rating. The loss reserve rate is multiplied by outstanding debt in each related risk category to determine the general reserve on these loans.

At the time of funding of a loan, management determines the amount of the loan that will be held for sale. The syndication amounts have historically been sold within one year. Loans held for sale are carried at the lower of cost or fair value on an individual asset basis.

Net investment gains or losses on sales are generally computed using the specific identification method.

The authoritative guidance provides a fair value option election that allows companies to irrevocably elect fair value as the initial and subsequent accounting measurement attribute for certain financial assets and liabilities. This guidance permits entities to elect to measure eligible financial assets and liabilities at fair value on an ongoing basis. Unrealized gains and losses on items for which the fair value option has been elected are reported in net investment gains and losses. The decision to elect the fair value option is determined on an instrument by instrument basis, must be applied to an entire instrument and is irrevocable once elected. Refer to Note 17 – Fair Value Measurements for more information on the fair value option.

Cash equivalents include investments that have remaining maturities of three months or less at date of purchase and are carried at fair value.

### **Variable Interest Entities (“VIEs”)**

In the normal course of its investment and investment management activities, the Company enters into relationships with various special purpose entities and other entities that are deemed to be VIEs. A VIE is an entity that either (1) has equity investors that lack certain essential characteristics of a controlling financial interest (including the ability to control activities of the entity, the obligation to absorb the entity's expected losses and the right to receive the entity's expected residual returns) or (2) lacks sufficient equity to finance its own activities without financial support provided by other entities, which in turn would be expected to absorb at least some of the expected losses of the VIE. If the Company determines that it is the VIE's primary beneficiary it is required to consolidate the VIE.

In June 2009, the Financial Accounting Standards Board amended the consolidation guidance for VIEs (see Note 3 – Recent Accounting Pronouncements). Under this amended guidance, the Company is the primary beneficiary of a VIE if the Company has (1) the power to direct the activities of the VIE that most significantly impact the economic performance of the entity and (2) the obligation to absorb losses of or the right to receive benefits from the entity that could be potentially significant to the VIE. If both conditions are present the Company is required to consolidate the VIE.

This amended guidance also included an indefinite deferral of the application of the new guidance provided to certain entities that have the attributes of investment companies with the exception of

securitizations, asset-backed financings, collateralized structure and former qualifying special purpose entities. In addition, entities are not eligible for the deferral if any obligation to fund losses or guarantee performance exists. In accordance with the deferral provision included in the amended guidance, the Company is the primary beneficiary and is required to consolidate the VIE if it stands to absorb a majority of the VIE's expected losses or to receive a majority of the VIE's expected residual returns or both.

Upon adoption of the consolidation guidance, the Company consolidated collateralized structures and recorded a cumulative effect adjustment to appropriated retained earnings on the accompanying Consolidated Balance Sheet equal to the difference between the fair value of the assets and the fair value of their liabilities. Such amounts are recorded as appropriated retained earnings as the noteholders ultimately will receive the benefits or absorb the losses associated with the collateralized structures' assets and liabilities. Subsequent to adoption, the net change in the fair value of the collateralized structure's assets and liabilities will be recorded as net income (loss) attributable to non-controlling interests and as an adjustment to appropriated retained earnings.

### **Loaned Securities and Repurchase Agreements**

The Company enters into securities lending agreements whereby certain investment securities are loaned to third parties for the purpose of enhancing income on certain securities held. Securities loaned are treated as financing arrangements, and are recorded at the amount of cash advanced or received. With respect to securities loaned, the Company requires initial collateral, usually in the form of cash, equal to 102% of the fair value of the domestic securities loaned. If foreign securities are loaned and the denomination of the collateral is other than the denomination of the currency of the loaned securities, then the initial required collateral is 105% of their face value. The Company monitors the fair value of securities loaned with additional collateral obtained as necessary.

The Company enters into agreements to purchase and resell securities, and agreements to sell and repurchase securities for the purpose of enhancing income on the securities portfolio. Securities purchased under agreements to resell are treated as investing activities and are carried at fair value including accrued interest. It is the Company's policy to generally take possession or control of the securities purchased under these agreements to resell. However, for tri-party repurchase agreements, the Company's designated custodian takes possession of the underlying collateral securities. Securities purchased under agreements to resell are reflected separately in the accompanying Consolidated Balance Sheet.

Under agreements to sell and repurchase securities, the Company obtains the use of funds from a broker for generally one month. Assets to be repurchased are the same, or substantially the same, as the assets transferred. Securities sold under agreements to repurchase are treated as financing arrangements. Collateral received is invested in short-term investments with an offsetting collateral liability. The liability is included in other liabilities on the accompanying Consolidated Balance Sheet.

The fair value of the securities to be repurchased or resold is monitored and additional collateral is obtained, where appropriate, to protect against credit exposure.

### **Deferred Policy Acquisition Costs ("DAC")**

The costs of acquiring new and maintaining renewal business and certain costs of issuing policies that vary with and are primarily related to the production of new and renewal business have been deferred and recorded as an asset in the accompanying Consolidated Balance Sheet. These costs consist primarily of commissions, certain expenses of underwriting and issuing contracts and certain agency expenses.

For traditional participating life insurance policies, such costs are amortized over the estimated life of the contracts, in proportion to estimated gross margins. For universal life and deferred annuity contracts, such costs are amortized in proportion to estimated gross profits over the estimated effective life of those contracts. Changes in assumptions for all policies and contracts are reflected as retroactive adjustments in the current year's amortization. For these contracts, the carrying amount of DAC is adjusted at each

balance sheet date as if the unrealized investment gains or losses had been realized and included in the gross margins or gross profits used to determine current period amortization. The increase or decrease in DAC due to unrealized investment gains or losses is recorded in OCI. Beginning 2009 for new business, the Company increased the expected life for traditional participating life insurance policies, universal life policies and deferred annuity contracts up to a maximum of 99 years.

DAC for term insurance, international non-participating traditional life insurance, group life and health, and long-term care contracts are amortized in proportion to premium income over the effective premium-paying period of the contract. Assumptions as to anticipated premiums are made at the date of policy issuance and are consistently applied during the life of the contract. Deviations from estimated experience are included in operating expenses in the accompanying Consolidated Statement of Income when they occur. For single premium immediate annuities with life contingencies and single premium structured settlements with life contingencies, all acquisition costs are charged to expense immediately because generally all premiums are received at the inception of the contract.

The Company assesses internal replacements to determine whether such modifications significantly change the contract terms. When the modification substantially changes the contract, DAC is written-off immediately through income and only new deferrable expenses associated with the replacements are deferred. DAC written-off at the date of lapse cannot be restored when a policy subsequently reinstates. If the contract modifications do not substantially change the contract, DAC amortization on the original policy will continue and any acquisition costs associated with the related modification are expensed.

### **Sales Inducements**

For some deferred annuity products, the Company offers policyholders a bonus equal to a specified percentage of the policyholder's initial deposit and additional credits to the policyholder's account value related to minimum accumulation benefits, which are considered sales inducements in certain instances. The Company defers these aforementioned sales inducements and amortizes them over the life of the policy using the same methodology and assumptions used to amortize DAC. Deferred sales inducements are reported in other assets in the accompanying Consolidated Balance Sheet.

### **Goodwill and Other Intangible Assets**

Goodwill and other intangible assets with an indefinite useful life are not required to be amortized. All indefinite lived intangible assets are required to be tested for impairment at least annually. An impairment is recognized if the fair value of the reporting unit to which the indefinite lived intangible asset is assigned is less than the carrying value.

An intangible asset with a finite life is amortized over its useful life. Intangible assets with a finite useful life are tested for impairment when facts and circumstances indicate that its carrying amount may not be recoverable, and an impairment loss is recognized when the carrying amount of an asset exceeds the estimated undiscounted cash flows attributable to the asset. The amount of the impairment loss to be recorded is calculated by the excess of the asset's carrying value over its fair value.

Fair value is generally determined using discounted cash flow analysis using assumptions that a market participant would use.

All intangible assets (other than goodwill) are reported in other assets in the accompanying Consolidated Balance Sheet.

### **Derivative Financial Instruments**

Derivative financial instruments are accounted for at fair value. The treatment of changes in the fair value of derivatives depends on the characteristics of the transaction, including whether it has been designated and qualifies as part of a hedging relationship. Derivatives that do not qualify for hedge

accounting are carried at fair value with changes in value included in net investment gains or losses in the accompanying Consolidated Statement of Income.

To qualify as a hedge, the hedge relationship is designated and formally documented at inception by detailing the particular risk management objective and strategy for the hedge. This includes the item and risk that is being hedged, the derivative that is being used, as well as how effectiveness is being assessed and measured. A derivative must be highly effective in accomplishing the objective of offsetting either changes in fair value or cash flows for the risk being hedged. The hedging relationship is considered highly effective if the changes in fair value or discounted cash flows of the hedging instrument is within 80% to 125% of the inverse changes in the fair value or discounted cash flows of the hedged item. The Company formally assesses effectiveness of its hedging relationships both at the hedge inception and on a quarterly basis in accordance with its risk management policy.

The Company discontinues hedge accounting prospectively if: (i) it is determined that the derivative is no longer effective in offsetting changes in the fair value or cash flows of a hedged item; (ii) the derivative expired or is sold, terminated, or exercised; (iii) the derivative is de-designated as a hedge instrument; (iv) it is probable that the forecasted transaction will not occur, or (v) management determines that designation of the derivative as a hedge instrument is no longer appropriate. The Company continually assesses the credit standing of the derivative counterparty and, if the counterparty is deemed to be no longer creditworthy, the hedge will no longer be effective. As a result, the Company will prospectively discontinue hedge accounting. During 2010 and 2009, the Company evaluated the creditworthiness of counterparties, and, except as discussed in Note 14 – Derivative Financial Instruments and Risk Management, no issues were noted that led to a discontinuation of hedge accounting.

#### ***Fair Value Hedges***

The Company designates and accounts for the following as fair value hedges when they have met the requirements of authoritative guidance related to derivatives and hedging: (i) interest rate swaps to convert fixed rate investments to floating rate investments; (ii) foreign currency swaps to hedge the foreign currency fair value exposure of foreign currency denominated investments; and (iii) equity swaps to hedge the market price risk for common stock investments.

For fair value hedges, the Company generally uses a qualitative assessment to assess hedge effectiveness, which matches the critical terms of the derivative with the underlying hedged item. For fair value hedges of equity investments, the Company uses regression analysis, which measures the correlation to the equity exposure being hedged. For fair value hedges, in which derivatives hedge the fair value of assets, changes in the fair value of derivatives are reflected in net investment gains, together with changes in the fair value of the related hedged item. The Company's fair value hedges primarily hedge fixed maturity securities.

#### ***Cash Flow Hedges***

The Company designates and accounts for the following as cash flow hedges, when they have met the requirements of the authoritative guidance related to derivatives and hedging: (i) interest rate swaps to convert floating rate investments to fixed rate investments; (ii) interest rate swaps to convert floating rate liabilities into fixed rate liabilities; (iii) foreign currency swaps to hedge the foreign currency cash flow exposure of foreign currency denominated investments and liabilities; and (iv) interest rate swaps to hedge the interest rate risk associated with forecasted transactions.

For cash flow hedges in which derivatives hedge the variability of cash flows related to variable rate available-for-sale securities, available-for-sale securities that are exposed to foreign exchange risk, and liabilities that are exposed to foreign exchange risk, the accounting treatment depends on the effectiveness of the hedge. To the extent the derivatives are effective in offsetting the variability of the hedged cash flows, changes in the derivatives' fair value will not be included in current earnings but are reported as changes in OCI. These changes in fair value will be included in net investment gains or losses or net investment income of future periods when earnings are also affected by the variability of the hedged cash

flows. For hedges of assets or liabilities that are subject to transaction gains and losses under the authoritative guidance related to foreign currency, the change in fair value relative to the change in spot rates during the reporting period is reclassified and reported with the transaction gain or loss of the asset or liability being hedged. To the extent these derivatives are not effective, changes in their fair values are immediately included in earnings in net investment gains or losses.

The assessment of hedge effectiveness for cash flow hedges of interest rate risk excludes amounts relating to risks other than exposure to the benchmark interest rate.

For cash flow hedges of interest rate risk, the Company uses either the short-cut method, if appropriate, or regression analysis to assess hedge effectiveness to changes in the benchmark interest rate. The change in variable cash flows method is used to measure hedge ineffectiveness when appropriate.

For cash flow hedges, hedge accounting is discontinued when it is probable that a forecasted transaction will not occur. In these cases, the derivative will continue to be carried on the balance sheet at its fair value, and gains and losses that were accumulated in OCI will be recognized immediately in net investment gains or losses. When the hedged forecasted transaction is no longer probable, but is reasonably possible, the accumulated gain or loss remains in OCI and will be recognized when the transaction affects net income; however, prospective hedge accounting for the transaction is terminated. In all other cash flow hedge situations in which hedge accounting is discontinued, the gains and losses that were accumulated in OCI will be recognized immediately in net investment gains or losses and the derivative will be carried at its fair value on the balance sheet, with changes in its fair value recognized in current period net investment gains or losses.

### ***Net Investment Hedges***

For derivatives that hedge the foreign currency exposure of a net investment in a foreign operation, the accounting treatment will depend on the effectiveness of the hedge. The effective portion of the change in fair value of the derivative, including any forward premium or discount, is reflected in AOCI as part of the foreign currency translation adjustment. The ineffective portion of the change in fair value of the derivative is reflected in net investment gains or losses.

### ***Embedded Derivatives***

The Company may enter into contracts that are not themselves derivative instruments but contain embedded derivatives. For each contract, the Company assesses whether the economic characteristics of the embedded derivative are clearly and closely related to those of the host contract and determines whether a separate instrument with the same terms as the embedded instrument would meet the definition of a derivative instrument. When it is determined that the embedded derivative possesses economic characteristics that are not clearly and closely related to the economic characteristics of the host contract, and that a separate instrument with the same terms would qualify as a derivative instrument, the embedded derivative is separated from the host contract and accounted for as a stand-alone derivative. Such embedded derivatives are recorded on the balance sheet at fair value and changes in their fair value are recorded currently in earnings. If the Company is unable to properly identify and measure an embedded derivative for separation from its host contract, the entire contract is carried on the balance sheet at fair value.

For further information on the Company's derivative instruments and related hedged items and their effect on the Company's financial position, financial performance, and cash flows see Note 14 – Derivative Financial Instruments and Risk Management.

### **Policyholders' Account Balances**

The Company's liability for policyholders' account balances represents the contract value that has accrued to the benefit of the policyholder as of the balance sheet date. This liability is generally equal to the accumulated account deposits, plus interest credited, less policyholder withdrawals and other charges

assessed against the account balance. This liability also includes amounts that have been assessed to compensate the insurer for services to be performed over future periods, and the fair value of embedded derivatives in the above contracts.

### **Future Policy Benefits**

The Company's liability for future policy benefits is primarily comprised of the present value of estimated future payments to or on behalf of policyholders, where the timing and amount of payment depends on policyholder mortality or morbidity, less the present value of future net premiums. For traditional individual participating life insurance products, the mortality assumptions applied are those used to calculate the policies' guaranteed cash surrender values. The interest rate assumptions are based on the dividend guarantees. For non-participating traditional life insurance, annuity, and long-term care products, expected mortality and/or morbidity for lapse or surrender are generally based on the Company's historical experience or standard industry tables including a provision for the risk of adverse deviation. Interest rate assumptions are based on factors such as market conditions and expected investment returns. These assumptions are established at the time the policy is issued and are intended to estimate the experience for the period the policy benefits are payable. If experience is less favorable than assumed and future losses are projected under loss recognition testing, then additional liabilities may be required, resulting in a charge to policyholder benefits and claims. The Company does not establish loss reserves until a loss has occurred.

The Company's liability for future policy benefits also includes liabilities for guarantee benefits related to certain nontraditional long-duration life and annuity contracts, which are discussed more fully in Note 9 – Policyholders' Liabilities, and deferred profit on limited pay contracts.

### **Policy Claims**

The Company's liability for policy claims includes a liability for unpaid claims and claim adjustment expenses. Unpaid claims and claim adjustment expenses include estimates of claims that the Company believes have been incurred but have not yet been reported as of the balance sheet date.

### **Debt**

Debt is generally carried at unpaid principal balance. See Note 17 – Fair Value Measurements for discussion on the fair value of debt.

### **Separate Account Assets and Liabilities**

The Company has separate accounts, some of which are registered with the Securities and Exchange Commission ("SEC") and others that are not registered with the SEC. The Company reports separately, as separate account assets and separate account liabilities, investments held in separate accounts and liabilities of the separate accounts if (i) such separate accounts are legally recognized; (ii) assets supporting the contract liabilities are legally insulated from the Company's general account liabilities; (iii) investments are directed by the contractholder; and (iv) all investment performance, net of contract fees and assessments, is passed through to the contractholder. The separate accounts have varying investment objectives, are segregated from the Company's general account and are maintained for the benefit of separate account policyholders. Investment risks associated with market value changes are borne by the customers, except to the extent of minimum guarantees made by the Company with respect to certain accounts. All separate account assets are stated at fair value. The separate liability represents the policyholders' interest in the account, and includes accumulated net investment income and realized and unrealized gains and losses on the assets.

### **Other Assets and Other Liabilities**

Other assets primarily consist of amounts receivable for undelivered securities, furniture and equipment, capitalized software and web development costs, reinsurance recoverables, net deferred tax

assets, current tax receivable, sales inducements, intangible assets, and trade receivables. Furniture and equipment is stated at cost less accumulated depreciation. Depreciation is determined using the straight-line method over the estimated useful lives of the related assets, which generally ranges from 3 to 10 years. Capitalized external and internal software and web development costs are amortized on a straight-line basis over the estimated useful life of the software, not to exceed five years.

Other liabilities consist primarily of payables resulting from purchases of securities that had not yet settled at the balance sheet date, derivative liabilities, accrued expenses, employee benefit liabilities, net deferred tax liabilities, and current tax liabilities.

### **Recognition of Insurance Income and Related Expenses**

Premiums from traditional participating life insurance policies, term life policies, annuity policies with life contingencies and group life and health contracts are recognized as income when due. The associated benefits and expenses are matched with income so as to result in the recognition of profits over the life of the contracts. This match is accomplished by providing for liabilities for future policy benefits (as discussed in Note 9 – Policyholders’ Liabilities) and the deferral and subsequent amortization of policy acquisition costs.

Amounts received under universal life-type contracts and investment contracts are reported as deposits to policyholders' account balances (as discussed in Note 9 – Policyholders’ Liabilities). Revenues from these contracts consist of amounts assessed during the period for mortality and expense risk, policy administration and surrender charges, and are included as fee income in the Consolidated Statement of Income. In addition to fees, the Company earns investment income from the investment of policyholders’ deposits in the Company’s general account portfolio. Amounts previously assessed to compensate the Company for services to be performed over future periods are deferred and recognized into income over the period benefited, using the same assumptions and factors used to amortize DAC. Policy benefits and claims that are charged to expense include benefit claims incurred in the period in excess of related policyholders' account balances.

Premiums for contracts with a single premium or a limited number of premium payments due over a significantly shorter period than the total period over which benefits are provided, are recorded as income when due. Any excess profit is deferred and recognized as income in a constant relationship to insurance in force and, for annuities, in relation to the amount of expected future benefit payments.

Premiums, universal life fee income, benefits and expenses are stated net of reinsurance ceded. Estimated reinsurance ceding allowances are recognized over the life of the reinsured policies using assumptions consistent with those used to account for the underlying policies.

### **Fee Income**

The Company receives fees for investment management advisory services and performance fees for services provided under agreements with its clients. Fee income also includes revenue from the distribution of mutual funds. Such fees are accrued as earned and are included in other income in the accompanying Consolidated Statement of Income.

### **Policyholders’ Dividends**

The amount of dividends to be paid to New York Life participating policyholders is determined annually by New York Life’s Board of Directors. The aggregate amount of policyholders' dividends is based on New York Life’s statutory results and past experience, including investment income, net realized investment gains and losses over a number of years, mortality experience, and other factors. New York Life accrues dividends to policyholders when they are due to the policyholder.

The amount of dividends to be paid to NYL International's policyholders is determined by means of formulas specific to each country's regulations that reflect the relative contribution of each group's policies to the results of operations.

## **Federal Income Taxes**

Current federal income taxes are charged or credited to operations based upon amounts estimated to be payable or recoverable as a result of taxable operations for the current year and any adjustments to such estimates from prior years. Deferred federal income tax assets and liabilities are recognized for expected future tax consequences of temporary differences between GAAP and taxable income. Temporary differences are identified and measured using a balance sheet approach whereby GAAP and tax balance sheets are compared. Deferred income taxes are generally recognized based on enacted tax rates and a valuation allowance is recorded if it is more likely than not that any portion of the deferred tax asset will not be realized.

The authoritative guidance on income taxes requires an evaluation of the recoverability of deferred tax assets and establishment of a valuation allowance, if necessary, to reduce the deferred tax asset to an amount that is more likely than not to be realized. Considerable judgment is required in determining whether a valuation allowance is necessary, and if so, the amount of such valuation allowance. In evaluating the need for a valuation allowance many factors are considered, including: (i) the nature of deferred tax assets and liabilities; (ii) whether they are ordinary or capital; (iii) in which tax jurisdictions they were generated and the timing of their reversal; (iv) taxable income in prior carry-back years as well as projected taxable earnings exclusive of reversing temporary differences and carryforwards; (v) the length of time that carryovers can be utilized in the various tax jurisdictions; (vi) any unique tax rules that would impact the utilization of the deferred tax assets; and (vii) any tax planning strategies that the Company would employ to avoid a tax benefit from expiring unused.

New York Life files a consolidated federal income tax return with certain of its domestic insurance and non-insurance subsidiaries. The consolidated income tax liability is allocated among the members of the group in accordance with a tax allocation agreement. The tax allocation agreement provides that each member of the group is allocated its share of the consolidated tax provision or benefit, determined generally on a separate company basis, but may, where applicable, recognize the tax benefits of net operating losses or capital losses utilizable in the consolidated group. Intercompany tax balances are generally settled quarterly on an estimated basis with a final settlement within 30 days of the filing of the consolidated return.

The Company's foreign affiliates operating outside the U.S. compute their tax provision and file on a separate return basis, in accordance with the applicable foreign tax statutes prevailing in the country in which they are deemed a resident for tax purposes.

In accordance with the authoritative guidance related to income taxes, the Company determines whether it is more-likely-than-not that a tax position will be sustained upon examination by the appropriate taxing authorities before any part of the benefit can be recorded in the financial statements. The amount of tax benefit recognized for an uncertain tax position is the largest amount of benefit that is greater than 50 percent likely of being realized upon settlement. Unrecognized tax benefits are included within other liabilities and are charged to earnings in the period that such determination is made. The Company classifies interest and penalties related to tax uncertainties as income tax expense.

## **Contingencies**

Amounts related to contingencies are accrued if it is probable that a liability has been incurred and an amount is reasonably estimable. Regarding litigation, management evaluates whether there are incremental legal or other costs directly associated with the ultimate resolution of the matter that are reasonably estimable and, if so, includes these costs in the accrual.

## Benefit Plans

New York Life maintains various tax-qualified and non-qualified plans that provide defined benefit pension and other postretirement benefits covering eligible U.S. employees and agents. A December 31 measurement date is used for all defined benefit pension and other postretirement benefit plans.

Under authoritative guidance related to pension plan obligations, the projected pension benefit obligation (“PBO”) is defined as the actuarially calculated present value of vested and non-vested pension benefits accrued based on service accruals through the measurement date and anticipated future salary levels. The PBO is the basis upon which pension liabilities are established and net periodic pension cost is determined. The PBO of the defined benefit pension plans is determined using a variety of actuarial assumptions, from which actual results may vary.

Under authoritative guidance related to postretirement benefit plans, the accumulated postretirement benefit obligations (“APBO”) represents the actuarial present value of future other postretirement benefits attributed to employee services rendered through the measurement date and is the valuation basis upon which postretirement benefits are established and net periodic postretirement benefit cost is determined. The APBO is determined using a variety of actuarial assumptions, from which actual results may vary.

The Company recognizes the funded status of each of the pension and postretirement plans on the accompanying Consolidated Balance Sheet in OCI. The funded status of a plan is measured as the difference between plan assets at fair value and PBO for pension plans or the APBO for other postretirement plans.

Net periodic benefit cost is determined using management estimates and actuarial assumptions to derive service cost, interest cost, and expected return on plan assets for a particular year. Net periodic benefit cost also includes the applicable amortization of any prior service cost (credit) arising from the increase (decrease) in prior years’ benefit costs due to plan amendments or initiation of new plans. These costs are amortized into net periodic benefit cost over the expected service years of employees whose benefits are affected by such plan amendments. Actual experience related to plan assets and/or the benefit obligations may differ from that originally assumed when determining net periodic benefit cost for a particular period, resulting in gains or losses. To the extent such aggregate gains or losses exceed 10 percent of the greater of the benefit obligations or the market-related asset value of the plans, they are amortized into net periodic benefit cost over the expected service years of employees expected to receive benefits under the plans.

The obligations and expenses associated with these plans require an extensive use of assumptions such as the discount rate, expected rate of return on plan assets, rate of future compensation increases, healthcare cost trend rates, as well as assumptions regarding participant demographics such as rate and age of retirements, withdrawal rates, and mortality. Management, in consultation with its external consulting actuarial firm, determines these assumptions based upon a variety of factors such as historical performance of the plan and its assets, currently available market and industry data, and expected benefit payout streams. The assumptions used may differ materially from actual results due to, among other factors, changing market and economic conditions and changes in participant demographics.

New York Life also sponsors tax-qualified defined contribution plans for substantially all U.S. employees and agents. The defined contribution plan for employees matches a portion of employees’ contributions. Accordingly, the Company recognizes compensation cost for current matching contributions. The defined contribution plan for agents provides for discretionary Company contributions for eligible agents. As all contributions are transferred currently to the trust for these plans, no liability for matching contributions is recognized in the accompanying Consolidated Balance Sheet.

New York Life also maintains for certain eligible participants a non-qualified unfunded arrangement that credits deferral amounts and matching contributions in respect of compensation in excess of the amount that may be taken into account under the tax-qualified defined contribution plan because of applicable IRS limits. Accordingly, the Company recognizes compensation cost for current matching

contributions and holds a liability for these benefits, which is included in other liabilities in the accompanying Consolidated Balance Sheet.

New York Life provides certain benefits to eligible employees and agents during employment for paid absences. For those benefits that accumulate or vest, a liability is accrued over the employees' expected service period. For those benefits that do not accumulate or vest, a liability is accrued when the benefit is incurred.

### **Foreign Currency Translation Adjustments**

Assets and liabilities denominated in foreign currencies have been translated into U.S. dollars at the respective year-end exchange rates. Operating results are translated monthly at the average exchange rates for that month. Foreign currency translation gains and losses are credited or charged directly to the cumulative translation adjustment ("CTA") account in AOCI in the accompanying Consolidated Balance Sheet. The change in the CTA account includes the current year effect of the translation adjustment. Foreign currency transaction gains and losses are included in net income in the accompanying Consolidated Statement of Income.

### **Fair Value Measurements**

For fair values of various assets and liabilities refer to Note 17 – Fair Value Measurements.

### **Discontinued Operations**

The results of operations of a component of the Company that either has been disposed of or is classified as held-for-sale are reported in discontinued operations for each year presented in the accompanying Consolidated Statement of Income if the following criteria are met: (i) the operations and cash flows of the component have been or will be eliminated from the ongoing operations of the Company as a result of the disposal transaction; and (ii) the Company will not have any significant continuing involvement in the operations of the component after the disposal transaction (See Note 21 – Acquisition and Discontinued Operations for further details). The assets and liabilities of discontinued operations are separately aggregated and presented in the accompanying Consolidated Balance Sheet in the year the operations were determined to be discontinued.

### **Business Risks and Uncertainties**

In periods of extreme volatility and disruption in the securities and credit markets, and under certain interest rate scenarios, the Company could be subject to disintermediation risk and/or reduction in net interest spread or profit margins.

The Company's investment portfolio consists principally of fixed income securities as well as mortgage loans, policy loans, limited partnerships, preferred and common stocks and equity real estate. The fair value of the Company's investments varies depending on economic and market conditions and the interest rate environment. Furthermore, with respect to investments in mortgage loans, mortgage-backed securities and other securities subject to prepayment and/or call risk, significant changes in prevailing interest rates and/or geographic conditions may adversely affect the timing and amount of cash flows on these investments, as well as their related values. In addition, the amortization of market premium and accretion of market discount for mortgage-backed securities is based on historical experience and estimates of future payment experience underlying mortgage loans. Actual prepayment timing will differ from original estimates and may result in material adjustments to asset values and amortization or accretion recorded in future periods.

Certain of these investments lack liquidity, such as privately placed fixed income securities; leveraged leases; equity real estate; and other limited partnership interests. The Company also holds certain investments in asset classes that are liquid but have been experiencing significant market fluctuations, such as mortgage-backed and other asset-backed securities. If the Company were to require

significant amounts of cash on short notice in excess of cash on hand and the Company's portfolio of liquid investments, the Company could have difficulty selling these investments in a timely manner, be forced to sell them for less than the Company otherwise would have been able to realize, or both.

In periods of high or increasing interest rates, life insurance policy loans and surrenders and withdrawals may increase as policyholders seek investments with higher perceived returns. This could result in cash outflows requiring the Company to sell invested assets at a time when the prices of those assets are adversely affected by the increase in market interest rates, which could cause the Company to suffer realized investment losses. In addition, when interest rates rise, the Company may face competitive pressure to increase crediting rates on certain insurance and annuity contracts, and such changes may occur more quickly than corresponding changes to the rates earned on the Company's general account investments.

During periods of low or declining interest rates, the Company is contractually obligated to credit a fixed minimum rate of interest on almost all of the Company's life insurance and annuity policies. Should yields on new investments decline to levels below these guaranteed minimum rates for a long enough period, the Company may be required to credit interest to policyholders at a higher rate than the rate of return the Company earns on the Company's portfolio of investments supporting those products, thus generating losses.

Although management of the Company employs a number of asset/liability management strategies to minimize the effects of interest rate volatility, no guarantee can be given that it will be successful in managing the effects of such volatility.

Issuers or borrowers whose securities or loans the Company hold, customers, trading counterparties, counterparties under swaps and other derivative contracts, reinsurers, clearing agents, exchanges, clearing houses and other financial intermediaries and guarantors may default on their obligations to the Company due to bankruptcy, insolvency, lack of liquidity, adverse economic conditions, operational failure, fraud or other reasons. In addition, the underlying collateral supporting the Company's structured securities, including mortgage-backed securities, may deteriorate or default causing these structured securities to incur losses.

Weak equity market performance may adversely affect sales of variable products, mutual funds or investment management products, cause potential purchasers of the Company's products to refrain from new or additional investments, and may cause current customers to surrender or redeem their current products and investments.

Revenues of the Company's variable products, mutual funds and other investment management businesses are to a large extent based on fees related to the value of assets under management (except for its Elite Annuity product, where future revenue is based on adjusted premium payments). Consequently, poor equity market performance reduces fee revenues. The level of assets under management could also be negatively affected by withdrawals or redemptions.

The Company issues certain variable products with various types of guaranteed minimum benefit features. The Company establishes reserves for the expected payments resulting from these features. The Company bears the risk that payments may be higher than expected as a result of significant, sustained downturns in the stock market. The Company also bears the risk that additional reserves may be required if partial surrender activity increases significantly for some annuity products during the period when account values are less than guaranteed amounts.

The Risk-Based Capital, or RBC ratio is the primary measure by which regulators evaluate the capital adequacy of New York Life. RBC is determined by statutory rules that consider risks related to the type and quality of invested assets, insurance-related risks associated with New York Life's products, interest-rate risk and general business risks. Disruptions in the capital markets could increase equity and credit losses and reduce New York Life's statutory surplus and RBC ratio. To the extent that New York Life's statutory capital resources are deemed to be insufficient to maintain a particular rating by one or more

rating agencies, the Company may seek to improve its capital position, including through operational changes and potentially seeking outside capital.

***The Company faces significant competition.***

The Company faces strong competition in its U.S. Life Insurance and Agency, Retirement Income Security, Investment Management, and International businesses. The Company's ability to compete is based on a number of factors, including product features, investment performance, service, price, distribution capabilities, scale, commission structure, name recognition and financial strength ratings. Industry consolidation, including acquisition of insurance and other financial service companies in the U.S. by international companies, could result in larger competitors with strong financial resources, marketing and distribution capabilities and brand identities.

The Company's career agency force is the primary means by which it distributes life insurance products. In order to continue increasing life insurance sales, the Company must retain and attract additional productive career agents.

Rating agencies assign New York Life financial strength/claims paying ability ratings, based on their evaluations of New York Life's ability to meet its financial obligations. These ratings indicate a rating agency's view of an insurance company's ability to meet its obligations to its insureds. In certain of New York Life's markets, ratings are important competitive factors of insurance companies. Rating organizations continue to review the financial performance and condition of insurers, including New York Life. A significant downgrade in the Company's ratings could materially and adversely affect its competitive position in the life insurance market and increase its cost of funds.

***Regulatory developments in the markets in which the Company operates could affect the Company's business.***

Although the federal government does not directly regulate the business of insurance, federal legislation and administrative policies in several areas, including pension regulation, financial services regulation, health care regulation and federal taxation, can significantly and adversely affect the insurance industry and the Company. There are a number of current or potential regulatory measures that may affect the insurance industry. The Company is unable to predict whether any changes will be made, whether any administrative or legislative proposals will be adopted in the future, or the effect, if any, such proposals would have on the Company.

The attractiveness to the Company's customers of many of its products is due, in part, to favorable tax treatment. Current federal income tax laws generally permit the tax-deferred accumulation of earnings on the premiums paid by the holders of annuities and life insurance products. Taxes, if any, are payable generally on income attributable to a distribution under the contract for the year in which the distribution is made. Death benefits under life insurance contracts are received free of federal income tax. Changes to the favorable tax treatment may reduce the attractiveness of the Company's products to its customers.

As substantially all of the net assets of NYL International are held in foreign countries, there is a potential for adverse impact on net assets from economic and political changes in these countries.

**NOTE 3 - RECENT ACCOUNTING PRONOUNCEMENTS**

In December 2010, the FASB issued authoritative guidance that modifies the first step of the goodwill impairment test for reporting units with zero or negative carrying amounts. For those reporting units, an entity is required to perform the second step of the goodwill impairment test if it is more likely than not that a goodwill impairment exists. In determining whether it is more likely than not that a goodwill impairment exists, an entity should consider whether there are any adverse qualitative factors indicating that an impairment may exist. The qualitative factors are consistent with existing authoritative guidance, which requires that goodwill of a reporting unit be tested for impairment between annual tests if an event

occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. This new guidance is effective for nonpublic entities for fiscal years, and interim periods within those years, beginning after December 15, 2011. The Company will adopt this guidance effective January 1, 2012. The Company is currently assessing the impact of the guidance on the Company's consolidated financial position, results of operations, and financial statement disclosures.

In October 2010, the FASB issued guidance to address diversity in practice regarding the interpretation of which costs relating to the acquisition of new or renewal insurance contracts qualify for deferral. Under the new guidance acquisition costs are to include only those costs that are directly related to the acquisition or renewal of insurance contracts by applying a model similar to the accounting for loan origination costs. An entity may defer incremental direct costs of contract acquisition that are incurred in transactions with independent third parties or employees as well as the portion of employee compensation costs related to underwriting, policy issuance and processing, medical inspection, and contract selling for successfully negotiated contracts. Additionally, an entity may capitalize as a DAC cost only those advertising costs meeting the capitalization criteria for direct-response advertising. This change is effective for fiscal years beginning after December 15, 2011 and interim periods within those years. Early adoption as of the beginning of a fiscal year is permitted. The guidance is to be applied prospectively upon the date of adoption, with retrospective application permitted, but not required. The Company will adopt this guidance effective January 1, 2012. The Company is currently assessing the impact of the guidance on the Company's consolidated financial position, results of operations, and financial statement disclosures.

In July 2010, the FASB issued updated guidance that requires enhanced disclosures related to the allowance for credit losses and the credit quality of a company's financing receivable portfolio. The disclosures are effective for interim and annual reporting periods ending on or after December 15, 2011 for private companies. The Company has elected to early adopt this guidance and has provided the disclosures required by this guidance in Note 4 - Investments. The disclosures about activity that occurs during a reporting period are effective for interim and annual reporting periods beginning after December 15, 2010. In January 2011, the FASB deferred the disclosures required by this guidance related to troubled debt restructurings. The disclosures will be effective, and the Company will provide these disclosures, concurrent with the effective date of proposed guidance for determining what constitutes a troubled debt restructuring.

In April 2010, the FASB issued guidance clarifying that an insurance entity should not consider any separate account interests in an investment held for the benefit of policyholders to be the insurer's interests, and should not combine those interests with its general account interest in the same investment when assessing the investment for consolidation, unless the separate account interests are held for a related party policyholder, whereby consolidation of such interests must be considered under applicable variable interest guidance. This guidance is effective for interim and annual reporting periods beginning after December 15, 2010 and retrospectively to all prior periods upon the date of adoption, with early adoption permitted. The Company's adoption of this guidance effective January 1, 2011 is not expected to have a material effect on the Company's consolidated financial position, results of operations, and financial statement disclosures.

In March 2010, the FASB issued updated guidance that amends and clarifies the accounting for credit derivatives embedded in interests in securitized financial assets. This new guidance eliminates the scope exception for embedded credit derivatives (except for those that are created solely by subordination) and provides new guidance on how the evaluation of embedded credit derivatives is to be performed. This new guidance is effective for the first interim reporting period beginning after June 15, 2010. The Company's adoption of this guidance effective July 1, 2010 did not have a material effect on the Company's consolidated financial position, results of operations, and financial statement disclosures.

In January 2010, the FASB issued updated guidance that requires new fair value disclosures about significant transfers between Level 1 and 2 measurement categories and separate presentation of purchases, sales, issuances, and settlements within the rollforward of Level 3 activity. Also, this updated fair value guidance clarifies the disclosure requirements about the level of disaggregation of asset classes

and valuation techniques and inputs. This new guidance is effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances, and settlements in the rollforward of Level 3 activity, which are effective for interim and annual reporting periods beginning after December 15, 2010. The Company adopted the effective portions of this guidance on January 1, 2010. The required disclosures are provided in Note 17 - Fair Value Measurements.

In June 2009, the FASB issued authoritative guidance which changes the analysis required to determine whether or not an entity is a VIE. In addition, the guidance changes the determination of the primary beneficiary of a VIE from a quantitative to a qualitative model. Under the new qualitative model, the primary beneficiary must have both the power to direct the activities that significantly impact the entities economic performance and the obligation to absorb either losses or gains that could be significant to the VIE. This guidance also changes when reassessment is needed, as well as requires enhanced disclosures, including the effects of a company's involvement with a VIE on its financial statements. This guidance is effective for interim and annual reporting periods beginning after November 15, 2009.

In February 2010, the FASB issued updated guidance relative to VIEs which defers, except for disclosure requirements, the impact of this guidance for entities that (1) possess the attributes of an investment company, (2) do not require the reporting entity to fund losses, and (3) are not financing vehicles or entities that were formerly classified as qualified special purpose entities ("QSPE's").

In connection with the adoption of the new guidance, the Company will consolidate an additional \$2.5 billion in assets and \$2.0 billion in liabilities on its balance sheet, resulting in a net transition adjustment of \$480 million of which \$253 million is reflected as appropriated retained earnings and \$227 million as non-controlling interest in the Company's consolidated GAAP-basis financial statements. The \$253 million resulted from the consolidation of seven collateralized structures and the \$227 million resulted from the consolidation of the MainStay Equity Index Fund ("Index Fund") which is discussed in Note 4 – Investments. The transition adjustment related to the collateralized structures is reflected as appropriated retained earnings as the net gain will inure to the benefit of the third-party liability holders of the consolidated VIEs.

In June 2009, the FASB issued authoritative guidance which changes the accounting for transfers of financial assets, and is effective for transfers of financial assets occurring in interim and annual reporting periods beginning after November 15, 2009. It removes the concept of a QSPE from the guidance for transfers of financial assets and removes the exception from applying the guidance for consolidation of VIEs to QSPEs. It changes the criteria for achieving sale accounting when transferring a financial asset and changes the initial recognition of retained beneficial interests. The guidance also defines "participating interest" to establish specific conditions for reporting a transfer of a portion of a financial asset as a sale. The Company's adoption of this guidance effective January 1, 2010 did not have a material effect on the Company's consolidated financial position, results of operations, and financial statement disclosures.

In September 2009, the FASB issued new accounting guidance for the fair value measurement of investments in certain entities that calculate net asset value ("NAV") per share, including certain alternative investments such as hedge funds and private equity funds. The guidance allows companies to determine the fair value of such investments using NAV as a practical expedient, without further adjustments, if the fair value of the investment is not readily determinable and the investee entity issues financial statements in accordance with measurement principles for investment companies. If it is probable that the investment will be sold at a price other than NAV, the use of this practical expedient is prohibited. This guidance also requires additional disclosures for each major category of alternative investments. The Company's adoption of this guidance effective December 31, 2009 did not have a material impact on the Company's consolidated financial position or results of operations.

In August 2009, the FASB issued authoritative guidance for the fair value measurement of liabilities. This guidance includes valuation techniques which may be used for measuring fair value when a quoted price in an active market for the identical liability is not available, which includes one or more of the

following valuation techniques (i) quoted prices for identical liability when traded as an asset; (ii) quoted prices for similar liabilities or similar liabilities when traded as an asset, or (iii) another valuation technique that is consistent with the fair value principles within GAAP, such as the income or market approach. It also clarifies the adjustments to market inputs that are appropriate for collateralized structures that are restricted from being transferred to another obligor. This guidance is effective for the first reporting period beginning after issuance. The Company's adoption of this guidance effective December 31, 2009 did not have an impact on the Company's consolidated financial position or results of operations.

In June 2009, the FASB issued authoritative guidance for, and on July 1, 2009 launched, the FASB's Accounting Standards Codification as the source of authoritative GAAP to be applied by nongovernmental entities. The Codification is not intended to change GAAP but is a new structure which takes accounting pronouncements and organizes them by accounting topic. This guidance is effective for financial statements issued for interim and annual periods ending after September 15, 2009. The Company's adoption of this guidance effective for the interim reporting period ending September 30, 2009 impacts the way the Company references GAAP accounting standards in the financial statements but has no impact on the consolidated financial statements.

In May 2009, the FASB issued authoritative guidance for subsequent events, which addresses the accounting for and disclosure of subsequent events not addressed in other applicable GAAP, including disclosure of the date through which subsequent events have been evaluated. The Company's adoption of this guidance, effective with the annual reporting period ended December 31, 2009, did not have a material effect on the Company's consolidated financial position or results of operations. The required disclosure of the date through which subsequent events have been evaluated is provided in Note 22 – Subsequent Events.

In April 2009, the FASB revised the authoritative guidance for the recognition and presentation of OTTI. This guidance amends previously used methodology for determining whether an OTTI exists for fixed maturity securities, changes the presentation of OTTI for fixed maturity securities, and requires additional disclosures for OTTI on fixed maturity and equity securities in interim and annual financial statements. It requires that an OTTI be recognized in earnings for a fixed maturity security in an unrealized loss position when it is anticipated that the amortized cost will not be recovered. In such situations, the OTTI recognized in earnings is the entire difference between the fixed maturity security's amortized cost and its fair value only when either: (i) the Company has the intent to sell the fixed maturity security; or (ii) it is more likely than not that the Company will be required to sell the fixed maturity security before recovery of the decline in fair value below amortized cost. If neither of these two conditions exists, the difference between the amortized cost basis of the fixed maturity security and the present value of projected future cash flows expected to be collected is recognized as a credit loss. If the fair value is less than the present value of projected future cash flows expected to be collected, this noncredit loss is recorded as other comprehensive income (loss). When an unrealized loss on a fixed maturity security is considered temporary, the Company continues to record the unrealized loss in other comprehensive income (loss) and not in earnings. There was no change for equity securities which, when an OTTI has occurred, continue to be impaired for the entire difference between the equity security's cost or amortized cost and its fair value with a corresponding charge to earnings.

Prior to the adoption of the OTTI guidance, the Company recognized in earnings an OTTI for a fixed maturity security in an unrealized loss position unless it could assert that it had both the intent and ability to hold the fixed maturity security for a period of time sufficient to allow for a recovery of fair value to the security's amortized cost basis. Also prior to the adoption of this guidance the entire difference between the fixed maturity security's amortized cost basis and its fair value was recognized in earnings if it was determined to have an OTTI.

This guidance is effective for interim and annual reporting periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. The Company early adopted this guidance effective January 1, 2009 which resulted in an increase of \$116 million, net of related DAC, policyholder liability and tax adjustments, to retained earnings with a corresponding decrease to

accumulated other comprehensive loss to reclassify the noncredit loss portion of previously recognized OTTI losses on fixed maturity securities held at January 1, 2009.

#### NOTE 4 – INVESTMENTS

##### Fixed Maturities

The amortized cost and estimated fair value of fixed maturities as of December 31, 2010 and 2009, by contractual maturity, is presented below (in millions). Expected maturities may differ from contractual maturities because borrowers may have the right to call or repay obligations with or without call or prepayment penalties.

<u>Available-for-Sale</u>	2010		2009	
	<u>Amortized Cost</u>	<u>Fair Value</u>	<u>Amortized Cost</u>	<u>Fair Value</u>
Due in one year or less	\$ 4,942	\$ 5,044	\$ 3,533	\$ 3,597
Due after one year through five years	28,035	29,543	25,987	27,047
Due after five years through ten years	26,535	28,818	25,476	26,500
Due after ten years	25,178	27,121	25,197	26,169
Mortgage and asset backed securities:				
U.S. government or U.S. government agency	1,551	1,629	962	988
Other mortgage-backed securities	39,983	40,293	39,689	37,500
Other asset-backed securities	6,977	6,832	6,663	6,319
Redeemable preferred securities	6	7	9	10
Other	12	17	12	8
Total Available-for-Sale	<u>\$ 133,219</u>	<u>\$ 139,304</u>	<u>\$ 127,528</u>	<u>\$ 128,138</u>

At December 31, 2010 and 2009, the distribution of gross unrealized gains and losses on investments in fixed maturities was as follows (in millions):

<u>Available-for-Sale</u>	2010				
	<u>Amortized Cost</u>	<u>Unrealized Gains</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>	<u>OTTI in AOCI<sup>1</sup></u>
U.S. Treasury and U.S. Government corporations and agencies	\$ 10,040	\$ 1,126	\$ 55	\$ 11,111	\$ -
U.S. agencies, state, and municipal	2,577	58	49	2,586	-
Foreign governments	6,370	610	45	6,935	-
U.S. corporate	51,521	3,612	363	54,770	-
Foreign corporate	15,666	1,120	106	16,680	-
Residential mortgage-backed securities	29,362	1,070	1,168	29,264	(354)
Commercial mortgage-backed securities	10,680	577	169	11,088	(1)
Asset-backed securities <sup>2</sup>	6,977	109	249	6,837	(26)
Redeemable preferred securities	14	2	-	16	-
Other	12	11	6	17	-
Total Available-for-Sale	<u>\$ 133,219</u>	<u>\$ 8,295</u>	<u>\$ 2,210</u>	<u>\$ 139,304</u>	<u>\$ (381)</u>

<u>Available-for-Sale</u>	2009				OTTI in AOCI <sup>1</sup>
	<u>Amortized Cost</u>	<u>Unrealized Gains</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>	
U.S. Treasury and U.S. Government corporations and agencies	\$ 9,562	\$ 632	\$ 182	\$ 10,012	\$ -
U.S. agencies, state, and municipal	1,461	36	43	1,454	-
Foreign governments	5,069	436	33	5,472	-
U.S. corporate	50,351	2,390	769	51,972	-
Foreign corporate	14,707	844	169	15,382	-
Residential mortgage-backed securities	28,115	636	2,117	26,634	(512)
Commercial mortgage-backed securities	11,575	165	874	10,866	(8)
Asset-backed securities <sup>2</sup>	6,662	79	422	6,319	(26)
Redeemable preferred securities	15	2	-	17	-
Other	11	7	8	10	-
Total Available-for-Sale	<u>\$ 127,528</u>	<u>\$ 5,227</u>	<u>\$ 4,617</u>	<u>\$ 128,138</u>	<u>\$ (546)</u>

<sup>1</sup> Represents the amount of OTTI losses in AOCI which was not included in earnings pursuant to authoritative guidance. Amount excludes \$19 million and \$76 million for the years ended December 31, 2010 and 2009, respectively, of net unrealized gains on impaired securities relating to changes in the value of such securities subsequent to the impairment measurement date.

<sup>2</sup> Includes auto loans, credit cards, education loans, and other asset types.

At December 31, 2010 and 2009, the Company had outstanding contractual obligations to acquire additional private placement securities amounting to \$484 million and \$446 million, respectively.

The Company accrues interest income on fixed maturity securities to the extent it is deemed collectible and the security continues to perform under its original contractual terms. In the event collectability of interest is uncertain, accrual of interest income will cease and income will be recorded when and if received.

Investments in fixed maturity securities that have been non-income producing for the last twelve months total \$11 million and \$9 million at December 31, 2010 and 2009, respectively. These investments have been deemed other than temporarily impaired.

### Equity Securities – Unaffiliated

At December 31, 2010 and 2009, the distribution of gross unrealized gains and losses on unaffiliated available-for-sale equity securities was as follows (in millions):

	<u>Cost</u>	<u>Unrealized Gains</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>
<b>2010</b>	\$ 265	\$ 83	\$ 3	\$ 345
<b>2009</b>	\$ 342	\$ 70	\$ 1	\$ 411

There were no investments in preferred stock that have been non-income producing for the last twelve months at December 31, 2010 and 2009, respectively.

### Mortgage Loans

The Company's mortgage loan investments are diversified by property type, location and borrower and are collateralized by the related property.

At December 31, 2010 and 2009, contractual commitments to extend credit under commercial and residential mortgage loan agreements amounted to \$247 million and \$274 million, respectively, at fixed and floating interest rates ranging from 4.34% to 6.50% in 2010 and fixed and floating rates ranging from 3.92% to 7.13% in 2009. These commitments are diversified by property type and geographic region.

At December 31, 2010 and 2009, the distribution of the mortgage loan portfolio by property type and geographic region was as follows (in millions):

	2010		2009	
	Carrying Value	% of Total	Carrying Value	% of Total
<b>Property Type:</b>				
Office buildings	\$ 5,292	34.8%	\$ 4,963	32.5%
Retail facilities	3,224	21.2%	3,282	21.5%
Apartment buildings	2,605	17.1%	2,628	17.2%
Residential	648	4.3%	958	6.3%
Industrial	3,270	21.5%	3,223	21.1%
Hotel/Motel	158	1.1%	204	1.4%
Other	6	0.0%	6	0.0%
Total	<u>\$ 15,203</u>	<u>100.0%</u>	<u>\$ 15,264</u>	<u>100.0%</u>

	2010		2009	
	Carrying Value	% of Total	Carrying Value	% of Total
<b>Geographic Location:</b>				
Central	\$ 3,986	26.2%	\$ 3,542	23.2%
South Atlantic	3,913	25.7%	4,042	26.5%
Middle Atlantic	3,217	21.2%	3,512	23.0%
Pacific	3,355	22.1%	3,402	22.3%
New England	717	4.7%	746	4.9%
Other	15	0.1%	20	0.1%
Total	<u>\$ 15,203</u>	<u>100.0%</u>	<u>\$ 15,264</u>	<u>100.0%</u>

The Company monitors the aging of its mortgage loans receivable on a monthly basis to determine delinquencies. As of December 31, 2010, an analysis of the aging of the principal balances, excluding the allowance for credit losses, that are past due and the mortgage loans on non-accrual status and 90 days past due and still accruing were as follows (in millions):

	30-59 days	60-89 days	90 days and over	Total Past Due	Current	Total Mortgage Loans	Recorded	Non-accrual Mortgage Loans
							Mortgage Loans > 90 days accruing	
<b>Property Type:</b>								
Office buildings	\$ 24	\$ -	\$ -	\$ 24	\$ 5,302	\$ 5,326	\$ -	\$ -
Retail facilities	-	-	-	-	3,245	3,245	-	-
Apartment buildings	-	-	-	-	2,627	2,627	-	-
Residential	-	-	10	10	647	657	-	10
Industrial	-	-	-	-	3,295	3,295	-	-
Hotel/Motel	-	-	-	-	160	160	-	-
Other	-	-	-	-	6	6	-	-
Total	<u>\$ 24</u>	<u>\$ -</u>	<u>\$ 10</u>	<u>\$ 34</u>	<u>\$ 15,282</u>	<u>\$ 15,316</u>	<u>\$ -</u>	<u>\$ 10</u>

As discussed in Note 2 – Significant Accounting Policies, the Company establishes a specific reserve when it is probable that the Company will be unable to collect all amounts due under the contractual terms of the loan agreement; and a general reserve for probable incurred but not specifically identified losses. The activity in the mortgage loan specific and general reserves for the year ended December 31, 2010 is summarized below (in millions):

<b><u>Allowance for Credit Losses:</u></b>	<b><u>Residential</u></b>	<b><u>Commercial</u></b>	<b><u>Total</u></b>
Beginning balance	\$ 11	\$ 133	\$ 144
Direct writedowns	(1)	(42)	(43)
Provision for credit losses	(1)	13	12
Ending balance	<u>\$ 9</u>	<u>\$ 104</u>	<u>\$ 113</u>
<b>Ending Balance:</b>			
Individually evaluated for impairment (specific)	3	9	12
Collectively evaluated for impairment (general)	6	95	101
<b>Mortgage Loans:</b>			
Ending balance (recorded investment):			
Individually evaluated for impairment (specific)	11	84	95
Collectively evaluated for impairment (general)	646	14,575	15,221

As of December 31, 2009, the allowance for credit losses was \$144 million. For the year ended December 31, 2009, the provision for credit losses was \$119 million and direct writedowns were \$10 million.

The Company closely monitors commercial mortgage loans with the potential for impairment by considering a number of factors. These factors include; but are not limited to, LTV, asset performance such as debt service coverage ratio, lease rollovers, income/expense hurdles, major tenant or borrower issues, the economic climate, and catastrophic events. Mortgage loans with the potential for impairment take priority in receiving an appraisal. Residential mortgage loans that are sixty or more days delinquent are also monitored for potential impairment, whereby an appraisal of the underlying asset is obtained.

As mentioned above, the Company uses LTV as one of the key mortgage loan indicators to assess credit quality and to assist in identifying problem loans. As of December 31, 2010, LTVs on the Company's mortgage loans are as follows (in millions):

	<b><u>Office Buildings</u></b>	<b><u>Retail Facilities</u></b>	<b><u>Apartment Buildings</u></b>	<b><u>Residential</u></b>	<b><u>Industrial</u></b>	<b><u>Hotel/Motel</u></b>	<b><u>Other</u></b>	<b><u>Total</u></b>
above 95%	\$ 77	\$ -	\$ 88	\$ 4	\$ 31	\$ -	\$ -	\$ 200
91% to 95%	89	66	166	2	47	-	-	370
81% to 90%	661	266	332	7	1,037	77	-	2,380
71% to 80%	624	453	645	45	386	-	-	2,153
below 70%	3,841	2,439	1,374	590	1,769	81	6	10,100
Total	<u>\$ 5,292</u>	<u>\$ 3,224</u>	<u>\$ 2,605</u>	<u>\$ 648</u>	<u>\$ 3,270</u>	<u>\$ 158</u>	<u>\$ 6</u>	<u>\$ 15,203</u>

As of December 31, 2010, impaired commercial and residential mortgage loans were \$74 million and \$22 million, respectively. Further information on impaired mortgage loans is provided below (in millions):

	<u>Recorded Investment</u>	<u>Unpaid Principal Balance</u>	<u>Related Allowance</u>	<u>Average Recorded Investment</u>	<u>Interest Income Recognized</u>
<b>With related allowance:</b>					
Office buildings	\$ 18	\$ 19	\$ 2	\$ 82	\$ 1
Apartment buildings	25	30	4	35	1
Residential	22	25	3	24	1
Industrial	31	35	3	31	2
Total	<u>\$ 96</u>	<u>\$ 109</u>	<u>\$ 12</u>	<u>\$ 172</u>	<u>\$ 5</u>
Commercial	<u>\$ 74</u>	<u>\$ 84</u>	<u>\$ 9</u>	<u>\$ 148</u>	<u>\$ 4</u>
Residential	<u>\$ 22</u>	<u>\$ 25</u>	<u>\$ 3</u>	<u>\$ 24</u>	<u>\$ 1</u>

At December 31, 2010 the Company did not have any impaired loans without a related allowance.

The Company did not have any loan modifications in 2010 and 2009.

### Other Investments

The components of other investments as of December 31, 2010 and 2009 were as follows (in millions):

	<u>2010</u>	<u>2009</u>
Limited partnerships/Limited liability companies	\$ 4,637	\$ 3,877
Investment, at fair value, of consolidated investment companies	2,843	2,301
Collateralized third party loans	2,828	2,441
Collateralized third party loans of certain consolidated VIEs	1,907	-
Derivatives	998	870
Real estate	357	329
Other invested assets	263	588
Total other investments	<u>\$ 13,833</u>	<u>\$ 10,406</u>

Net unrealized investment losses on limited partnerships and limited liability companies that do not apply specialized industry company accounting aggregated \$12 million and \$8 million for the years ended December 31, 2010 and 2009, respectively, and were recorded as a component of AOCI in the accompanying Consolidated Balance Sheet.

Investments, at fair value, of consolidated investment companies consist primarily of equity securities, other limited partnerships, and fixed maturities.

Collateralized third-party loans are senior secured commercial loans, and are typically collateralized by all assets of the borrower. The Company's collateralized third-party loans, before loss reserve, amounted to \$2,970 million and \$2,584 million at December 31, 2010 and 2009, respectively. The Company establishes a loss reserve for specifically impaired loans and assigns internal risk ratings for the remainder of the portfolio on which it assesses a general loss reserve (see Note 2 - Significant Accounting Policies for further details). The loss reserve was \$142 million and \$143 million for the years ended December 31, 2010 and 2009, respectively.

Unfunded commitments on limited partnerships, limited liability companies and collateralized third-party loans amounted to \$3,046 million and \$3,204 million for December 31, 2010 and 2009, respectively.

Accumulated depreciation on real estate at December 31, 2010 and 2009 was \$33 million and \$35 million, respectively. Depreciation expense was \$4 million and \$2 million for the years ended December 31, 2010 and 2009, respectively, and was recorded as a component of net investment income in the accompanying Consolidated Statement of Income.

Investments in real estate that have been non-income producing for the last twelve months totaled \$1 million at each December 31, 2010 and 2009. These investments have been deemed impaired.

## **Variable Interest Entities**

### ***Consolidated Variable Interest Entities for which the Company is the Investment Manager***

The Company is the investment manager for certain collateralized structures, for which the Company earns fee income. Additionally, the Company may invest in certain debt securities issued by these collateralized structures. Collateralized structures raise capital by issuing debt securities, and use the proceeds to purchase investments, typically interest-bearing financial instruments. The Company analyzes these relationships to determine whether it has (i) the power to direct the activities of the VIE that most significantly impact the economic performance of the entity and (ii) the obligation to absorb losses of the entity that could be potentially significant and thus be the primary beneficiary. This analysis includes a review of the Company's rights and responsibilities as investment manager, the fees received by the Company and other interest (if any) held by the Company. The Company is not required to provide, and has not provided, material financial or other support to any VIE for which it is the investment manager.

The Company has determined that it is the primary beneficiary to nine collateralized structures it manages as it meets both conditions listed above. The assets of these VIEs are restricted and must be used to settle liabilities of the VIE. Creditors have no recourse against the Company in the event of default by these VIEs nor does the Company have any significant implied or unfunded commitments to these VIEs. The Company's financial or other support provided to these VIEs is limited to its investment management services and in certain cases its original investment. The Company's maximum exposure to loss resulting from its relationship with the collateralized structures it manages is limited to its investment in the collateralized structures. At December 31, 2010 the Company's maximum exposure to loss was \$161 million.

Upon adoption of the new VIE guidance for seven of the newly consolidated collateralized structures, the Company elected the fair value option for eligible financial assets and liabilities. Refer to Note 17 – Fair Value Measurements for more information on the fair value option.

### ***Other Consolidated Variable Interest Entities***

Upon adoption of the new VIE guidance, the Company has also determined that it is the primary beneficiary of the Index Fund as a result of a guarantee provided to certain shareholders of the fund (see Note 14 – Derivative Financial Instruments and Risk Management for more information). As the Index Funds' investment manager, the Company has both the power to direct the activities of the Index Fund that significantly impact the entity's economic performance and the obligation to absorb losses of the entity through the guarantee provided. The assets of the Index Fund are restricted and must be used to settle liabilities of the Index Fund. At December 31, 2010, the Company's maximum exposure to loss is approximately \$45 million. The maximum exposure amount under this guarantee represents the amount the Company would have to pay if the NAV of the Index Fund went to zero.

At December 31, 2010 and 2009, the Company consolidated other VIEs for which it was determined to be the primary beneficiary. These VIEs consisted of certain limited partnerships that it manages.

Creditors have no recourse against the Company in the event of default by these VIEs nor does the Company have any significant implied or unfunded commitments to these VIEs. The Company's maximum exposure to loss resulting from its relationship with these structures is limited to its investment. At December 31, 2010 and 2009, the Company's maximum exposure to loss was \$172 million and \$202 million, respectively.

The following table presents the carrying value of assets and liabilities along with the balance sheet caption in which the assets and liabilities are reported, relating to collateralized structures, the Index Fund and the Company's investments in other VIEs as of December 31, 2010 and 2009, respectively (in millions):

	2010				2009		
	Collateralized Structures	Index Fund	Other Consolidated VIEs	Total	Collateralized Structures	Other Consolidated VIEs	Total
Fixed maturities, available for sale	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 31	\$ 31
Fixed maturities, trading	135	-	-	135	-	-	-
Equity securities, trading	2	-	-	2	-	-	-
Other investments	2,108	217	179	2,504	136	176	312
Cash and cash equivalents	108	-	4	112	14	36	50
Investment income due and accrued	12	-	-	12	-	1	1
Other assets	2	1	6	9	-	6	6
Total assets	<u>\$ 2,367</u>	<u>\$ 218</u>	<u>\$ 189</u>	<u>\$ 2,774</u>	<u>\$ 150</u>	<u>\$ 250</u>	<u>\$ 400</u>
Debt	\$ 1,913	\$ -	\$ 5	\$ 1,918	\$ 105	\$ 14	\$ 119
Other liabilities	22	1	3	26	15	36	51
Total liabilities	<u>\$ 1,935</u>	<u>\$ 1</u>	<u>\$ 8</u>	<u>\$ 1,944</u>	<u>\$ 120</u>	<u>\$ 50</u>	<u>\$ 170</u>

### ***Unconsolidated Variable Interest Entities***

In the normal course of its activities, the Company will invest in structured investments including VIEs for which it is not the sponsor. These structured investments typically invest in fixed income investments and are managed by third parties and include asset-backed securities, commercial mortgage-backed securities and residential mortgage-backed securities. The Company's maximum exposure to loss on these structured investments, both VIEs and non-VIEs, is limited to the amount of its investment. The Company has not provided financial or other support, other than its direct investment, to these structures. The Company has determined that it is not the primary beneficiary of these structures due to the fact that it does not have the power to direct the activities that significantly impact the VIEs economic performance. The Company classifies these investments on its accompanying Consolidated Balance Sheet as fixed maturities, available-for-sale and fixed maturities, trading and its maximum exposure to loss associated with these investments was \$48,368 million and \$44,714 million as of December 31, 2010 and December 31, 2009, respectively.

In the normal course of its activities, the Company will invest in joint ventures, limited partnerships and limited liability companies. These investments include hedge funds, private equity funds and real estate related funds and may or may not be VIEs. The Company's maximum exposure to loss on these investments, both VIEs and non-VIEs, is limited to the amount of its investment. The Company has determined that it is not the primary beneficiary of these structures due to the fact that it does not have the power to direct the activities that significantly impact the entities' economic performance. The Company classifies these investments on its accompanying Consolidated Balance Sheet as "other investments" and its maximum exposure to loss associated with these entities was \$4,637 million and \$3,877 million as of December 31, 2010 and December 31, 2009, respectively.

These investments are subject to ongoing review for impairment and for events that may cause management to reconsider whether or not it is the primary beneficiary. The Company has no additional economic interest in these structures in the form of derivatives, related guarantees, credit enhancement or similar instruments and obligations. Creditors have no recourse against the Company in the event of

default. The Company has unfunded commitments in joint ventures, limited partnerships and limited liability companies which are previously disclosed in Note 4 – Investments.

### Restricted Assets and Special Deposits

Assets of \$2,359 million and \$1,975 million at December 31, 2010 and 2009, respectively, were on deposit with governmental authorities or trustees as required by certain state insurance and foreign government laws and are included within related invested assets in the accompanying Consolidated Balance Sheet.

### NOTE 5 - INVESTMENT INCOME AND INVESTMENT GAINS AND LOSSES

The components of net investment income for the years ended December 31, 2010 and 2009 were as follows (in millions):

	<u>2010</u>	<u>2009</u>
Fixed maturities	\$ 7,299	\$ 7,003
Equity securities	27	59
Mortgage loans	916	924
Policy loans	518	524
Derivatives	(30)	(32)
Commercial loans	174	122
Limited partnerships and other invested assets	998	287
Other	<u>(1)</u>	<u>155</u>
Gross investment income	9,901	9,042
Investment expenses	<u>(380)</u>	<u>(252)</u>
Net investment income	<u>\$ 9,521</u>	<u>\$ 8,790</u>

For the years ended December 31, 2010 and 2009, net investment gains or losses were as follows (in millions):

	<u>2010</u>	<u>2009</u>
Fixed maturities		
Total OTTI losses	\$ (404)	\$ (894)
Portion of OTTI loss recognized in OCI	147	508
Net OTTI losses on fixed maturities recognized in earnings	<u>(257)</u>	<u>(386)</u>
All other gains	838	535
Fixed maturities, net	581	149
Equity securities	522	1,009
Mortgage loans	(25)	(134)
Limited partnerships and other invested assets	105	(113)
Derivative instruments	(349)	(182)
Foreign exchange	90	(358)
Other	<u>(66)</u>	<u>(34)</u>
Net investment gains	<u>\$ 858</u>	<u>\$ 337</u>

The net gains or losses on trading securities (both fixed maturities and equity securities) amounted to \$766 million and \$1,156 million for the years ended December 31, 2010 and 2009, respectively. Trading gains and losses are included in net investment gains or losses in the accompanying Consolidated Statement of Income.

Realized gains on sales of available-for-sale fixed maturities were \$705 million and \$592 million for the years ended December 31, 2010 and 2009, respectively; and realized losses were \$132 million and \$473 million, respectively.

Losses from other than temporary impairments on equity securities (included in net investment gains (losses) on equity securities above) were \$1 million and \$51 million for 2010 and 2009, respectively.

Realized gains or losses on limited partnerships and other invested assets were \$105 million and \$(113) million for the years ended December 31, 2010 and 2009, respectively, and primarily represent the net change in fair value on the underlying investments of consolidated investment companies, which are recorded in the accompanying Consolidated Statement of Income under specialized accounting practices.

Gains and losses on derivative instruments primarily include currency swap hedges on foreign currency denominated global medium term note liabilities and equity options on Express Scripts, Inc. (“ESI”). The market value adjustment of the related ESI derivative discussed in Note 14 – Derivative Financial Instruments and Risk Management resulted in investment losses of \$343 million and \$484 million for the years ended December 31, 2010 and 2009, respectively. Foreign exchange losses primarily relate to these global medium term note liabilities.

The following table presents the Company’s gross unrealized losses and fair values for fixed maturities and equities aggregated by investment category and length of time the individual securities have been in a continuous unrealized loss position, at December 31, 2010 and 2009 (in millions):

	2010					
	Less than 12 months		Greater than 12 months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
<b>Fixed Maturities</b>						
U.S. Treasury and U.S. Government corporations and agencies	\$ 1,429	\$ 54	\$ 12	\$ 1	\$ 1,441	\$ 55
U.S. agencies, state, and municipal	1,140	49	-	-	1,140	49
Foreign governments	1,036	40	171	5	1,207	45
U.S. corporate	4,833	156	1,760	207	6,593	363
Foreign corporate	1,832	76	419	30	2,251	106
Residential mortgage-backed securities	4,227	143	3,946	1,025	8,173	1,168
Commercial mortgage-backed securities	224	7	1,120	162	1,344	169
Asset-backed securities	982	16	1,619	233	2,601	249
Other	-	-	6	6	6	6
Total fixed maturities	<u>15,703</u>	<u>541</u>	<u>9,053</u>	<u>1,669</u>	<u>24,756</u>	<u>2,210</u>
<b>Equities (Unaffiliated)</b>						
Common stock	21	3	-	-	21	3
Preferred stock	1	-	-	-	1	-
Total equities	<u>22</u>	<u>3</u>	<u>-</u>	<u>-</u>	<u>22</u>	<u>3</u>
Total	<u>\$ 15,725</u>	<u>\$ 544</u>	<u>\$ 9,053</u>	<u>\$ 1,669</u>	<u>\$ 24,778</u>	<u>\$ 2,213</u>
<b>2009</b>						
	Less than 12 months <sup>1</sup>		Greater than 12 months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
<b>Fixed Maturities</b>						
U.S. Treasury and U.S. Government corporations and agencies	\$ 3,743	\$ 180	\$ 29	\$ 2	\$ 3,772	\$ 182
U.S. agencies, state, and municipal	466	13	148	30	614	43
Foreign governments	904	21	102	12	1,006	33
U.S. corporate	6,172	151	7,390	618	13,562	769
Foreign corporate	1,812	40	1,699	129	3,511	169
Residential mortgage-backed securities	8,366	691	4,203	1,426	12,569	2,117
Commercial mortgage-backed securities	1,306	47	4,932	827	6,238	874
Asset-backed securities	667	53	2,223	369	2,890	422
Other	4	8	-	-	4	8
Total fixed maturities	<u>23,440</u>	<u>1,204</u>	<u>20,726</u>	<u>3,413</u>	<u>44,166</u>	<u>4,617</u>
<b>Equities (Unaffiliated)</b>						
Common stock	23	1	-	-	23	1
Total equities	<u>23</u>	<u>1</u>	<u>-</u>	<u>-</u>	<u>23</u>	<u>1</u>
Total	<u>\$ 23,463</u>	<u>\$ 1,205</u>	<u>\$ 20,726</u>	<u>\$ 3,413</u>	<u>\$ 44,189</u>	<u>\$ 4,618</u>

<sup>1</sup> The aging of the unrealized losses was reset back to the date the security would have been first impaired.

At December 31, 2010, the unrealized loss amount consisted of approximately 3,400 different fixed maturity securities and 200 equity securities.

At December 31, 2010, unrealized losses on investment grade fixed maturities were \$1,214 million or 55% of the Company's total fixed maturities unrealized loss. Investment grade is defined as a security having a credit rating from the National Association of Insurance Commissioners ("NAIC") of 1 or 2; a rating of Aaa, Aa, A or Baa from Moody's or a rating of AAA, AA, A or BBB from Standard & Poor's ("S&P"); or a comparable internal rating if an externally provided rating is not available. Unrealized losses on fixed maturity securities with a rating below investment grade represent \$994 million or 45% of the Company's total fixed maturities unrealized losses at December 31, 2010.

The amount of gross unrealized losses for fixed maturities where the fair value had declined by 20% or more of amortized cost totaled \$1,061 million. The amount of time that each of these securities has continuously been 20% or more below the amortized cost consist of \$101 million for 6 months or less, \$35 million for greater than 6 months through 12 months, and \$925 million for greater than 12 months. In accordance with the Company's impairment policy, the Company performed quantitative and qualitative analysis to determine if the decline was temporary. For those securities where the decline was considered temporary, the Company did not take an impairment when it did not have the intent to sell the security or it was more likely than not that it would not be required to sell the security before its anticipated recovery.

*Corporate Bonds.* U.S. corporate securities with a fair value below 80% of the security's amortized cost totaled \$90 million or 25% of the total unrealized losses on U.S. corporate securities. Foreign corporate securities with a fair value below 80% of the security's amortized cost totaled \$5 million or 5% of the total unrealized losses on foreign corporate securities. The overall improvement in the Company's fixed maturity investments generally reflects higher market prices, mainly due to credit spreads tightening throughout the year. While the losses were spread across all industry sectors, the largest sectors with unrealized losses on securities with a fair value below 80% of the security's amortized cost include Finance (\$55 million), Paper and Forest Products (\$11 million), Real Estate Investment Trusts ("REITs") (\$9 million), Gaming and Leisure (\$8 million), and Utilities (\$7 million). These securities are evaluated in accordance with the Company's impairment policy. Because the securities continue to meet their contractual payments and the Company did not have the intent to sell the security nor was it more likely than not that it would be required to sell the security before its anticipated recovery, the Company did not consider these investments to be other than temporarily impaired.

*Mortgage-Backed Securities.* Residential mortgage-backed securities that were priced below 80% of the security's amortized cost represented \$755 million or 65% of total unrealized losses on residential mortgage-backed securities. Commercial mortgage-backed securities that were priced below 80% of the security's amortized cost represented \$69 million or 41% of total unrealized losses on commercial mortgage-backed securities. The Company measures its mortgage-backed portfolio for impairments based on the security's credit rating and whether the security has an unrealized loss. For securities rated below AA at acquisition, when the fair value of a security is below amortized cost and there are negative changes in estimated future cash flows, the security is deemed other than temporarily impaired and a realized loss is recognized in net investment gains or losses in the accompanying Consolidated Statement of Income. The Company also evaluates mortgage-backed securities for other than temporary impairments in accordance with its impairment policy using cash flow modeling techniques coupled with an evaluation of facts and circumstances. The Company did not have the intent to sell its investments nor was it more likely than not that it would be required to sell the investments before recovery, therefore the Company did not consider these investments to be other than temporarily impaired.

*Asset-Backed Securities.* Similar to mortgage-backed securities, the Company measures its asset-backed portfolio for impairments based on the security's credit rating and whether the security has an unrealized loss. For securities rated below AA at acquisition, when the fair value of a security is below amortized cost and there are negative changes in estimated future cash flows, the security is deemed other than temporarily impaired and a realized loss is recognized in net investment gains or losses in the accompanying Consolidated Statement of Income. The Company also evaluates asset-backed securities for other than temporary impairments based on facts and circumstances and in accordance with the Company's impairment policy. Asset-backed securities that were priced below 80% of the security's amortized cost represented \$136 million or 54% of the total unrealized losses for asset-backed securities.

The Company did not have the intent to sell its investments nor was it more likely than not that it would be required to sell the investments before recovery, therefore the Company did not consider these investments to be other than temporarily impaired.

### Net Unrealized Investment Gains (Losses)

Net unrealized investment gains or losses on available-for-sale investments are included in the Consolidated Balance Sheet as a component of AOCI. Changes in these amounts include reclassification adjustments for prior period net unrealized gains or losses that have been recognized as realized gains or losses during the current year and are included in net investment gains or losses in the accompanying Consolidated Statement of Income.

The components of net unrealized investment gains or losses reported in AOCI at December 31, 2010 and 2009 are as follows (in millions):

	<u>2010</u>	<u>2009</u>
Fixed maturity securities - all other	\$ 6,447	\$ 1,080
Fixed maturity securities on which an OTTI loss has been recognized	<u>(362)</u>	<u>(470)</u>
Total fixed maturity securities	6,085	610
Equity securities	80	69
Derivatives designated as cash flow hedges	73	39
Other investments	<u>(10)</u>	<u>18</u>
Subtotal	6,228	736
Amounts recognized for:		
Deferred policy acquisition costs	(1,952)	(403)
Other assets (sales inducements)	(20)	(7)
Policyholders' account balances and future policy benefits	(382)	(236)
Deferred taxes	<u>(1,247)</u>	<u>28</u>
Net unrealized gains on investments	<u>\$ 2,627</u>	<u>\$ 118</u>

The net unrealized gains or losses on fixed maturity securities for the years ended December 31, 2010 and 2009, are presented separately for amounts related to fixed maturity securities on which an OTTI loss has been recognized, and all other net unrealized investment gains and losses, are as follows (in millions):

**Net unrealized investment gains and losses on fixed maturity securities on which an OTTI loss has been recognized**

	Net Unrealized Gains (Losses) On Investments <sup>1</sup>	Deferred Policy Acquisition Costs	Sales Inducements	Policyholders' Account Balances and Future Policy Benefits	Deferred Tax Asset (Liability)	Accumulated Other Comprehensive Income (Loss) Related To Net Unrealized Investment Gains (Losses)
Balance, December 31, 2008	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Cumulative impact of the adoption of new authoritative guidance on January 1, 2009	(74)	6	-	-	24	(44)
Net investment gains (losses) on investments arising during the period	(552)	-	-	-	193	(359)
Reclassification adjustment for (gains) losses included in net income	550	-	-	-	(192)	358
Reclassification adjustment for OTTI losses excluded from net income <sup>1</sup>	(394)	-	-	-	138	(256)
Impact of net unrealized investment (gains) losses on deferred policy acquisition costs and sales inducements	-	81	2	-	(29)	54
Impact of net unrealized investment (gains) losses on policyholder account balance and future policy benefits	-	-	-	(3)	1	(2)
Balance, December 31, 2009	\$ (470)	\$ 87	\$ 2	\$ (3)	\$ 135	\$ (249)
Net investment gains (losses) on investments arising during the period	274	-	-	-	(96)	178
Reclassification adjustment for (gains) losses included in net income	54	-	-	-	(19)	35
Reclassification adjustment for OTTI losses excluded from net income <sup>1</sup>	(220)	-	-	-	77	(143)
Impact of net unrealized investment (gains) losses on deferred policy acquisition costs and sales inducements	-	(1)	(1)	-	1	(1)
Impact of net unrealized investment (gains) losses on policyholder account balance and future policy benefits	-	-	-	-	-	-
Balance, December 31, 2010	\$ (362)	\$ 86	\$ 1	\$ (3)	\$ 98	\$ (180)

<sup>1</sup> Represents “transfers in” related to the portion of OTTI losses recognized during the period that were not recognized in earnings for securities with no prior OTTI loss.

**All other net unrealized investment gains and losses**

	Net Unrealized Gains (Losses) On Investments <sup>1</sup>	Deferred Policy Acquisition Costs	Sales Inducements	Policyholders' Account Balances and Future Policy Benefits	Deferred Tax Asset (Liability)	Accumulated Other Comprehensive Income (Loss) Related To Net Unrealized Investment Gains (Losses)
Balance, December 31, 2008	\$ (8,036)	\$ 1,388	\$ 55	\$ (56)	\$ 2,337	\$ (4,312)
Cumulative impact of the adoption of new authoritative guidance on January 1, 2009	(144)	32	1	(1)	40	(72)
Net investment gains (losses) on investments arising during the period	10,779	-	-	-	(3,725)	7,054
Reclassification adjustment for (gains) losses included in net income	(1,787)	-	-	-	634	(1,153)
Reclassification adjustment for OTTI losses excluded from net income <sup>2</sup>	394	-	-	-	(138)	256
Impact of net unrealized investment (gains) losses on deferred policy acquisition costs and sales inducements	-	(1,910)	(65)	-	683	(1,292)
Impact of net unrealized investment (gains) losses on policyholder account balance and future policy benefits	-	-	-	(176)	62	(114)
Balance, December 31, 2009	1,206	(490)	(9)	(233)	(107)	367
Net investment gains (losses) on investments arising during the period	5,511	-	-	-	(1,869)	3,642
Reclassification adjustment for (gains) losses included in net income	(343)	-	-	-	120	(223)
Reclassification adjustment for OTTI losses excluded from net income <sup>2</sup>	216	-	-	-	(76)	140
Impact of net unrealized investment (gains) losses on deferred policy acquisition costs and sales inducements	-	(1,548)	(12)	-	538	(1,022)
Impact of net unrealized investment (gains) losses on policyholder account balance and future policy benefits	-	-	-	(146)	49	(97)
Balance, December 31, 2010	\$ 6,590	\$ (2,038)	\$ (21)	\$ (379)	\$ (1,345)	\$ 2,807

<sup>1</sup> Includes cash flow hedges. See Note 14 - Derivative Financial Instruments and Risk Management for information on cash flow hedges.

<sup>2</sup> Represents “transfers out” related to the portion of OTTI losses recognized during the period that were not recognized in earnings for securities with no prior OTTI loss.

The following rollforward provides a breakdown of the cumulative credit loss component of OTTI losses recognized in earnings of fixed maturity securities still held for which a portion of the loss was recognized in OCI (in millions):

	<u>2010</u>	<u>2009</u>
Balance at beginning of year	\$ 327	\$ -
Additions		
Credit losses remaining in retained earnings related to the change in accounting principle	-	124
Credit loss impairments recognized in the current period on securities previously not impaired	116	78
Additional credit loss impairments recognized in the current period on securities previously impaired	67	146
Reductions		
Credit loss impairments previously recognized on securities which matured, paid down, prepaid or sold during the period	(22)	(21)
Balance at end of year	<u>\$ 488</u>	<u>\$ 327</u>

## NOTE 6 - SEPARATE ACCOUNTS

### Separate Accounts Registered with the SEC

The Company maintains separate accounts, which are registered with the SEC, for its variable deferred annuity and variable universal life products with assets of \$17,100 million and \$14,858 million at December 31, 2010 and 2009, respectively. The assets of these separate accounts, which are carried at fair value, represent investments in shares of MainStay VP Series Fund, Inc. managed by NYLIM and other non-proprietary funds.

### Separate Accounts Not Registered with the SEC

The Company also maintains separate accounts, which are not registered with the SEC, with assets of \$5,473 million and \$3,747 million at December 31, 2010 and 2009, respectively. The assets in these separate accounts are comprised of privately placed corporate bonds, mortgage-backed securities, commercial mortgages and equities, as well as publicly traded investment grade corporate bonds, high-yield bonds, treasury bonds and equities. The assets in these separate accounts are carried at fair value.

See Note 9 - Policyholders' Liabilities for information regarding separate accounts with contractual guarantees for guaranteed minimum death benefits ("GMDB") and guaranteed minimum accumulation benefits ("GMAB").

## NOTE 7 - DEFERRED POLICY ACQUISITION COSTS AND SALES INDUCEMENTS

The following is an analysis of deferred policy acquisition costs for the years ended December 31, 2010 and 2009 (in millions):

	<u>2010</u>	<u>2009</u>
Balance at beginning of year	\$ 8,930	\$ 10,132
Less: DAC of subsidiaries held-for-sale	(537)	-
Beginning balance, continuing operations	<u>8,393</u>	<u>10,132</u>
Current year additions	1,736	1,838
Amortized during year	(1,623)	(1,246)
Balance at end of year before related adjustments	<u>8,506</u>	<u>10,724</u>
Adjustment for changes in unrealized net investment gains	(1,534)	(1,830)
Cumulative translation adjustment	66	36
Balance at end of year	<u>\$ 7,038</u>	<u>\$ 8,930</u>

## Sales Inducements

The following is an analysis of deferred sales inducements included in other assets in the accompanying Consolidated Balance Sheet for the years ended December 31, 2010 and 2009 (in millions):

	<u>2010</u>	<u>2009</u>
Balance at beginning of year	\$ 315	\$ 331
Current year additions	105	67
Amortized during year	<u>(51)</u>	<u>(21)</u>
Balance at end of year before related adjustments	369	377
Adjustment for changes in unrealized net investment gains	<u>(13)</u>	<u>(62)</u>
Balance at end of year	<u><u>\$ 356</u></u>	<u><u>\$ 315</u></u>

## NOTE 8 – GOODWILL AND OTHER INTANGIBLE ASSETS

### Goodwill

The following is an analysis of goodwill at December 31, 2010 and 2009 (in millions):

	<u>2010</u>	<u>2009</u>
Balance at beginning of year	\$ 520	\$ 505
Acquisitions	10	5
Cumulative translation adjustment	13	10
Balance at end of year	<u><u>\$ 543</u></u>	<u><u>\$ 520</u></u>

In 2010 and 2009, the Company completed the annual impairment tests of goodwill, which indicated no impairment was required.

On December 30, 2010, pursuant to the terms and conditions of a Sale and Purchase Agreement (“Agreement”), New York Life Investments acquired a 60% ownership interest in Private Advisors LLC (“Private Advisors”). The acquisition of Private Advisors resulted in an additional \$10 million of goodwill. Refer to Note 21 – Acquisition and Discontinued Operations for further details.

### Other Intangible Assets

Intangible assets at December 31, 2010 and 2009 consist of the following (in millions):

	<u>2010</u>			<u>2009</u>		
	<u>Gross Carrying Amount</u>	<u>Accumulated Amortization</u>	<u>Net Carrying Amount</u>	<u>Gross Carrying Amount</u>	<u>Accumulated Amortization</u>	<u>Net Carrying Amount</u>
Intangible assets subject to amortization:						
Asset management contracts	\$ 209	\$ (134)	\$ 75	\$ 197	\$ (128)	\$ 69
VOBA	89	(69)	20	88	(63)	25
Other	39	(10)	29	34	(9)	25
Intangible assets not subject to amortization	193	-	193	57	-	57
Total	<u><u>\$ 530</u></u>	<u><u>\$ (213)</u></u>	<u><u>\$ 317</u></u>	<u><u>\$ 376</u></u>	<u><u>\$ (200)</u></u>	<u><u>\$ 176</u></u>

All intangible assets (other than goodwill) are reported in other assets in the accompanying Consolidated Balance Sheet. No impairments exist on intangible assets in 2010 and 2009.

The asset management contracts relate to mutual funds and other separate accounts. The value of business acquired (“VOBA”) asset relates to the purchase of one of the Company’s international insurance subsidiaries in 2000. The increase in the gross carrying amount of VOBA is due to currency translation adjustments. Other is comprised of in-place leases on real estate acquired, non-compete agreements and trademarks.

The acquisition of Private Advisors (see Note 21 – Acquisition and Discontinued Operations) resulted in the addition of \$148 million of intangible assets, of which \$136 million relating to indefinite lived investment contracts is not subject to amortization. The remaining intangible assets, attributable to asset management contracts, will be amortized over their useful lives of 10 to 14 years.

Amortization expense for other intangible assets is expected to be approximately \$8 million each year over the next five years.

## NOTE 9 - POLICYHOLDERS’ LIABILITIES

### Policyholders’ Account Balances

Policyholders’ account balances at December 31, 2010 and 2009 were as follows (in millions):

	<u>2010</u>	<u>2009</u>
Deferred annuities	\$ 37,677	\$ 35,157
Guaranteed investment contracts	19,399	20,360
Universal life contracts	19,884	18,393
Immediate participation guarantee contracts	3,896	3,433
Dividend accumulations and continued interest accounts	1,422	1,595
Annuities certain	727	667
Supplementary contracts without life contingencies	922	808
Other	329	466
Total policyholders’ account balances	<u>\$ 84,256</u>	<u>\$ 80,879</u>

At December 31, 2010 and 2009, of the total policyholders’ account balances of \$84,256 million and \$80,879 million, respectively, the total amounts related to policyholders’ account balances that have surrender privileges were \$69,671 million and \$65,418 million, respectively. The amounts redeemable in cash by policyholders at December 31, 2010 and 2009 were \$67,129 million and \$62,697 million, respectively.

The Company sells funding agreements to special purpose entities (“SPEs”), which purchase the funding agreements with the proceeds from medium term notes having payment terms substantially identical to the funding agreements issued to the SPEs. Guaranteed investment contracts in the above chart issued by the Company include those funding agreements issued to the SPEs. At December 31, 2010 and 2009, the balance under those funding agreements issued by the Company to the SPEs was \$9,668 million and \$8,507 million, respectively.

On February 26, 2008, the Company became a member of the Federal Home Loan Bank of New York (the “FHLB of NY”) and holds \$121 million and \$129 million of common stock of the FHLB of NY at December 31, 2010 and 2009, respectively. The Company has also entered into funding agreements with the FHLB of NY, whereby the Company has issued such funding agreements in exchange for cash. The proceeds are invested to earn a spread on the business. The funding agreements are included in guaranteed investment contracts in the above table. When a funding agreement is issued, the Company is then required to post collateral in the form of eligible securities including mortgage-backed, government and agency debt instruments for each of the advances that are entered. Upon any event of default by the Company, the FHLB of NY’s recovery on the collateral is limited to the amount of the Company’s liability to the FHLB of NY. The amount of the Company’s liability for funding agreements with the FHLB of NY was \$1,502 million and \$2,052 million at December 31, 2010 and 2009, respectively. The

fair value of collateral posted, including interest due and accrued, was \$2,529 million and \$2,711 million at December 31, 2010 and 2009, respectively. At December 31, 2010 and 2009, the Company's borrowing capacity with FHLB of NY was \$5,033 million and \$4,124 million, respectively.

The following table highlights the interest rate assumptions generally utilized in calculating policyholders' account balances, as well as certain withdrawal characteristics associated with these accounts at December 31, 2010:

<b>Products</b>	<b>Interest Rates</b>	<b>Withdrawal/Surrender Charges</b>
Deferred annuities	1.00% to 10.00%	Surrender charges 0% to 10% for up to 10 years.
Guaranteed investment contracts	0.25% to 15.16%	Where permitted by contract, subject to fair value withdrawal provisions for any funds withdrawn other than for benefit responsive and contractual payments.
Universal life contracts	2.73% to 10.00%	Various up to 19 years.
Immediate participation guarantee contracts	4.70% to 8.02%	Contractually limited or subject to fair value adjustment.
Dividend accumulations and continued interest accounts	0.19% to 3.80%	Generally, not subject to withdrawal/surrender charges, except for certain contracts where withdrawal/surrender is limited or subject to a fair value adjustment.
Annuities certain	0.50% to 10.28%	No surrender or withdrawal charges.
Supplementary contracts without life contingencies	1.50% to 3.5%	No surrender or withdrawal charges.

### **Future Policy Benefits**

Future policy benefits at December 31, 2010 and 2009 were as follows (in millions):

	<u><b>2010</b></u>	<u><b>2009</b></u>
Life insurance	\$ 58,204	\$ 55,443
Individual and group payout annuities	13,088	11,400
Group annuities	2,767	2,777
Other contract liabilities	1,832	2,110
Total future policy benefits	<u>\$ 75,891</u>	<u>\$ 71,730</u>

At December 31, 2010 and 2009, of the total future policy benefits of \$75,891 million and \$71,730 million, respectively, the total amounts related to policies that have surrender privileges were \$54,977 million and \$52,969 million, respectively. The amounts redeemable in cash by policyholders at December 31, 2010 and 2009 were \$51,235 million and \$49,370 million, respectively.

Participating life insurance contracts represented 77% and 76% of total life insurance in force for the years ended December 31, 2010 and 2009, respectively. Participating life insurance contracts also represented 76% and 80% of total life insurance premiums for the years ended December 31, 2010 and 2009, respectively.

The following table highlights the key assumptions generally utilized in the calculation of future policy benefit reserves at December 31, 2010:

Products	Mortality	Interest Rates	Estimation Method
Traditional life insurance policies	Generally rates guaranteed in calculating cash surrender values.	2.00% to 5.50%	Net level premium.
Term life insurance policies	Based upon best estimates at time of policy issuance with provision for adverse deviations ("PAD").	2.00% to 7.70%	Net level premium reserve taking into account death benefits, lapses and maintenance expenses with PAD.
Individual and group payout annuities	Based upon best estimates at time of policy issuance with PAD.	3.94% to 9.50%	Present value of expected future payments at a rate expected at issue with PAD.
Group annuities	Mostly 1983 Group Annuity Mortality Tables.	2.50% to 11.00%	Present value of expected future payments at rates expected at issue, or for issues prior to 1993 at the then expected portfolio rates.

### Guaranteed Minimum Benefits

At December 31, 2010 and 2009, the Company had variable contracts with guarantees. (Note that the Company's variable contracts with guarantees may offer more than one type of guarantee in each contract; therefore, the amounts listed are not mutually exclusive). For guarantees of amounts in the event of death, the net amount at risk is defined as the current GMDB in excess of the current account balance at the balance sheet date. For guarantees of accumulation balances, the net amount at risk is defined as the GMAB minus the current account balance at the balance sheet date.

### Variable Annuity Contracts – GMDB and GMAB

The Company issues certain variable annuity contracts with GMDB and GMAB features that guarantee either:

- Return of deposits: the benefit is the greater of current account value or premiums paid (adjusted for withdrawals).
- Ratchet: the benefit is the greatest of the current account value, premiums paid (adjusted for withdrawals), or the highest account value on any contractually specified anniversary up to contractually specified ages (adjusted for withdrawals).

The following tables provide the account value, net amount at risk and average attained age of contract holders at December 31, 2010 and 2009 for GMDB's and GMAB's (\$ in millions):

	2010		
	Return of Net Deposits		Ratchet
	In the Event of Death (GMDB)	Accumulation at Specified Date (GMAB)	In the Event of Death (GMDB)
Account value	\$ 5,737	\$ 3,103	\$ 12,165
Net amount at risk	\$ 67	\$ 62	\$ 519
Average attained age of contract holders	57	56	61

  

	2009		
	Return of Net Deposits		Ratchet
	In the Event of Death (GMDB)	Accumulation at Specified Date (GMAB)	In the Event of Death (GMDB)
Account value	\$ 4,552	\$ 2,283	\$ 11,342
Net amount at risk	\$ 179	\$ 172	\$ 1,277
Average attained age of contract holders	58	56	61

The following summarizes the liabilities for guarantees on variable contracts reflected in the general account in future policy benefits for GMDB and policyholders' account balances for GMAB in the accompanying Consolidated Balance Sheet (in millions):

	<u>GMDB</u>	<u>GMAB</u>	<u>Totals</u>
Balance, January 1, 2009	\$ 65	\$ 316	\$ 381
Incurred guarantee benefits	1	(81)	(80)
Paid guarantee benefits	(22)	-	(22)
Balance, December 31, 2009	<u>44</u>	<u>235</u>	<u>279</u>
Incurred guarantee benefits	5	(12)	(7)
Paid guarantee benefits	(11)	(1)	(12)
Balance, December 31, 2010	<u>\$ 38</u>	<u>\$ 222</u>	<u>\$ 260</u>

For GMABs, incurred guaranteed minimum benefits incorporate all changes in fair value other than amounts resulting from paid guarantee benefits. GMABs are considered to be derivatives and are recognized at fair value through interest credited to policyholders' account balances in the accompanying Consolidated Statement of Income (refer to Note 17 – Fair Value Measurements).

The GMDB liability is determined each period end by estimating the expected value of death benefits in excess of the projected account balance and recognizing the excess ratably over the accumulation period based on total expected assessments in accordance with applicable guidance. The Company regularly evaluates estimates used and adjusts the additional liability balance, with a related charge or credit to increase in liabilities for future policy benefits in the accompanying Consolidated Statement of Income, if actual experience or other evidence suggests that earlier assumptions should be revised.

The following assumptions and methodology were used to determine the GMDB liability at December 31, 2010 and 2009, respectively:

- Data used was 1,000 stochastically generated investment performance scenarios.
- Mean investment performance assumptions ranged from 5.42% to 6.73% for 2010 and 5.85% to 6.88% for 2009.
- Volatility assumption ranged from 13.47% to 15.45% for 2010 and was 14.26% for 2009.
- Mortality was assumed to be 91% of the A2000 table for both 2010 and 2009.
- Lapse rates vary by contract type and duration and ranged from 0.50% to 30%, with an average of 6.30% and 6.10% for 2010 and 2009, respectively.
- Discount rates ranged from 6.69% to 7.25% for 2010 and 6.48% to 7.29% for 2009.

The following table presents the aggregate fair value of assets at December 31, 2010 and 2009, by major investment fund options (including the general and separate account fund options), held by variable annuity products that are subject to GMDB and GMAB benefits and guarantees. Since variable contracts with GMDB guarantees may also offer GMAB guarantees in each contract, the GMDB and GMAB amounts listed are not mutually exclusive (in millions):

	<u>2010</u>		<u>2009</u>	
	<u>GMDB</u>	<u>GMAB</u>	<u>GMDB</u>	<u>GMAB</u>
Separate account:				
Equity	\$ 8,523	\$ 1,826	\$ 7,383	\$ 1,374
Fixed income	3,412	635	2,970	462
Balanced	2,427	463	2,007	287
General account	<u>3,540</u>	<u>179</u>	<u>3,534</u>	<u>160</u>
Total	<u>\$ 17,902</u>	<u>\$ 3,103</u>	<u>\$ 15,894</u>	<u>\$ 2,283</u>

## Additional Liability for Individual Life Products

Certain individual life products require additional liabilities for contracts with excess insurance benefit features. These excess insurance benefit features are generally those that result in profits in early years and losses in subsequent years. For the Company's individual life contracts, this requirement primarily affects universal life policies with cost of insurance charges that are significantly less than the expected mortality costs in the intermediate and later policy durations.

Generally, the Company has separately defined an excess insurance benefit feature to exist when expected mortality exceeds all assessments. This insurance benefit feature is in addition to the base mortality feature, which the Company defines as expected mortality not in excess of assessments.

The following table summarizes the liability for excess insurance benefit features reflected in the general account in future policy benefits (in millions):

	<u>2010</u>	<u>2009</u>
Beginning balance	\$ 45	\$ 41
Net liability increase	23	4
Ending balance	<u>\$ 68</u>	<u>\$ 45</u>

## NOTE 10 - INCOME TAXES

A summary of the components of the net total income tax expense (benefit) for the years ended December 31, 2010 and 2009, respectively, included in the accompanying Consolidated Statement of Income is as follows (in millions):

	<u>2010</u>	<u>2009</u>
Current		
Federal	\$ 169	\$ (24)
State and local	6	(1)
Foreign	46	31
	<u>221</u>	<u>6</u>
Deferred		
Federal	356	398
State and local	-	(4)
Foreign	88	46
	<u>444</u>	<u>440</u>
Income tax expense from continuing operations	<u>\$ 665</u>	<u>\$ 446</u>

As of December 31, 2010, the Company has recorded an income tax benefit of \$46 million from discontinued operations. The income tax consists of \$3 million of a current income tax benefit and \$43 million of a deferred income tax benefit.

At December 31, 2010 and 2009, the Company recorded a net current income tax receivable (payable) of \$128 million included in other assets and \$(6) million included in other liabilities, respectively, in the accompanying Consolidated Balance Sheet.

The Company's actual income tax expense for the years ended December 31, 2010 and 2009, differs from the expected amount computed by applying the U.S. statutory federal income tax rate of 35% for the following reasons:

	<u>2010</u>	<u>2009</u>
Statutory federal income tax rate	35.00%	35.00%
Foreign operations, net of foreign taxes	0.05 %	(2.02)%
Tax exempt income	(2.23)%	(4.08)%
Investment credit	(3.15)%	(3.49)%
Non-controlling interest	(2.63)%	1.04 %
Other	(0.64)%	(1.09)%
Effective tax rate	<u>26.40%</u>	<u>25.36%</u>

Deferred income taxes are generally recognized, based on enacted tax rates, when assets and liabilities have different values for financial statement and tax purposes. A valuation allowance is recorded if it is more likely than not that any portion of the deferred tax asset will not be realized.

The components of net deferred tax assets and liabilities reported in other assets or other liabilities in the accompanying Consolidated Balance Sheet as of December 31, 2010 and 2009, respectively, are as follows (in millions):

	<u>2010</u>	<u>2009</u>
Deferred tax assets		
Future policyholder benefits	\$ 1,498	\$ 1,594
Agent & employee benefits	1,251	1,166
Net operating losses	113	169
Other deferred tax asset	124	111
Deferred tax assets before valuation allowance	<u>2,986</u>	<u>3,040</u>
Valuation allowance	-	(28)
Gross deferred tax assets	<u>2,986</u>	<u>3,012</u>
Deferred tax liabilities		
Deferred policy acquisition costs	1,535	2,096
Investments	2,294	78
Fixed assets	161	162
Other deferred tax liabilities	61	58
Gross deferred tax liabilities	<u>4,051</u>	<u>2,394</u>
Net deferred tax (liability) asset from continuing operations	<u>\$ (1,065)</u>	<u>\$ 618</u>

As of December 31, 2010, the Company has recorded a net deferred tax asset of \$20 million from discontinued operations. The net deferred tax asset consists of a \$65 million gross deferred tax asset and a \$45 million gross deferred tax liability. At December 31, 2010, the Company has recorded a valuation allowance of \$35 million related to foreign net operating loss ("NOL") carryforwards and other foreign deferred tax assets from discontinued operations.

The deferred tax asset relates to temporary differences that are expected to reverse as net ordinary deductions or capital losses. At December 31, 2010, the Company did not record a valuation allowance from continuing operations on its deferred tax assets. At December 31, 2009, the Company recorded a valuation allowance of \$28 million, related to foreign NOL carryforwards and other foreign deferred tax assets. This valuation allowance reflects management's assessment, based on available information, that it is more likely than not that the deferred income tax asset for these amounts will not be realized. The benefit of these deferred tax assets may be recognized when management believes it is more likely than not that the asset is realizable. Although realization is not assured, management believes it is more likely than not that the deferred tax assets, net of valuation allowances, will be realized.

As of December 31, 2010 and 2009, the Company has gross NOL carryforwards of \$727 million and \$711 million, respectively. The deferred tax assets related to these NOLs are \$169 million at each December 31, 2010 and 2009. NOLs and its related deferred tax asset from continuing operations were

\$487 million and \$113 million, respectively, at December 31, 2010. At December 31, 2010, deferred tax assets from continuing operations begin to expire in various years ranging from 2012 through 2028.

The Company does not provide U.S. income taxes on unremitted foreign earnings of certain of its non-U.S. operations because such earnings are considered to be permanently reinvested in such operations. The Company has undistributed earnings of foreign subsidiaries of \$517 million and \$524 million at December 31, 2010 and 2009, respectively, for which U.S. deferred taxes have not been provided. Determining the tax liability that would arise if these earnings were remitted is not practicable. During 2010, the Company entered into definitive agreements to sell certain of its investments in certain foreign operations (see Note 21 – Acquisition and Discontinued Operations for further information). Accordingly, the earnings of these operations are no longer considered to be permanently reinvested and the Company recognized a deferred tax asset of \$18 million related to the sale, which is included in net income from discontinued operations, net of income tax benefit in the accompanying Consolidated Statement of Income for the year ended December 31, 2010.

The Company's federal income tax returns are routinely examined by the IRS and provisions are made in the financial statements in anticipation of the results of these audits. The IRS has completed audits through 2004 and is currently auditing tax years 2005 through 2007. There were no material effects on the Company's consolidated results of operations as a result of these audits. The Company believes that its recorded income tax liabilities for uncertain tax positions are adequate for all open years.

The Company's total interest expense associated with the liability for unrecognized tax benefits for the years ended December 31, 2010 and 2009 aggregated \$9 million and \$20 million, respectively, and are included in income tax expense (benefit) in the accompanying Consolidated Statement of Income. At December 31, 2010 and 2009, the Company had \$65 million and \$121 million, respectively, of accrued interest associated with the liability for unrecognized tax benefits, which is reported in other liabilities on the accompanying Consolidated Balance Sheet. The \$56 million decrease from December 31, 2009 in accrued interest associated with the liability for unrecognized tax benefits is the result of an increase of \$8 million of interest expense and a \$64 million decrease resulting from settlements with tax authorities. The \$15 million decrease from December 31, 2008 in accrued interest associated with the liability for unrecognized tax benefits is the result of an increase of \$20 million of interest expense and a \$35 million decrease resulting from settlements with tax authorities. The Company does not anticipate any significant changes to its total unrecognized tax benefits within the next 12 months.

#### **NOTE 11 – REINSURANCE**

The Company enters into reinsurance agreements in the normal course of its insurance business to reduce overall risk and to be able to issue life insurance policies in excess of its retention limits. Currently, the Company reinsures the mortality risk on new life insurance policies on a quota-share yearly renewable term basis for all products. Up until late 2004, the Company typically retained 10% of each risk on its individual universal and term life insurance policies, and varying retention amounts ranging from 30% to 50% on select group life insurance cases and product lines. Starting in late 2004, the Company began to retain a higher share on certain individual life products, and the quota share currently retained generally ranging from 10% up to 60% with a minimum size policy ceded of \$1 million for most products. Most of the reinsured business is on an automatic basis. Cases in excess of the Company's retention and certain substandard cases are reinsured facultatively. The Company does not have any individual or group life reinsurance agreements that do not transfer risk or contain risk-limiting features.

The Company no longer writes individual medical and disability income coverage. The Company's disability income policies are reinsured 100% with Unum Group on a modified coinsurance basis. The Company reinsures 40% of medical coverage and 90% of Medicare Supplement coverage with Mutual of Omaha.

The Company remains liable for reinsurance ceded if the reinsurer fails to meet its obligation on the business it has assumed. The Company periodically reviews the financial condition of its reinsurers and

amounts recoverable in order to minimize its exposure to loss from reinsurer insolvencies. When necessary, an allowance is recorded for reinsurance the Company cannot collect. Four reinsurance companies account for 84% of the reinsurance ceded at each December 31, 2010 and 2009.

Life insurance reinsured was 19% and 21% of total life insurance in-force at December 31, 2010 and 2009, respectively.

The effects of reinsurance for the years ended December 31, 2010 and 2009 were as follows (in millions):

	<u>2010</u>	<u>2009</u>
Premiums:		
Direct	\$ 12,044	\$ 11,395
Assumed	454	368
Ceded	(514)	(499)
Net premiums	<u>\$ 11,984</u>	<u>\$ 11,264</u>
Fee income ceded on universal life contracts	<u>\$ 277</u>	<u>\$ 246</u>
Policyholders' benefits ceded	<u>\$ 735</u>	<u>\$ 645</u>
Increase in ceded liabilities for future policy benefits	<u>\$ (11)</u>	<u>\$ 12</u>
Reinsurance recoverable	<u>\$ 572</u>	<u>\$ 572</u>
Reinsurance payable	<u>\$ 116</u>	<u>\$ 112</u>

## NOTE 12 - DEBT

Debt consisted of the following at December 31, 2010 and 2009 (in millions):

	<u>2010</u>	<u>2009</u>
Recourse debt		
6.75% Surplus Notes, due November 15, 2039	\$ 998	\$ 998
5.875% Surplus Notes, due May 15, 2033	991	991
Capital Corporation's commercial paper debt issuance, various maturity dates through January 2011 and January 2010 for 2010 and 2009, respectively, (the weighted average interest rate is approximately 0.28% and 0.20% for 2010 and 2009, respectively)	573	592
Shared Appreciation Income Linked Securities, due August 22, 2011 (coupon rate of 3.3%)	239	233
Other	17	22
Total recourse debt	<u>2,818</u>	<u>2,836</u>
Non-recourse debt		
Collateralized structures	1,913	105
Real Estate Mortgage Investment Conduit, due March 1, 2012 (interest rate is approximately 2.01% and 1.98% for 2010 and 2009, respectively)	380	500
Other	9	40
Total non-recourse debt	<u>2,302</u>	<u>645</u>
	<u>\$ 5,120</u>	<u>\$ 3,481</u>

### Recourse Debt

On October 8, 2009, New York Life issued surplus notes ("2009 Notes") with a principal balance of \$1 billion, at a discount of \$2 million, bearing interest at 6.75%, with a maturity date of November 15, 2039. On May 5, 2003, New York Life issued surplus notes ("2003 Notes") with a principal balance of \$1 billion, at a discount of \$10 million, bearing interest at 5.875%, with a maturity date of May 15, 2033. Both the 2003 Notes and 2009 Notes (collectively "the Notes") were issued pursuant to Rule 144A under the Securities Act of 1933, as amended, and are administered by a United States bank as registrar/paying

agent. Interest on the Notes is scheduled to be paid semi-annually on May 15 and November 15 of each year. The first payment on the 2009 Notes commenced on May 15, 2010.

The Notes are unsecured and subordinated to all present and future indebtedness, policy claims and other creditor claims of New York Life. There are no principal payments due in respect of the Notes prior to maturity. Each payment of interest or principal may be made only with the prior approval of the Superintendent of the Department and only out of surplus funds, which the Superintendent determines to be available for such payments under New York State Insurance law. Provided that approval is granted by the Superintendent, the Notes may be redeemed at the option of the Company at any time, in whole or in part, at the “make-whole” redemption price equal to the greater of (i) the principal amount of the Notes to be redeemed, or (ii) the sum of the present values of the remaining scheduled interest and principal payments on the Notes to be redeemed, excluding accrued interest as of the date on which the Notes are to be redeemed, discounted to the date of redemption on a semi-annual basis at an adjusted treasury rate plus 20 basis points (“bps”) in the case of the 2003 Notes and 40 bps in the case of the 2009 Notes, plus in each case, accrued interest on the Notes to be redeemed through the redemption date.

For the years ended December 31, 2010 and 2009, interest expense on New York Life’s Notes totaled \$127 million and \$75 million, respectively. Accrued interest at December 31, 2010 and 2009 was \$16 million and \$23 million, respectively.

At December 31, 2010 and 2009, the face value of commercial paper issued by New York Life Capital Corporation, an indirect wholly owned subsidiary of New York Life, was approximately \$573 million and \$592 million, respectively. For the years ended December 31, 2010 and 2009, interest expense totaled \$2 million and \$5 million, respectively.

On August 16, 2001, the Company entered into an agreement with Credit Suisse International and Credit Suisse (collectively “Credit Suisse”) (formerly Credit Suisse First Boston International and Credit Suisse First Boston Corporation), referred to as Shared Appreciation Income Linked Securities (“SAILS”) in the above table. Under the agreement, the Company agreed to a forward sale of certain of its shares of ESI, an investment of the Company.

The Company may deliver up to 36 million shares of ESI common stock on August 22, 2011 or settle the transaction in cash instead of delivering shares. Upon entering into the transaction the Company received \$6.76 per ESI share or \$243 million, less offering costs of \$4 million, bringing net proceeds to \$239 million and is entitled to 100% of the appreciation up to \$8.78 and 23% of the appreciation in excess of \$8.78 per share. In accordance with the authoritative guidance on derivatives, \$54 million of the proceeds represented the fair value of the derivative embedded in the contract. The Company recorded a discounted debt obligation of \$189 million with a par value of \$243 million and deferred offering costs (included in other assets on the accompanying Consolidated Balance Sheet) of \$4 million. For each of the years ended December 31, 2010 and 2009, the accretion of interest expense was \$6 million. The Company pays Credit Suisse a 3.3% annual coupon payment quarterly on each November 22, February 22, May 22, and August 22. For each of the years ended December 31, 2010 and 2009, interest expense was \$8 million. At each December 31, 2010 and 2009, accrued interest was \$1 million. All share amounts and prices in the accompanying footnotes have been adjusted to reflect a two-for-one ESI stock split in 2010.

Other debt primarily represents capital leases. Amounts due on other debt are \$7 million in 2011, \$2 million in 2012, \$2 million in 2013, \$2 million in 2014, \$3 million in 2015, and \$1 million thereafter.

### **Non-Recourse Debt**

Non-recourse debt primarily represents debt issued by special purpose entities. Only the assets of these entities can be used to settle their respective liabilities, and under no circumstances is the Company or any of its subsidiaries or affiliates liable for any principal or interest shortfalls should any arise.

As discussed in Note 4 - Investments, upon the adoption of new guidance effective January 1, 2010, the Company consolidated certain collateralized structures for which it is the investment manager. At December 31, 2010, these entities had \$1,798 million of long-term debt. The long-term debt bears interest primarily at LIBOR plus a spread ranging from 0.22% to 5%, payable primarily on a monthly basis and is expected to be repaid over the next 10 years. Interest expense related to these obligations was \$64 million for the year ended December 31, 2010. See Note 4 - Investments for the classification and valuation of the assets supporting this liability.

During December 2009, the Company entered into a Real Estate Mortgage Investment Conduit (“REMIC”) with a trust known as Madison ResCom Securities Funding Trust 2009 (the “Trust”) that meets the criteria for a qualified SPE. The Company transferred REMIC eligible mortgage-backed assets with a fair value and book value of \$1.2 billion and \$1.7 billion, respectively. The Trust, in turn, issued a \$500 million senior debt tranche (“regular interest”) and a residual equity tranche (“residual interest”). The regular interest was sold to an outside third-party and New York Life retained the residual interest. The transfer of the assets to the Trust was accounted for as a secured borrowing and the securities remain on the Company’s Consolidated Balance Sheet with the \$500 million proceeds received from the sale of the regular interest recognized as debt on the accompanying Consolidated Balance Sheet. The cash flows from the transferred assets are used to pay down the regular interest. The REMIC is dissolved upon the earlier of the date on which the regular interests have been paid in full, March 1, 2012 or the occurrence of an event of default, at which time the trustee will engage an auction to sell for cash all of the property owned by the Trust for its fair market value. The excess proceeds, after payment of amounts due to the regular interest holder, are paid to the holder of the residual interest. For the year ended December 31, 2010, interest expense totaled \$9 million.

The Company, through VIEs controlled by its indirect wholly-owned subsidiary Madison Capital Funding LLC and its subsidiaries, has entered into certain loan agreements to borrow non-recourse debt. For the years ended December 31, 2010 and 2009, interest expense was \$4 million and \$1 million, respectively. At each December 31, 2010 and 2009, accrued interest was \$1 million. See Note 4 - Investments for the classification and valuation of the assets supporting this liability.

### **Line of Credit**

Effective July 1, 2010, the Company, along with New York Life Capital Corporation, closed on two revolving credit facility agreements for an aggregate total of \$1 billion with a consortium of banks. The agreements, which consist of a \$500 million 364-day revolving credit facility (the “364-Day Credit Facility”) expiring on June 30, 2011, and a \$500 million three-year revolving credit facility (the “Three-Year Credit Facility”) expiring on July 1, 2013, replaced a \$1.5 billion, five-year revolving credit facility which was terminated on July 1, 2010. Facility fees for the 364-Day Credit Facility and the Three-Year Credit Facility are payable at a rate per annum of 7.5 bps and 10 bps, respectively. For the 364-Day Credit Facility and the Three-Year Credit Facility, borrowing rates are 92.5 bps and 90 bps over LIBOR, respectively. Facility fees and borrowing rates could increase if New York Life’s S&P’s and Moody’s Financial Strength ratings are downgraded.

As of December 31, 2010 the Company has not utilized this credit facility.

## **NOTE 13 - BENEFIT PLANS**

### **Defined Benefit Plans**

New York Life maintains the New York Life Insurance Company Pension Plan (“Pension Plan”). The Pension Plan is a tax-qualified defined benefit pension plan covering substantially all eligible full-time and part-time employees of New York Life and certain eligible employees of subsidiaries that adopt the Pension Plan. Agents are not eligible for benefits under the Pension Plan. Pension Plan participants are entitled to annual pension benefits beginning at normal retirement date, generally, the first day of the month following the later attainment of age 65 or the completion of 5 years of vesting service, equal to a

percentage of their final average salary (average monthly salary for the highest paid 60 consecutive months of the last 120 months the participant is employed by the Company), less a Social Security offset for each active participant in the Pension Plan as of December 31, 1988. New York Life also maintains the New York Life Excess Benefit Plan, which is a non-qualified, unfunded arrangement, which provides benefits in excess of the maximum benefits that may be paid or accrued under the Pension Plan due to applicable IRS limits. The New York Life Excess Benefit Plan was amended and restated to comply with Internal Revenue Code (“IRC”) Section 409A.

New York Life also maintains the NYLIC Retirement Plan (“Retirement Plan”). The Retirement Plan is a tax-qualified defined benefit pension plan covering substantially all eligible agents under contract to New York Life or its domestic life insurance subsidiaries on or after the effective date of the Plan, January 1, 1982. Employees who are not life insurance agents are not eligible for benefits under the Retirement Plan. Retirement Plan participants are entitled to annual pension benefits beginning at normal retirement date, generally, the first day of the month following the later attainment of age 65 or the completion of 5 years of vesting service. In general, the benefit is based on the agent's Frozen Accrued Benefit, if applicable, and his/her Earnings-Related Benefit Accruals (“ERBA”). The Frozen Accrued Benefit is the amount accrued as of December 31, 1990, for service, if any, on or prior to that date under the production-related benefit formula. For periods of service after December 31, 1990, the agent’s ERBA is calculated by multiplying the sum of his/her Pensionable Earnings credited after 1990 by 2.75%. In addition, the Retirement Plan also pays amounts to certain eligible agents whose retirement benefit under the Retirement Plan is less than their Senior NYLIC Income (i.e. compensation under certain agents' contracts for agents who have completed 20 NYLIC years) so that their total retirement benefit under the Retirement Plan is equivalent to their Senior NYLIC Income. The Company also maintains the NYLIC 415 and 401(a)(17) Excess Benefit Plan, which is a non-qualified, unfunded arrangement, which provides benefits in excess of the maximum benefits that may be paid or accrued under the Retirement Plan due to applicable IRS limits. The NYLIC 415 and 401(a)(17) Excess Benefit Plan was amended and restated to comply with IRC Section 409A.

The Pension Plan and the Retirement Plan are funded solely by New York Life contributions. New York Life’s funding policy for each of these Plans is to make annual contributions that are no less than the minimum amount needed to comply with the requirements of the Employee Retirement Income Security Act of 1974, as amended (“ERISA”) and the IRC, and no greater than the maximum amount deductible for federal income tax purposes. In 2010, the Company made voluntary contributions to the Pension Plan and Retirement Plan of \$260 million and \$290 million, respectively. The Company made no contributions to either the Pension Plan or the Retirement Plan in 2009. New York Life was not required to make any contributions to the Plans in 2010 and 2009 to satisfy the minimum funding requirements under ERISA.

The assets of the Pension Plan and Retirement Plan are maintained in separate trusts established under each plan. Each plan currently invests in two group annuity contracts: one contract is an immediate participation guarantee contract relating to the Company’s general account (“GA Contract”), and the other contract relates to the Company’s pooled separate accounts (“SA Contract”). Each plan's investments in the GA Contract and the SA Contract are held in the separate trust established under each Plan. Pension Plan and Retirement Plan assets of \$2,739 million and \$2,127 million are included in the Company’s separate account assets and liabilities as of December 31, 2010 and 2009, respectively. Pension Plan and Retirement Plan assets of \$1,147 million and \$1,004 million are included in the Company’s policyholder account balance liability as of December 31, 2010 and 2009, respectively.

New York Life is the issuer of the GA and SA Contracts, and New York Life Investment Management LLC (“NYLIM”) is the manager of the pooled separate accounts under the SA Contract, and affiliates of NYLIM act as sub-advisors of some of the pooled separate accounts under the SA Contract. The GA Contract provides for the payment of an annual administrative charge based on a percentage of the assets maintained in the fixed account under the Contract. The SA Contract provides for the payment of separate annual fees for the management of each separate account.

## **Grantor Trusts**

New York Life has established separate irrevocable grantor trusts covering certain of New York Life's separate non-qualified arrangements for agents and employees to help protect non-qualified payments in the event of a change in control of New York Life. The grantor trusts are not subject to ERISA.

## **Other Postretirement Benefits**

New York Life's Group Plan for New York Life employees and certain eligible employees of subsidiaries that adopt the Group Plan provides certain health and life insurance benefits for eligible retired employees and their eligible dependents. Employees who retired prior to January 1, 1993 do not make contributions toward retiree health and life coverage. Employees who retired on or after January 1, 1993 may be required to contribute towards medical (other than certain prescription drug coverage) and dental coverage.

New York Life's Group Plan for New York Life agents provides certain health and life insurance benefits for eligible retired agents and their eligible dependents. The Company pays the entire non-contributory and contributory life insurance costs for retired agents. For active agents, the contribution towards contributory life insurance is based on the agent class (current, first prior, second prior, third prior or established), age, level of benefits and location of residence. The Company also provides monthly installment life insurance benefits payable to the beneficiary of eligible retired or inactive agents who have completed 20 or more years of service.

Eligible agents who retired prior to January 1, 1993 and eligible agents who retired after December 31, 1992 but either had completed 30 or more years of service or attained at least age 70 as of that date, are not required to make contributions for health care coverage. Eligible agents who retire on or after January 1, 1993, but did not have 30 or more years of service with the Company or reach age 70 as of December 31, 1992 may be required to contribute towards medical coverage (other than certain prescription drug coverage) and dental coverage.

New York Life has established a Voluntary Employees Beneficiary Association Trust ("VEBA Trust") in connection with medical and life benefits for eligible retired employees ("Retired Employee VEBA Trust") and a VEBA Trust in connection with medical and life benefits for eligible retired agents ("Retired Agent VEBA Trust"). The Retired Employee VEBA Trust and the Retired Agent VEBA Trust are collectively referred to as the "VEBA Trusts". A portion of the cost of the medical coverage (other than certain prescription drug coverage), dental coverage and life premiums for eligible retired individuals and their eligible dependents are paid by a combination of the VEBA Trusts' assets and contributions by the eligible retired individuals. The Company pays the remaining balance of these costs.

It has been the Company's practice to pre-fund postretirement benefits to the extent allowable for federal income tax purposes. Pre-funding contributions are made to the Retired Employee VEBA Trust and the Retired Agent VEBA Trust, which are used to partially fund postretirement health and life benefits other than pensions. For each of the years ended December 31, 2010 and 2009, pre-funding contributions to the Retired Employee VEBA Trust totaled \$3 million. For the years ended December 31, 2010 and 2009, pre-funding contributions to the Retired Agent VEBA Trust totaled \$1 million and less than \$1 million, respectively.

The assets of each VEBA Trust are invested in mutual funds in the MainStay group of funds ("Funds"), in Trust Owned Life Insurance ("TOLI") and in government securities. NYLIM is the investment advisor of the Funds. The TOLI policies are Corporate Sponsored Universal Life ("CSUL") and Corporate Sponsored Variable Universal Life ("CSVUL") policies issued by NYLIAC. CSVUL policy premiums are invested in variable product mutual funds managed by NYLIM. VEBA Trust Assets of \$155 million and \$144 million are included in the Company's separate account assets and liabilities as of December 31, 2010 and 2009, respectively. VEBA Trust assets of \$150 million and \$146 million are

included in the Company's policyholder account balance liabilities as of December 31, 2010 and December 31, 2009, respectively.

The following tables are for financial reporting purposes only and do not reflect the status of the assets of each of the Pension Plan and the Retirement Plan under applicable law (in millions):

	<b>Pension Plan Benefits</b>		<b>Other Postretirement Plan Benefits</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
<b>Change in benefit obligation:</b>				
Benefit obligation at beginning of year	\$ 4,471	\$ 3,979	\$ 1,253	\$ 1,214
Service cost	111	98	29	24
Interest cost	272	269	78	82
Contributions by plan participants	-	-	5	4
Actuarial losses (gains)	336	332	77	(14)
Benefits paid	(220)	(207)	(61)	(61)
Medicare Part D subsidy receipts	-	-	4	4
Plan amendments	-	-	(2)	-
Benefit obligation at end of year	<u>\$ 4,970</u>	<u>\$ 4,471</u>	<u>\$ 1,383</u>	<u>\$ 1,253</u>
<b>Change in plan assets:</b>				
Fair value of plan assets at beginning of year	\$ 3,131	\$ 2,941	\$ 413	\$ 368
Actual return on plan assets	399	375	36	50
Contributions by employer	576	22	50	52
Contributions by plan participants	-	-	5	4
Benefits paid	(220)	(207)	(61)	(61)
Fair value of plan assets at end of year	<u>\$ 3,886</u>	<u>\$ 3,131</u>	<u>\$ 443</u>	<u>\$ 413</u>
<b>Funded Status:</b>				
Funded Status	<u>\$ (1,084)</u>	<u>\$ (1,340)</u>	<u>\$ (940)</u>	<u>\$ (840)</u>
Accumulated benefit obligation for all defined pension plans at December 31	<u>\$ 4,497</u>	<u>\$ 4,086</u>		

	Pension		Other	
	Plan Benefits		Postretirement Plan	
	2010	2009	2010	2009
<b>Amounts recognized in the accompanying balance sheet:</b>				
Other liabilities	\$ (1,084)	\$ (1,340)	\$ (940)	\$ (840)
<b>Amounts recognized in accumulated other comprehensive income:</b>				
Net actuarial loss	\$ 1,689	\$ 1,517	\$ 290	\$ 242
Prior service cost/(credit)	27	34	(61)	(69)
Total	\$ 1,716	\$ 1,551	\$ 229	\$ 173
<b>Estimated amounts to be amortized from accumulated other comprehensive income into net periodic benefit cost during fiscal year 2011:</b>				
Net actuarial loss	\$ 85	\$ 57	\$ 8	\$ 4
Prior service cost/(credit)	6	7	(9)	(9)
Total	\$ 91	\$ 64	\$ (1)	\$ (5)
<b>Other changes in plan assets and benefit obligation recognized in other comprehensive income:</b>				
Net actuarial loss (gain)	\$ 223	\$ 244	\$ 53	\$ (29)
Amortization of net actuarial loss	(56)	(26)	(4)	(7)
Prior service cost/(credit) related to plan amendments	-	-	(2)	-
Amortization of prior service (credit)/cost	(7)	(8)	9	9
Total recognized in other comprehensive income	\$ 160	\$ 210	\$ 56	\$ (27)

The components of net periodic benefit cost at December 31 were as follows (in millions):

	Pension		Other Postretirement	
	Plan Benefits		Plan Benefits	
	2010	2009	2010	2009
<b>Components of net periodic benefit cost:</b>				
Service cost	\$ 111	\$ 98	\$ 29	\$ 24
Interest cost	272	269	78	82
Expected return on plan assets	(287)	(287)	(35)	(35)
Amortization of net actuarial loss	56	26	27	7
Amortization of prior service cost/(credit)	7	8	(9)	(9)
Net periodic benefit cost	\$ 159	\$ 114	\$ 90	\$ 69
Total recognized in net periodic pension cost and other comprehensive income	\$ 319	\$ 324	\$ 146	\$ 42

The impact of the Patient Protection and Affordable Care Act and Health Care and Education Reconciliation Act signed into law in March 2010 was immaterial and has been included in the disclosures for the Company's Retiree Medical obligations.

## Other

The Company's APBO and net periodic benefit costs include the effect of the federal subsidy provided by the Medicare Prescription Drug Improvement and Modernization Act of 2003 (the "Act"). The Act introduced a prescription drug benefit under Medicare beginning in 2006. Under the Act, employers who sponsor postretirement plans that provide prescription drug benefits that are actuarially equivalent to Medicare Part D qualify to receive subsidy payments.

A summary of the reduction to the APBO and related reduction to the components of net periodic other postretirement benefit cost at December 31, is as follows (in millions):

	<u>2010</u>	<u>2009</u>
<b>Cumulative reduction in benefit obligation:</b>		
Beginning of year	\$ 115	\$ 108
Service cost	1	3
Interest cost	3	7
Net actuarial loss	(3)	-
Prescription drug subsidy	(4)	(3)
Impact of Health Care Reform	(104)	-
End of year	<u>\$ 8</u>	<u>\$ 115</u>
	<u>2010</u>	<u>2009</u>
<b>Reduction in net periodic benefit cost:</b>		
Service cost	\$ 1	\$ 3
Interest cost	3	7
Amortization of net actuarial loss	-	2
Total reduction in net periodic benefit cost	<u>\$ 4</u>	<u>\$ 12</u>

For 2010, the Company made gross benefit payments of \$53 million and received \$4 million in Medicare Part D subsidy payments. For 2009, the Company made gross payments of \$54 million and received \$4 million in Medicare Part D subsidy payments.

### Assumptions

Weighted-average assumptions used to determine benefit obligations at December 31:

	<b>Pension Plan Benefits</b>		<b>Other Postretirement Plan Benefits</b>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
<b>Weighted-average assumptions used to determine benefit obligations:</b>				
Discount rate	5.75%	6.25%	5.75%	6.25%
Rate of compensation increase:				
Employees	5.00%	3.93%/5%	5.00%	3.93%/5%
Agents	5.20%	5.20%	N/A	N/A

Weighted-average assumptions used to determine net periodic benefit cost for the years ended December 31:

	<b>Pension Plan Benefits</b>		<b>Other Postretirement Plan Benefits</b>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
<b>Weighted-average assumptions used to determine net periodic benefit cost:</b>				
Discount rate	6.25%	6.90%	6.25%	6.90%
Expected long-term return on plan assets	8.25%	8.25%	7.25%/7.75%**	7.25%/7.75%
Rate of compensation increase:				
Employees	3.93%/5%*	3.93%/5%	3.93%/5%*	3.93%/5%
Agents	5.20%	5.20%	N/A	N/A

\* Rate of compensation increase for 2010 is 3.93% and increases in 2011 and 2012 to an ultimate rate of 5% beginning 2013.

\*\*Expected long-term return on plan assets is 7.25% for health benefits and 7.75% for life benefits.

The discount rates used to determine the Company's pension and other postretirement plan obligations were based on a hypothetical double A yield curve represented by a series of annualized individual discount rates. Each bond issue underlying the yield curve is required to be non-callable and

have a rating of Aa by Moody's Investor Service, Inc. or a rating AA by S&P. The yields are used to discount future pension and postretirement benefit plan cash flows at an interest rate specifically applicable to the timing of each respective cash flow. The sum of these discounted cash flows are totaled into a single present value and an equivalent weighted-average discount rate is calculated by imputing the singular interest rate that equates the total present value of the stream of future cash flows. This resulting interest rate is used by the Company as its discount rate for the pension and postretirement benefit plans.

The expected long-term return on plan assets is based on (1) an evaluation of the historical behavior of the broad financial markets and, (2) the plan's investment portfolio modified by input from the plan's investment consultant of future returns based on the current economic and financial market conditions.

The assets that back the Company's Pension Plan and Retirement Plan consist of approximately 60% public and private equity securities and 40% fixed income securities. The 8.25% long term rate of return (which has been in effect for several years) is based on this allocation.

The determination of the annual rate of increase in the per capita cost of covered health care benefits are reviewed separately for medical and prescription drug plans as well as for participants under and over age 65. At December 31, 2010, these assumed future rates of increase are the same for both medical and prescription drug plans as well as for participants under and over age 65. For dental plans, the annual rate of increase in the per capita cost utilizes a single rate for all participants.

In measuring the year-end 2010 obligations, the annual rate of increase in the per capita cost of covered health care medical benefits and prescription drug benefits was assumed to be 8% for 2011 for all participants. For the year-end 2010 measurement, the rate was assumed to decline gradually to 5% by 2015 for both medical and prescription drug benefits and remain at that level thereafter. For dental plans, the annual rate of increase in the per capita cost of covered health care benefits is assumed to be 5% for all participants and remain at that level.

In measuring the year-end 2009 obligations, the annual rate of increase in the per capita cost of covered health care medical benefits and prescription drug benefits was assumed to be 8.75% for 2010 for all participants. For the year-end 2009 measurement, the rate was assumed to decline gradually to 5% by 2015 for both medical and prescription drug benefits and remain at that level thereafter. For dental plans, the annual rate of increase in the per capita cost of covered health care benefits is assumed to be 5% for all participants and remain at that level.

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plan. A one-percentage point increase and decrease in assumed health care cost trend rates would have the following effects (in millions):

	<b>2010</b>	
	<b>One Percent Increase</b>	<b>One Percent Decrease</b>
Effect on total of service and interest cost components	\$ 13	\$ (10)
Effect on accumulated postretirement benefit obligation	\$ 127	\$ (104)

## **Plan Assets**

The investment objectives for the Pension Plan, Retirement Plan and the VEBA Trusts are, first, to maintain sufficient income and liquidity to fund benefit payments; second, to preserve the capital value of the plans and trusts; third, to increase the capital value of the plans and trusts; and fourth, to earn a long-term rate of return which meets or exceeds plans' and trusts' assumed actuarial rates of return. Under the investment policies for the Pension Plan and the Retirement Plan, the plans' assets are to be invested primarily in a balanced and diversified mix of high quality equities, fixed income securities, group annuity contracts, private equity investments and cash equivalents, and such other assets as may be appropriate. Under the investment policies for the VEBA Trusts, the assets of the trusts are to be invested primarily in insurance contracts (variable and/or fixed) and/or mutual funds which, in turn, invest in a

balanced and diversified mix of high quality equities, fixed income securities and cash equivalents, and such other assets as may be appropriate. The Investment Committees of the Board of Trustees (“the Committees”) monitor and review investment performance to ensure assets are meeting investment objectives.

The Committees have established a broad investment strategy targeting an asset allocation of 60% equity securities and 40% fixed income for both the Pension Plan and the Retirement Plan, and 70% equity securities and 30% fixed income for the VEBA Trusts. Diversifying each asset class by style and type further enhances this allocation. In developing this asset allocation strategy, the Committees took into account, among other factors, the information provided to it by the plans’ actuary, information relating to the historical investment returns of each asset class, the correlations of those returns and input from the plans’ investment consultant. The Committees regularly review the plans’ asset allocations versus the targets and make adjustments as appropriate.

The weighted-average asset allocation for the agent and employee defined benefit pension plans at December 31, 2010 and 2009, and target allocations by asset category were as follows:

Asset Category	<b>Target Allocation Percentage</b>	<b>Percentage of Plan Assets</b>	
	<b>December 31, 2010 and 2009</b>	<b>December 31,</b>	
		<b>2010</b>	<b>2009</b>
Fixed income securities	40%	35%	39%
Equity securities	<u>60%</u>	<u>65%</u>	<u>61%</u>
Total	<u>100%</u>	<u>100%</u>	<u>100%</u>

Equity securities include common stock in the amount of \$2,516 million (65% of total assets of the Pension Plan and Retirement Plan) and \$1,924 million (61% of total assets of the Pension Plan and Retirement Plan) at December 31, 2010 and 2009, respectively.

The weighted-average asset allocation for the other postretirement benefit plans at December 31, 2010 and 2009, and target allocations by asset category under the VEBA Trusts were as follows:

Asset Category	<b>Target Allocation Percentage</b>	<b>Percentage of VEBA Trust Assets</b>	
	<b>December 31, 2010 and 2009</b>	<b>December 31,</b>	
		<b>2010</b>	<b>2009</b>
Fixed income securities	30%	31%	43%
Equity securities	<u>70%</u>	<u>69%</u>	<u>57%</u>
Total	<u>100%</u>	<u>100%</u>	<u>100%</u>

Equity securities include common stock in the amount of \$292 million (69% of total VEBA Trust Life and Health assets) and \$222 million (57% of total VEBA Trust Life and Health assets) at December 31, 2010 and 2009, respectively.

The pooled separate accounts under the SA Contract for each of the Pension Plan and Retirement Plan invest in various investment securities. Investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the financial statements.

Actuarial present values of accumulated benefits are reported based on certain actuarial assumptions, which are subject to change. Due to uncertainties inherent in the estimations and assumptions process, it is at least reasonably possible that changes in these estimates and assumptions could occur in the near term and would be material to the financial statements.

The fair values (see Note 17 – Fair Value Measurements for description of levels) of the Pension Plan and Retirement Plan assets at December 31, 2010 and 2009 are as follows (in millions):

<b>2010</b>				
	<b>Quoted prices in Active Markets for Identical Assets (Level 1)</b>	<b>Significant Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>	<b>Total</b>
Fixed income investments:				
Immediate Participation Guarantee	\$ -	\$ -	\$ 1,147	\$ 1,147
High Yield Bond Separate Accounts	-	222	-	222
Equity type investment:				
Private Equity Separate Accounts	-	-	453	453
Indexed Equity Separate Account	-	657	-	657
International Equity Separate Account	-	590	-	590
Small Cap Corp Separate Account	-	187	-	187
REIT Equity Separate Account	-	350	-	350
Large Cap Enhanced Separate Account	-	280	-	280
Total assets accounted for at fair value	<u>\$ -</u>	<u>\$ 2,286</u>	<u>\$ 1,600</u>	<u>\$ 3,886</u>
<b>2009</b>				
	<b>Quoted prices in Active Markets for Identical Assets (Level 1)</b>	<b>Significant Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>	<b>Total</b>
Fixed income investments:				
Immediate Participation Guarantee	\$ -	\$ -	\$ 1,004	\$ 1,004
High Yield Bond Separate Accounts	-	203	-	203
Equity type investment:				
Private Equity Separate Accounts	-	-	413	413
Indexed Equity Separate Account	-	274	-	274
International Equity Separate Account	-	564	-	564
Small Cap Corp Separate Account	-	153	-	153
REIT Equity Separate Account	-	273	-	273
Large Cap Enhanced Separate Account	-	247	-	247
Total assets accounted for at fair value	<u>\$ -</u>	<u>\$ 1,714</u>	<u>\$ 1,417</u>	<u>\$ 3,131</u>

The table below presents a reconciliation of all level 3 assets and liabilities for the year ended December 31, 2010 and 2009 (in millions):

	<b>2010</b>		
	<b>Immediate Participation Guarantee</b>	<b>Private Equity Separate Account</b>	<b>Total</b>
Fair value, beginning of year	\$ 1,004	\$ 413	\$ 1,417
Return of plan assets:			
Relating to assets still held at the reporting date	59	76	135
Purchases, sales and settlements	84	(36)	48
Fair value, end of year	<u>\$ 1,147</u>	<u>\$ 453</u>	<u>\$ 1,600</u>
	<b>2009</b>		
	<b>Immediate Participation Guarantee</b>	<b>Private Equity Separate Account</b>	<b>Total</b>
Fair value, beginning of year	\$ 1,143	\$ 441	\$ 1,584
Return of plan assets:			
Relating to assets still held at the reporting date	63	(40)	23
Purchases, sales and settlements	(202)	12	(190)
Fair value, end of year	<u>\$ 1,004</u>	<u>\$ 413</u>	<u>\$ 1,417</u>

### **Determination of Fair Values**

The following is a description of the valuation methodologies used to determine fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy.

#### ***Immediate Participation Guarantee (“IPG”)***

The IPG contract is categorized as Level 3 due to the fact that the contract value relies on internal reports issued by New York Life Investments that would be unobservable by third-party market participants.

#### ***Separate Accounts***

With the exception of the Private Equity Separate Accounts, the separate accounts accumulated unit value (“AUV”) represents the fair value of each unit held by the Pension and Retirement Plans and is the level at which transactions occur. The AUV for these investments are not quoted on an active exchange, so they cannot be assigned Level 1. In addition, there are no restrictions on transfers or withdrawals. However, since the Company is not making any adjustments to the AUV, the investments in these separate accounts, except for the Private Equity Separate Accounts, will be reported as Level 2.

The Private Equity Separate Accounts invest in limited partnerships, and its investment is restricted with respect to transfer or withdrawal. Since the benefit plans cannot transact at the current AUV, the investment in the Private Equity Separate Accounts falls within Level 3.

The fair values of other postretirement benefit plan assets at December 31, 2010 and 2009 are as follows (in millions):

<b>2010</b>				
	<b>Quoted prices in Active Markets for Identical Assets (Level 1)</b>	<b>Significant Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>	<b>Total</b>
Fixed income investments:				
MainStay Intermediate Term Bond Fund	\$ -	\$ -	\$ -	\$ -
CSUL Policies	-	-	130	130
Immediate Participation Guarantee	-	-	20	20
Short term treasury notes	-	-	-	-
Equity type investments:				
MainStay S&P 500 Index Fund	118	-	-	118
MainStay International Equity Fund	20	-	-	20
CSVUL				
<i>MainStay VP Indexed Equity</i>	-	-	122	122
<i>MainStay VP International Equity</i>	-	-	33	33
Total assets accounted for at fair value	<u>\$ 138</u>	<u>\$ -</u>	<u>\$ 305</u>	<u>\$ 443</u>
<b>2009</b>				
	<b>Quoted prices in Active Markets for Identical Assets (Level 1)</b>	<b>Significant Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>	<b>Total</b>
Fixed income investments:				
MainStay Intermediate Term Bond Fund	\$ 44	\$ -	\$ -	\$ 44
CSUL Policies	-	-	127	127
Immediate Participation Guarantee	-	-	19	19
Short term treasury notes	-	1	-	1
Equity type investments:				
MainStay S&P 500 Index Fund	58	-	-	58
MainStay International Equity Fund	20	-	-	20
CSVUL				
<i>MainStay VP Indexed Equity</i>	-	-	111	111
<i>MainStay VP International Equity</i>	-	-	33	33
Total assets accounted for at fair value	<u>\$ 122</u>	<u>\$ 1</u>	<u>\$ 290</u>	<u>\$ 413</u>

The table below presents a reconciliation of all level 3 assets and liabilities for the year ended December 31, 2010 and 2009 (in millions):

	<b>2010</b>				
	<b>CSUL Policies</b>	<b>Immediate Participation Guarantee</b>	<b>CSVUL MainStay VP Indexed Equity</b>	<b>CSVUL MainStay VP International Equity</b>	<b>Total</b>
Fair value, beginning of year	\$ 127	\$ 19	\$ 111	\$ 33	\$ 290
Return of plan assets:					
Relating to assets still held at the reporting date	6	1	16	1	24
Purchases, sales and settlements	(3)	-	(5)	(1)	(9)
Fair value, end of year	<u>\$ 130</u>	<u>\$ 20</u>	<u>\$ 122</u>	<u>\$ 33</u>	<u>\$ 305</u>

  

	<b>2009</b>				
	<b>CSUL Policies</b>	<b>Immediate Participation Guarantee</b>	<b>CSVUL MainStay VP Indexed Equity</b>	<b>CSVUL MainStay VP International Equity</b>	<b>Total</b>
Fair value, beginning of year	\$ 122	\$ 18	\$ 93	\$ 29	\$ 262
Return of plan assets:					
Relating to assets still held at the reporting date	6	1	22	5	34
Purchases, sales and settlements	(1)	-	(4)	(1)	(6)
Fair value, end of year	<u>\$ 127</u>	<u>\$ 19</u>	<u>\$ 111</u>	<u>\$ 33</u>	<u>\$ 290</u>

### **Determination of Fair Values**

The following is a description of the valuation methodologies used to determine fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy.

#### ***The MainStay Funds***

The MainStay retail funds are all open end mutual funds, traded on an active exchange, in which the NAV represents the fair value of the shares held and are categorized in the hierarchy as Level 1. There are no restrictions on contributions and withdrawals.

#### ***CSUL and CSVUL***

The CSUL and the CSVUL are reported at cash surrender value. These policies have surpassed their surrender charge period; therefore, their cash value and their contract value are equal. These policies are categorized in the hierarchy as Level 3 since the valuation relies on data supplied by an insurance carrier that is unique to these policies the inputs are unobservable. There is also no secondary market for these assets.

#### ***Short term treasury notes***

The Company uses amortized cost to represent the fair value of these assets, which approximates the fair value due to their short duration. These short term investments are categorized as Level 2.

#### ***Cash***

The fair value of cash is equivalent to its carrying value, and is assigned Level 1 in the fair value hierarchy as the amounts are available on demand.

## Plan Amendments

There were no changes to the qualified and non-qualified pension plans during 2010.

Effective January 1, 2009, the Pension Plan was amended to provide that (i) surviving spouse benefits will be determined on the basis of actuarial equivalence rather than a fixed percentage reduction, and (ii) the automatic form of benefit for married participants (and their surviving spouses) will be a 75% joint and survivor annuity. Effective January 1, 2009, the New York Life Excess Benefit Plan will apply a similar methodology.

## Cash Flows

The estimated future benefit payments are based on the same assumptions as used to measure the benefit obligations at December 31, 2010 and 2009. The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid (in millions):

	<u>Pension Plan Benefits</u>	<u>Other Post Retirement Plan Benefits</u>	<u>Postemployment Plan Benefits</u>	<u>Estimated Federal Subsidy</u>
2011	\$ 244	\$ 69	\$ 10	\$ (5)
2012	259	73	10	(5)
2013	275	78	11	(5)
2014	289	83	12	(5)
2015	303	89	12	(6)
Thereafter (2016-2020)	1,727	602	74	(41)
Total	<u>\$ 3,097</u>	<u>\$ 994</u>	<u>\$ 129</u>	<u>\$ (67)</u>

The Company does not expect to make any contributions to its qualified agent and employee defined plans during 2011. The Company expects to pay approximately \$25 million of benefits to the non-qualified agent and employee defined benefit plans during 2011. In addition, the Company expects to contribute approximately \$4 million to its other postretirement benefit plans during 2011.

## Postemployment Benefits and Compensated Absences

The Company provides certain benefits to eligible employees and agents during employment for paid absences. These benefits include, but are not limited to, salary continuation during medical and maternity leaves, disability-related benefits, and continuation of benefits such as health care and life insurance coverage.

The Company has accrued a \$46 million and \$48 million obligation related to these benefits at December 31, 2010 and 2009, respectively. For the years ended December 31, 2010 and 2009, the net periodic benefit cost associated with these programs was \$13 million and \$14 million, respectively.

## Defined Contribution Plans

New York Life maintains the Employee Progress-Sharing Investment Plan (“EPSI”) which is a tax-qualified defined contribution plan covering substantially all salaried United States full-time and part-time employees of New York Life and certain eligible employees of subsidiaries that adopt EPSI (individuals eligible under New York Life’s Agents’ Progress-Sharing Investment Plan (“APSI”) are not eligible under EPSI). Under EPSI, participants may contribute (i) on a pre-tax basis to a 401(k) account, a percentage of base salary and eligible incentive compensation (up to 10% for employees whose total annual compensation exceeds the prior year’s highly compensated threshold for qualified plans based on previous years’ total pay (\$110,000 in 2009 for 2010 contributions, and \$105,000 in 2008 for 2009 contributions) and up to 15% for employees whose total annual compensation is below the highly compensated threshold), and (ii) to a non-tax deductible account up to 10% of base salary and eligible incentive pay. Highly compensated employees are limited to a combined 401(k) and non-tax deductible

rate of 10%. Participants may also roll over qualified distributions from eligible retirement plans into the EPSI. EPSI also permits participants age 50 and over to make additional pre-tax 401(k) "catch-up" contributions (\$5,500 for 2010 and 2009).

New York Life annually determines the level of the Company's matching contributions to EPSI. In 2010 and 2009, New York Life made matching contributions of up to 3% of base salary and eligible incentive pay. For the years ended December 31, 2010 and 2009, the Company's matching contributions to EPSI totaled \$24 million and \$23 million, respectively. EPSI also provides that NYLIM, New York Life Trust Company ("NYLTC"), Madison Square Investors LLC ("MSI") and Institutional Capital LLC ("ICAP"), all indirect wholly owned subsidiaries of New York Life, may make a discretionary company contribution for certain eligible employees. During 2010 and 2009, for the 2009 and 2008 plan years, NYLIM, NYLTC, MSI and ICAP approved a discretionary contribution of 5% of Plan compensation, which totaled \$5 million for eligible NYLIM employees and \$1 million for certain eligible NYLTC, MSI and ICAP employees. New York Life also maintains the Excess EPSI Plan for certain eligible participants, which is a non-qualified unfunded arrangement that credits deferrals and matching amounts in respect of compensation in excess of the amount that may be taken into account under EPSI because of applicable IRS limits. The Excess EPSI Plan was amended and restated to comply with IRC Section 409A.

New York Life also maintains APSI, which is a qualified defined contribution plan covering substantially all contracted United States full-time agents (individuals eligible under EPSI are not eligible under APSI). Under APSI, participants make contributions by entering into commission reduction agreements with the Company whereby a percentage of their compensation (for the 2010 plan year up to 7% for agents whose total annual compensation exceeds the highly compensated threshold of \$110,000 based on 2009 total pay and up to 15% for agents whose total compensation is below the highly compensated threshold) may be contributed to a 401(k) account. Participants may also roll over qualified distributions from eligible retirement plans into APSI. APSI also permits participants age 50 and over to make additional pre-tax 401(k) "catch-up" contributions (\$5,500 for 2010 and 2009).

New York Life annually determines the level of company contributions to APSI. Contributions are based on each participant's net renewal commissions, net renewal premiums and cash values for the plan year on policies for which the participant is the original writing agent. In 2010 and 2009, the Company's contributions to APSI totaled \$2 million for each year. The Company also maintains the Excess APSI Plan, which is a non-qualified, unfunded arrangement that credits Company contributions in excess of the maximum Company contributions that may be made under APSI because of certain applicable IRS limits. The Excess APSI Plan was amended and restated to comply with IRC Section 409A.

#### **NOTE 14 - DERIVATIVE FINANCIAL INSTRUMENTS AND RISK MANAGEMENT**

The Company uses derivative financial instruments to manage interest rate, currency, market and credit risk. These derivative financial instruments include foreign exchange forward contracts; futures contracts; interest rate and equity options; interest rate, inflation, credit default and currency swaps. The Company also uses written covered call options in order to generate income. The Company does not engage in derivative financial instrument transactions for speculative purposes. See Note 2 - Significant Accounting Policies for a detailed discussion of the types of derivatives the Company enters into, the Company's objectives and strategies for using derivative instruments and how they are accounted for.

The Company deals with highly rated counterparties and does not expect the counterparties to fail to meet their obligations under the contracts. The Company has controls in place to monitor credit exposures by limiting transactions with specific counterparties within specified dollar limits and assessing the creditworthiness of counterparties. The Company uses netting arrangements incorporated in master agreements and collateral support agreements with counterparties and adjusts transaction levels, when appropriate, to minimize risk. The Company's policy is to not offset the fair value amounts recognized for derivatives executed with the same counterparty under the same master netting agreements with the associated collateral.

To further minimize risk, credit support annexes (“CSA”) typically are negotiated as part of swap documentation entered into by the Company with counterparties. The CSA defines the terms under which collateral is transferred in order to mitigate credit risk arising from “in the money” derivative positions. The CSA requires that a derivative counterparty post collateral to secure that portion of its anticipated derivative obligation, taking into account netting arrangements, in excess of a specified threshold. Collateral received is typically invested in short-term investments. Those agreements also include credit contingent provisions whereby the threshold typically declines on a sliding scale with a decline in the counterparties’ rating. In addition, certain of the Company’s contracts contain provisions that require the Company to maintain a specific investment grade credit rating and if the Company’s credit rating were to fall below that specified rating, the counterparty to the derivative instrument could request immediate payout or full collateralization. The aggregate fair value of all over the counter derivative instruments with credit-risk-related contingent features that are in a net liability position as of December 31, 2010 and 2009 is \$164 million and \$202 million for which the Company has posted collateral with a fair value of \$93 million and \$105 million, respectively. If the credit contingent features had been triggered as of December 31, 2010, the Company estimates that it would have been required to post an additional \$15 million of collateral for a one notch downgrade in the Company’s credit rating and \$51 million a downgrade that would trigger full collateralization or termination.

The Company is exposed to credit-related losses in the event that a counterparty fails to perform its obligations under its contractual terms. For contracts with counterparties where no netting provisions are specified in the master agreements, in the event of default, credit exposure is defined as the fair value of contracts in a gain position at the reporting date, net of any collateral held under a CSA with that counterparty. Credit exposure to counterparties where a netting arrangement is in place, in the event of default, is defined as the net fair value, if positive, of all outstanding contracts with each specific counterparty, net of any collateral held under a CSA with that counterparty. As of December 31, 2010 and 2009, the Company held collateral for derivatives of \$494 million and \$422 million, respectively. Credit risk exposure in a net gain position, net of offsets and collateral, was \$83 million and \$72 million at December 31, 2010 and 2009, respectively.

Notional or contractual amounts of derivative financial instruments provide a measure of involvement in these types of transactions and do not represent the amounts exchanged between the parties engaged in the transaction. The amounts exchanged are determined by reference to the notional amounts and other terms of the derivative financial instruments, which relate to interest rates, exchange rates, or other financial indices.

The following table presents the notional amount, number of contracts and gross fair value of derivative instruments that are qualifying and designated as hedging instruments, by type of hedge designation, and those that are not designated as hedging instruments (excluding embedded derivatives) at December 31, 2010 and 2009 (in millions, except for number of contracts). See Note 17 – Fair Value Measurements for a discussion of valuation methods for derivative instruments.

Primary risk exposure	2010				2009				
	Volume		Fair Value <sup>(a)</sup>		Volume		Fair Value <sup>(a)</sup>		
	Notional	Number of contracts	Asset	Liability	Notional	Number of contracts	Asset	Liability	
<b>Derivatives designated as hedging:</b>									
<b>Fair Value Hedges:</b>									
Interest rate swaps	Interest	\$ -	-	\$ -	\$ -	\$ 1	1	\$ -	\$ -
Subtotal		-	-	-	-	1	1	-	-
<b>Cash Flow Hedges:</b>									
Interest rate swaps	Interest	744	59	120	1	1,713	53	86	6
Currency swaps	Currency	2,829	44	222	206	3,191	53	173	187
Subtotal		3,573	103	342	207	4,904	106	259	193
<b>Net Investment Hedges:</b>									
Currency forwards	Currency	786	32	1	73	654	32	3	65
Currency swaps	Currency	933	26	22	43	868	20	75	15
Subtotal		1,719	58	23	116	1,522	52	78	80
Total derivatives designated as hedging instruments		5,292	161	365	323	6,427	159	337	273
<b>Derivatives not designated as hedging:</b>									
Interest rate swaps	Interest	4,115	90	195	37	3,508	162	97	104
Interest rate options	Interest	19,999	66	88	-	20,547	51	114	-
Swaptions	Interest	17,111	65	143	-	-	-	-	-
Inflation swap	Interest	62	7	1	1	39	1	-	-
Corridor options	Interest	18,650	166	28	-	20,725	184	74	-
Currency swaps	Currency	1,196	12	87	76	1,600	11	196	92
Currency forwards	Currency	489	70	34	-	439	50	12	-
Equity options <sup>(b)</sup>	Market	659	27	40	109	1,227	37	30	74
Treasury locks	Interest	425	5	1	25	-	-	-	-
Futures	Interest	1	11	-	-	-	-	-	-
Bond call options	Interest	1,500	3	-	-	-	-	-	-
Equity swaps	Market	23	5	(1)	-	75	2	1	1
<b>Credit default swaps:</b>									
Buy protection	Credit	1,336	78	-	5	1,119	68	-	8
Sell protection	Credit	1,256	234	12	8	1,011	185	9	29
Average call rate spread	Interest	17	2	-	-	-	-	-	-
Total derivatives not designated as hedging instruments		66,839	841	628	261	50,290	751	533	308
Accrued investment income		-	-	-	-	-	-	60	15
Total derivatives		\$ 72,131	1,002	\$ 993	\$ 584	\$ 56,717	910	\$ 930	\$ 596

<sup>(a)</sup> The estimated fair value of all derivatives in an asset position is reported within other investments, with the exception of accrued investment income, which is reported with investment income due and accrued in the accompanying Consolidated Balance Sheet, and the estimated fair value of all derivatives in a liability position, including investment income payable on derivatives, is reported within other liabilities in the accompanying Consolidated Balance Sheet. For 2010, accrued investment income on derivatives and investment income payable on derivatives was excluded from the above table.

<sup>(b)</sup> As discussed below, equity options include non-qualified hedges with a notional amount of \$384 million related to ESI at each December 31, 2010 and 2009.

## Fair Value Hedges

The Company recognizes gains and losses on both the derivative instrument and the related hedged item of fair value hedges within net investment gains or losses in the accompanying Consolidated Statement of Income. During 2010, there were no gains or losses on derivatives and the amount of loss was less than \$1 million in 2009. During 2010, there were no gains or losses on hedged items recognized in income attributable to the risk being hedged and during 2009 the amount of loss totaled less than \$1 million.

For fair value hedges, all components of each derivative's gain or loss were included in the assessment of hedge ineffectiveness. There were no instances during 2010 and 2009 in which the

Company discontinued fair value hedge accounting due to a hedged firm commitment no longer qualifying as a fair value hedge due to hedge ineffectiveness.

## Cash Flow Hedges

The following table presents the effects of derivatives in cash flow hedging relationships in the accompanying Consolidated Statement of Income and the Consolidated Statement of Equity for the years ended December 31, 2010 and 2009 (in millions):

2010					
	Amount of gain (loss) recognized in OCI on derivative (effective portion) <sup>(a)</sup>	Amount of gain (loss) reclassified from AOCI into net income (effective portion)			Amount of gain (loss) reclassified from AOCI into net income (ineffective portion) <sup>(b)</sup>
		Net investment gains (losses)	Net investment income	Interest credited to policyholders' account balances	
Interest rate contracts	\$ (30)	\$ (78)	\$ 3	\$ -	\$ -
Currency contracts	58	97	(33)	7	-
Total	<u>\$ 28</u>	<u>\$ 19</u>	<u>\$ (30)</u>	<u>\$ 7</u>	<u>\$ -</u>
2009					
	Amount of gain (loss) recognized in OCI on derivative (effective portion) <sup>(a)</sup>	Amount of gain (loss) reclassified from AOCI into net income (effective portion)		Amount of gain (loss) reclassified from AOCI into net income (ineffective portion) <sup>(b)</sup>	
		Net investment gains (losses)	Net investment income		
Interest rate contracts	\$ (192)	\$ 15	\$ 10	\$ (1)	
Currency contracts	281	279	(42)	-	
Total	<u>\$ 89</u>	<u>\$ 294</u>	<u>\$ (32)</u>	<u>\$ (1)</u>	

<sup>(a)</sup> The amount of gain or (loss) recognized in OCI is reported as a change in net unrealized investment gains (losses), a component of AOCI, in the accompanying Consolidated Statement of Equity.

<sup>(b)</sup> The amount of gain or (loss) reclassified into earnings in the current period is reported in net investment gains or losses in the accompanying Consolidated Statement of Income.

In 2010, there were no instances in which the Company discontinued cash flow hedge accounting because the forecasted transactions did not occur on the anticipated date or in the additional time period permitted under the authoritative guidance on derivatives and hedging.

In December 2009, the Company discontinued cash flow hedge accounting on an interest rate swap that was hedging the forecasted interest payments on an underlying interest only strip. An impairment loss of \$13 million was taken on the underlying bond since the Company believes that it is no longer probable that all the cash flows will occur due to credit concerns. As such, hedge accounting has been discontinued. An offsetting gain of \$13 million has been reclassified from AOCI into net investment gains or losses in the accompanying Consolidated Statement of Income at December 31, 2009. There are no deferred gains or losses in OCI after the reclassification. The swap will be carried at fair value with changes recognized in net investment gains or losses.

There were no hedged forecasted transactions, other than the receipt or payment of variable interest payments.

Presented below is a rollforward of the components of AOCI, before taxes, related to cash flow hedges (in millions):

	<u>2010</u>	<u>2009</u>
Balance, beginning of year	\$ 39	\$ 211
Gains (losses) deferred in OCI on the effective portion of cash flow hedges	28	89
Losses (gains) reclassified to net income	<u>6</u>	<u>(261)</u>
Balance, end of year	<u>\$ 73</u>	<u>\$ 39</u>

For cash flow hedges, the estimated amount of existing losses that are reported in AOCI at December 31, 2010 related to periodic interest payments on assets and liabilities being hedged that is expected to be reclassified into earnings within the next 12 months is \$(19) million.

### Net Investment Hedges

The following table presents the effects of derivatives in net investment hedging relationships in the accompanying Consolidated Statement of Income and the Consolidated Statement of Equity for the years ended December 31, 2010 and 2009 (in millions):

	Amount of gain (loss) recognized in OCI on derivative (effective portion) <sup>(a)</sup>		Amount of gain (loss) reclassified from OCI into net income (effective portion) <sup>(b)</sup>		Amount of gain (loss) recognized in net income on derivative (ineffective portion) <sup>(b)</sup>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
	Currency swaps	\$ (112)	\$ (94)	\$ -	\$ -	\$ -
Foreign exchange forward contracts	(53)	(68)	-	-	(30)	(5)
Total	<u>\$ (165)</u>	<u>\$ (162)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (30)</u>	<u>\$ (5)</u>

<sup>(a)</sup> The amount of gain or (loss) is reflected in AOCI as part of the foreign currency translation adjustment in the accompanying Consolidated Statement of Equity.

<sup>(b)</sup> The amount of gain or (loss) reclassified into earnings in the current period is reported in net investment gains (losses) in the accompanying Consolidated Statement of Income.

Presented below is a rollforward of the components of other accumulated comprehensive income (loss), before taxes, related to net investment hedges (in millions):

	<u>2010</u>	<u>2009</u>
Balance, beginning of year	\$ (171)	\$ (14)
Gains (losses) deferred in OCI on the effective portion of net investment hedges	(165)	(162)
Losses (gains) reclassified to net income	29	5
Balance, end of year	<u>\$ (307)</u>	<u>\$ (171)</u>

## Derivatives Not Qualifying or Designated as Hedging Instruments

The Company has derivative instruments that are not designated or do not qualify for hedge accounting treatment. The following table provides the income statement classification and amount of gains and losses on derivative instruments not designated as hedging instruments for the years ended December 31, 2010 and 2009 (in millions):

	Amount of gain (loss) recognized in income on derivative <sup>(a)</sup>	
	2010	2009
Interest rate swaps	\$ 194	\$ (115)
Inflation swap	(2)	-
Swaptions	30	-
Interest rate options	2	(6)
Interest rate cap	(56)	1
Currency swaps	(96)	142
Currency forwards	40	(14)
Equity options	(7)	(53)
Corridor options	(47)	56
Futures	(168)	(17)
Equity swaps	(2)	(3)
European put options (Mainstay Equity Index Fund)	7	19
Bond forwards	107	-
Bond call options	(13)	-
ESI forward sale (Overlay Hedge) <sup>(b)</sup>	(48)	(58)
Credit default swaps		
CDS - buy protection	(11)	(37)
CDS - sell protection	22	41
Total	<u>\$ (48)</u>	<u>\$ (44)</u>

<sup>(a)</sup> The amount of gain or (loss) is reported within net investment gains or losses in the Consolidated Statement of Income.

<sup>(b)</sup> See section on embedded derivatives for more information on ESI derivatives.

The Company has an agreement with the Index Fund, a company managed mutual fund, whereby, the Company guarantees that if, on the business day immediately after ten years from the date of purchase (“Guarantee Date”), the net asset value of an Index Fund share plus the value of all dividends and distributions, including cumulative reinvested dividends and distributions attributable to such shares paid during that ten year period (“Guaranteed Share”), is less than the public offering price initially paid for the share (“Guaranteed Amount”), the Company will pay each holder of a guaranteed Share an amount equal to the difference between the Guaranteed Amount for each share and the net asset value of each Guaranteed Share outstanding and held by such holder as of the close of business on the Guaranteed Date. This guarantee is in effect a European style put option required by the authoritative guidance on derivatives and hedging to be fair valued. Its fair value represents the estimated value of future claims, which was calculated using a Monte-Carlo simulation of the future equity market changes based on random scenarios drawn from a distribution of annual returns and volatility. Actual results could differ from those estimates. At December 31, 2010 and 2009, the derivative was calculated using an annual return of 0.60% and 1%, respectively, and a volatility of 14.8% and 19%, respectively. For the years ended December 31, 2010 and 2009, the change in fair value resulted in the Company recording a gain of \$7 million and \$19 million, respectively, which are included in net investment gains or losses in the accompanying Consolidated Statement of Income, and includes \$5 million and \$15 million of payments in 2010 and 2009, respectively. At December 31, 2010 and 2009, the Company recognized a liability of less than \$1 million and \$12 million, respectively, which is included in other liabilities in the accompanying Consolidated Balance Sheet.

The Company enters into credit default swaps (“CDS”) both to buy loss protection from, and sell loss protection to a counterparty in the event of default of a reference obligation or a reference pool of assets. The Company also sells CDS protection on a basket of U.S. securities and indexes in order to swap the

credit risk from certain foreign denominated fixed maturities. The approximate term of these contracts ranges from 3 to 10 years. At December 31, 2010 and 2009, the Company had 312 and 253 open contracts, respectively, for CDS bought and sold at a notional amount of \$2,592 million and \$2,130 million, respectively, with a fair value of \$(1) million and \$(28) million, respectively. Realized gains of \$11 million and \$4 million, which includes realized gains of \$22 million and \$41 million related to credit protection sold, were recorded for the years ended December 31, 2010 and 2009, respectively, and are reflected in net investment gains or losses in the accompanying Consolidated Statement of Income.

The maximum amount the Company would be required to pay under swaps in which credit protection was sold, assuming all referenced obligations default at a total loss without recoveries, would be \$1,256 million and \$1,011 million at December 31, 2010 and 2009, respectively. The market value of swaps for credit protection sold was \$4 million and \$(20) million at December 31, 2010 and 2009, respectively. The Company posted collateral in the amount of \$1 million and \$2 million at December 31, 2010 and 2009, respectively, on open positions.

## Embedded Derivatives

The Company has certain embedded derivatives that are required to be separated from their host contracts and accounted for as derivatives. The following table presents the fair value amounts of the Company's embedded derivatives at December 31, 2010 and 2009 (in millions):

	<u>Balance sheet location</u>	<u>2010</u>	<u>2009</u>
<b>Embedded derivatives in liability host contracts:</b>			
GMABs <sup>(a)</sup>	Policyholders' account balances	\$ 222	\$ 235
IPGs <sup>(a)</sup>	Policyholders' account balances	227	28
SAILS contracts			
Embedded equity calls	Other liabilities	1,255	960
Other	Other assets	(5)	-
Other	Other liabilities	94	51
Total		<u>\$ 1,793</u>	<u>\$ 1,274</u>

<sup>(a)</sup> For further information on these embedded derivatives refer to Note 17 - Fair Value Measurements.

The following table presents the changes in fair value related to embedded derivatives for the years ended December 31, 2010 and 2009 (in millions):

	<u>2010</u>	<u>2009</u>
Net investment gains (losses)	\$ (290)	\$ (426)
Other income	(44)	(89)
Interest credited to policyholders' account balances	169	95

In 2001, the Company entered into an agreement with Credit Suisse to minimize its downside risk on the Company's investment in ESI while still maintaining rights to share in future appreciation (SAILS, as discussed in Note 12 - Debt). The agreement contains embedded derivatives and the Company has assessed that the economic characteristics of the derivatives (a series of European style put and call options each with a notional amount of \$243 million) were not clearly and closely related to those of the host contract and determined that a separate instrument with the same terms would qualify as a derivative instrument. In accordance with authoritative guidance, the embedded derivatives were separated from the host contract and accounted for as stand-alone derivatives. The Company's obligation associated with these embedded derivatives is fully collateralized by its investment in ESI, which is classified as a trading security with the change in fair value recorded in net investment gains or losses in the accompanying Consolidated Statement of Income.

On June 5, 2007, the Company entered into a forward sale agreement with Credit Suisse, referred to as the Overlay Hedge, for 5.6 million encumbered shares of ESI. Under the agreement, the Company may deliver up to 5.6 million shares of ESI common stock on August 22, 2011. If the Company elects to

settle the SAILS transaction in cash, it must also settle the Overlay Hedge in cash instead of delivering shares. This agreement modifies the risk and opportunity allocated under the SAILS contract, limiting the risk of loss by protecting \$88 million of the unrealized retained value in the SAILS transaction from potential decline in the ESI stock price. In exchange for limiting its downside risk, the Company would forfeit a portion of the potential gain from appreciation in the ESI stock price. The terms of the Overlay Hedge agreement allows the Company to protect 5.6 million shares of ESI from any decline in stock price from \$24.52 per share down to \$8.78 per share. While the Company is entitled to all of the appreciation up to \$35.19 per share, all appreciation above \$35.19 per share is allocated to Credit Suisse. The aggregate number of shares deliverable under the SAILS and Overlay Hedge transactions cannot exceed 36 million shares.

The Company has assessed that the economic characteristics of the Overlay Hedge represent a series of European style put and call options, and has accounted for these derivatives in accordance with authoritative guidance related to derivatives and hedging. The Company's obligation associated with these derivatives is fully collateralized by its investment in ESI. The fair value of these derivatives was determined utilizing a Black-Scholes valuation model which takes into account current market conditions, term to maturity and implied volatility of the ESI stock. The Black-Scholes valuation model for the derivatives requires management to make estimates and assumptions regarding interest rates and volatility. Such estimates are primarily based on current market data and future expectations. Actual results could differ from those estimates. At December 31, 2010, the derivatives were calculated using the nine-month swap interest rate of 0.62%, a put volatility of 47%, and a call volatility of 40%, respectively. Due to the high probability that the put option with a strike price of \$8.78 will expire out of the money, the value for the option is set at zero. At December 31, 2009, the derivatives were calculated using the two-year swap interest rate of 1.42%, a put volatility of 38% and a call volatility of 33%. Due to the high probability that the put option with a strike price of \$8.78 will expire out of the money, the value for the option is set at zero. Based on the share price of ESI stock at December 31, 2010, a 10% increase in: (A) the share price, would result in a \$29 million increase in the fair value of the liability or (B) the interest rate, would result in an immaterial change in the fair value of the liability.

The fair value of these derivatives represent the estimated amount the Company would receive or pay to purchase similar stand-alone European put and call option contracts and was determined utilizing a Black-Scholes valuation model which takes into account current market conditions, term to maturity and implied volatility of the ESI stock. The Black-Scholes valuation model for the embedded derivatives requires management to make estimates and assumptions regarding interest rates and volatility. Such estimates are primarily based on current market data and future expectations. Actual results could differ from those estimates. The stock price of ESI at December 31, 2010 was \$54.05 per share. At December 31, 2010, the derivatives under the SAILS contract were calculated using the nine month interest rate of 0.62%. Due to the high probability that the put option with strike price of \$6.76 will expire out of the money, the value for the option is set at zero. Due to the limited data on the volatility of calls as a result of the short duration of time until maturity, the difference between the stock price and the call price was used to value the call option with a strike price of \$8.78. At December 31, 2009, the derivatives under the SAILS contract were calculated using the two-year swap interest rate of 1.42% and a call volatility of 43%. Due to the high probability that the put option with strike price of \$6.76 will expire out of the money, the value for the option is set at zero. Based on the share price of ESI stock at December 31, 2010, a 10% increase in: (A) the share price, would result in a \$150 million increase in the fair value of the liability or (B) the interest rate, would result in an immaterial change in the fair value of the liability.

## **NOTE 15 - COMMITMENTS AND CONTINGENCIES**

### **Litigation**

The Company and/or its subsidiaries are defendants in individual and/or alleged class action suits arising from their agency sales force, insurance (including variable contracts registered under the federal securities law), investment, retail securities, employment and/or other operations, including actions involving retail sales practices. Most of the actions seek substantial or unspecified compensatory and

punitive damages. The Company and/or its subsidiaries are also from time to time involved in various governmental, administrative, and investigative proceedings and inquiries.

Notwithstanding the uncertain nature of litigation and regulatory inquiries, the outcome of which cannot be predicted, the Company believes that, after provisions made in the consolidated financial statements, the ultimate liability that could result from litigation and proceedings would not have a material adverse effect on the Company's financial position; however, it is possible that settlements or adverse determinations in one or more actions or other proceedings in the future could have a material adverse effect on the Company's operating results for a given year.

### **Assessments**

Most of the jurisdictions in which the Company is licensed to transact business, require life insurers to participate in guaranty associations, which are organized to pay contractual benefits pursuant to insurance policies issued by impaired, insolvent or failed life insurers. These associations levy assessments, up to prescribed limits, on all member insurers in a particular state on the basis of the proportionate share of the premiums written by member insurers in the line of business in which the impaired, insolvent or failed life insurer is engaged. Some states permit member insurers to recover assessments through full or partial premium tax offsets.

The Company received notification of the insolvency of various life insurers. It is expected that these insolvencies will result in remaining guaranty fund assessments against the Company of approximately \$77 million and \$41 million, which have been accrued in other liabilities on the accompanying Consolidated Balance Sheet at December 31, 2010 and 2009, respectively. The Company expects to recover \$48 million and \$15 million at December 2010 and 2009, respectively, of premium offsets reflected in other assets on the accompanying Consolidated Balance Sheet.

### **Guarantees**

The Company, in the ordinary course of its business, has numerous agreements with respect to its affiliates, related parties and other third parties. In connection with such agreements there may be related commitments or contingent liabilities, which may take the form of guarantees. The Company believes the ultimate liability that could result from these guarantees would not have a material adverse effect on the Company's financial position.

### **Loaned Securities and Repurchase Agreements**

The Company participates in securities lending for the purpose of enhancing income on certain securities held. As of December 31, 2010 and 2009, \$1,102 million and \$1,111 million, respectively, of the Company's fixed maturities were on loan to others. Such assets reflect the extent of the Company's involvement in securities lending, not the Company's risk of loss. At December 31, 2010 and 2009, the Company recorded cash collateral received under these agreements of \$1,121 million and \$1,146 million, respectively, and established a corresponding liability for the same amount. The Company held no collateral in the form of securities at December 31, 2010 and 2009.

Following the entering into of the SAILS agreement with Credit Suisse described in Note 12 - Debt, the Company agreed to lend shares of ESI to Credit Suisse. The carrying value of the shares pledged as collateral at December 31, 2010 and 2009 that can be sold or repledged under the SAILS agreement totaled \$1,799 million and \$1,556 million, respectively. This transaction is generally collateralized with the right of offset against the Company's liability to Credit Suisse, and to the extent the right of offset does not provide sufficient collateral, Credit Suisse provides additional collateral which consists of U.S. government securities, letters of credit or cash. As of December 31, 2010 and 2009, Credit Suisse borrowed 30.4 million shares with a market value of \$1,643 million and \$1,314 million, respectively.

At December 31, 2010 and 2009, the Company had agreements to sell and repurchase securities, which are reflected in other liabilities in the accompanying Consolidated Balance Sheet totaling \$217 million and \$1,141 million, respectively, with average coupon rates of 3.95% and 4.57%, respectively.

At December 31, 2010 and 2009, the Company had agreements to purchase and resell securities, which are reflected on the accompanying Consolidated Balance Sheet totaling \$401 million and \$450 million, respectively, with average coupon rates of 0.22% and 0.02% at December 31, 2010 and 2009, respectively.

## Liens

Several commercial banks have customary security interests in certain assets of the Company to secure potential overdrafts and other liabilities of the Company that may arise under custody, securities lending and other banking agreements with such banks.

## Lease Commitments

The Company leases office space, distribution facilities, and certain office equipment under various agreements with various expiration dates. The leases contain provisions for payment of real estate taxes, building maintenance, electricity, and rent escalations.

Future minimum lease payments under non-cancellable operating leases with original or remaining lease terms in excess of one year at December 31, 2010 were as follows (in millions):

	<b>Real Property</b>	<b>Equipment</b>	<b>Total</b>
2011	\$ 117	\$ 16	\$ 133
2012	107	10	117
2013	90	4	94
2014	78	-	78
2015	66	-	66
Thereafter	215	-	215
Total rental expense	<u>673</u>	<u>30</u>	<u>703</u>
Less: future sublease rental receipts	2	-	2
Total	<u><u>\$ 671</u></u>	<u><u>\$ 30</u></u>	<u><u>\$ 701</u></u>

In connection with the sale of one of its Home Office properties in 1995, the Company entered into an agreement to lease back a portion of the building through 2010. Effective December 7, 2009, the Company renewed such lease through 2024, with total future lease obligations of \$162 million as of December 31, 2010 that are included in the above table.

For the years ended December 31, 2010 and 2009 rent expense was \$140 million and \$159 million, respectively.

## NOTE 16 - RELATED PARTY TRANSACTIONS

### Company Managed Mutual Funds

New York Life Investments, through its subsidiaries, is responsible for providing investment advisory and certain related administrative services to the Funds. As a result, New York Life Investments, through its subsidiaries, earns investment management, accounting, administration, and service fees related to the Funds, which aggregated \$391 million and \$300 million for the years ended December 31, 2010 and 2009, respectively, and are included in other income in the accompanying Consolidated Statement of Income. The amounts receivable from the Funds at December 31, 2010 and 2009 was \$40 million and

\$35 million, respectively, and is included in other assets in the accompanying Consolidated Balance Sheet.

### **Other Transactions**

Effective July 15, 2008, New York Life, NYL International and Max New York Life Insurance Company Limited of India (“Max NYL”), a 26% owned affiliate of NYL International, entered into a brand licensing and technical services agreement. New York Life and NYL International will provide various technical, insurance, financial, administrative and support services to Max NYL, and grant a license to Max NYL to use the trade name and trademarks of New York Life in the conduct of Max NYL’s operations in India. In consideration for the license and providing various services, Max NYL will pay New York Life the sum of \$73 million, less applicable taxes, over a period of five years unless India raises the cap on foreign ownership in the insurance sector from 26% to 49% during this five-year period, at which the time the license and service payments from Max NYL will cease. Max NYL made an initial payment of \$15 million less applicable taxes on the effective date of this agreement, and has paid quarterly installments of \$3 million less applicable taxes through December 31, 2010. If India raises the cap on foreign ownership in the insurance sector from 26% to 49% before the five year term expires, the \$3 million quarterly payments from Max NYL will cease. New York Life recognized income (net of its 26% interest) of \$24 million (including \$14 million related to the first 18 months that was previously deferred because it was subject to a clawback) and \$2 million for the years ended December 31, 2010 and 2009, respectively, included in other income in the accompanying Consolidated Statement of Income. The remaining amounts received have been deferred and are recorded in other liabilities in the accompanying Consolidated Balance Sheet.

## NOTE 17 - FAIR VALUE MEASUREMENTS

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The authoritative guidance around fair value establishes a framework for measuring fair value that includes a hierarchy used to classify the inputs used in measuring fair value. The hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three levels. The level in the fair value hierarchy within which the fair value measurement falls is determined based on the lowest level input that is significant to the fair value measurement.

The levels of the fair value hierarchy are based on the inputs to the valuation as follows:

- Level 1** Fair value is based on unadjusted quoted prices for identical assets or liabilities in an active market. Active markets are defined as a market in which many transactions occur with sufficient frequency and volume to provide pricing information on an ongoing basis.
- Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active, or other model driven inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Level 2 inputs include quoted market prices in active markets for similar assets and liabilities, quoted market prices in markets that are not active for identical or similar assets or liabilities, and other market observable inputs. Valuations are generally obtained from third-party pricing services for identical or comparable assets or liabilities or through the use of valuation methodologies using observable market inputs.
- Level 3** Instruments whose values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. These inputs reflect management's own assumptions in pricing the asset or liability. Pricing may also be based upon broker quotes that do not represent an offer to transact. Prices are determined using valuation methodologies such as option pricing models, discounted cash flow models and other similar techniques. Non-binding broker quotes, which are utilized when pricing service information is not available, are reviewed for reasonableness based on the Company's understanding of the market, and are generally considered Level 3. To the extent the internally developed valuations use significant unobservable inputs, they are classified as Level 3.

The following tables represent the balances of assets and liabilities measured at fair value on a recurring basis as of December 31, 2010 and 2009 (in millions):

	<b>2010</b>			
	<b>Quoted Prices in Active Markets for Identical Assets (Level 1)</b>	<b>Significant Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>	<b>Total</b>
<b>Fixed maturities - available-for-sale</b>				
U.S. Treasury agency and government guaranteed	\$ -	\$ 11,091	\$ 20	\$ 11,111
U.S. agencies, state and municipal	-	2,564	22	2,586
Foreign governments	337	6,569	29	6,935
U.S. corporate	-	54,195	575	54,770
Foreign corporate	-	16,407	273	16,680
Residential mortgage-backed securities	-	27,791	1,473	29,264
Commercial mortgage-backed securities	-	11,069	19	11,088
Asset-backed securities	-	5,557	1,280	6,837
Redeemable preferred securities	7	9	-	16
Other fixed maturity securities	-	-	17	17
<b>Total fixed maturities - available-for-sale</b>	<b>344</b>	<b>135,252</b>	<b>3,708</b>	<b>139,304</b>
<b>Fixed maturities - trading</b>				
U.S. Treasury agency and government guaranteed	-	295	-	295
U.S. agencies, state and municipal	-	210	4	214
Foreign governments	-	160	-	160
U.S. corporate	-	2,727	74	2,801
Foreign corporate	-	696	36	732
Residential mortgage-backed securities	-	541	26	567
Commercial mortgage-backed securities	-	223	-	223
Asset-backed securities	-	340	49	389
<b>Total fixed maturities - trading</b>	<b>-</b>	<b>5,192</b>	<b>189</b>	<b>5,381</b>
<b>Equity securities</b>				
Common stock	2,629	-	137	2,766
Non-redeemable preferred stock	-	95	10	105
Mutual fund	162	-	-	162
<b>Total equity securities</b>	<b>2,791</b>	<b>95</b>	<b>147</b>	<b>3,033</b>
Securities purchased under agreements to resell	-	401	-	401
Investment, at fair value, of consolidated investment companies	247	884	1,712	2,843
Collateralized third party loans of certain consolidated VIEs	-	1,881	26	1,907
Derivative assets (including embedded)	-	998	-	998
Other invested assets	-	17	4	21
Cash and cash equivalents	73	4,053	-	4,126
Separate account assets <sup>1</sup>	20,321	1,650	602	22,573
<b>Total assets accounted for at fair value on a recurring basis</b>	<b>\$ 23,776</b>	<b>\$ 150,423</b>	<b>\$ 6,388</b>	<b>\$ 180,587</b>
<b>Policyholders' account balances<sup>2</sup></b>				
Debt of collateralized structures	-	-	1,798	1,798
<b>Other liabilities</b>				
<b>Derivative liabilities</b>				
ESI derivatives	-	1,364	-	1,364
Other derivatives	-	559	10	569
<b>Total derivative liabilities</b>	<b>-</b>	<b>1,923</b>	<b>10</b>	<b>1,933</b>
All other liabilities	9	12	67	88
<b>Total other liabilities</b>	<b>9</b>	<b>1,935</b>	<b>77</b>	<b>2,021</b>
<b>Total liabilities accounted for at fair value on a recurring basis</b>	<b>\$ 9</b>	<b>\$ 1,935</b>	<b>\$ 2,324</b>	<b>\$ 4,268</b>

<sup>1</sup> Separate account liabilities are not included above as they are reported at contract value in the accompanying Consolidated Balance Sheet in accordance with the Company's policy (see Note 2 - Significant Accounting Policies).

<sup>2</sup> Policyholders' account balances represent embedded derivatives bifurcated from host contracts.

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Fixed maturities - available-for-sale				
U.S. Treasury agency and government guaranteed	\$ -	\$ 9,991	\$ 21	\$ 10,012
U.S. agencies, state and municipal	-	1,454	-	1,454
Foreign governments	369	5,078	25	5,472
U.S. corporate	-	51,246	726	51,972
Foreign corporate	3	14,544	835	15,382
Residential mortgage-backed securities	-	25,586	1,048	26,634
Commercial mortgage-backed securities	-	10,812	54	10,866
Asset-backed securities	-	4,881	1,438	6,319
Other fixed maturity securities	6	13	8	27
Total fixed maturities - available-for-sale	<u>378</u>	<u>123,605</u>	<u>4,155</u>	<u>128,138</u>
Equity securities - available-for-sale				
Common stock	261	-	141	402
Non-redeemable preferred stock	-	7	2	9
Total equity securities - available-for-sale	<u>261</u>	<u>7</u>	<u>143</u>	<u>411</u>
Trading securities				
Fixed maturity	-	4,394	191	4,585
Equities	2,313	67	1	2,381
Derivative assets (including embedded) <sup>1</sup>	-	927	3	930
Securities purchased under agreements to resell	-	450	-	450
Other investments	58	658	1,616	2,332
Cash and cash equivalents	99	3,859	-	3,958
Separate account assets <sup>2</sup>	17,427	1,115	63	18,605
Total assets accounted for at fair value on a recurring basis	<u>\$ 20,536</u>	<u>\$ 135,082</u>	<u>\$ 6,172</u>	<u>\$ 161,790</u>
Policyholders' account balances <sup>3</sup>	\$ -	\$ -	\$ 263	\$ 263
Other liabilities				
Derivative liabilities <sup>4</sup>	-	1,588	19	1,607
All other liabilities	46	-	-	46
Total other liabilities	<u>46</u>	<u>1,588</u>	<u>19</u>	<u>1,653</u>
Total liabilities accounted for at fair value on a recurring basis	<u>\$ 46</u>	<u>\$ 1,588</u>	<u>\$ 282</u>	<u>\$ 1,916</u>

<sup>1</sup> Includes \$60 million derivative investment income due and accrued.

<sup>2</sup> Separate account liabilities are not included above as they are reported at contract value in the accompanying Consolidated Balance Sheet in accordance with the Company's policy (see Note 2 - Significant Accounting Policies).

<sup>3</sup> Policyholders' account balances represent embedded derivatives bifurcated from host contracts.

<sup>4</sup> Includes \$15 million derivative investment income payable.

## Transfers between levels

Transfers between levels may occur due to changes in valuation sources, or changes in the availability of market observable inputs, which generally are caused by changes in market conditions such as liquidity, trading volume or bid-ask spreads. The Company's policy is to assume the transfer occurs at the beginning of the period.

### *Transfers between Levels 1 and 2*

Periodically the Company has transfers between Level 1 and Level 2 for assets and liabilities.

During the twelve months ended December 31, 2010, transfers between Levels 1 and 2 were not significant.

### *Transfers into and out of Level 3*

The Company's basis for transferring assets and liabilities into and/or out of Level 3 is based on the changes in the observability of data.

Assets and liabilities are transferred into Level 3 when a significant input cannot be corroborated with market observable data. This occurs when market activity decreases significantly and underlying inputs cannot be observed, current prices are not available, and/or when there are significant variances in quoted prices, thereby affecting transparency. Assets and liabilities are transferred out of Level 3 when circumstances change such that a significant input can be corroborated with market observable data. This may be due to a significant increase in market activity, a specific event, or one or more significant input(s) becoming observable.

During the year ended December 31, 2010, the Company transferred \$965 million of securities into Level 3 consisting of fixed maturities available-for-sale and trading securities, investments of consolidated investment companies, and separate account assets. The transfers into Level 3 related to fixed maturities available-for-sale securities were primarily due to unobservable inputs utilized within valuation methodologies and the use of broker quotes (that could not be validated) when previously, information from third-party pricing services (that could be validated) was utilized. For the separate account assets, transfers into Level 3 are related to limited partnership investments that are restricted with respect to transfers or withdrawals.

Transfers out of Level 3 of \$1,451 million during the year ended December 31, 2010 was primarily due to significant increase in market activity, or one or more significant input(s) becoming observable for fixed maturities available-for-sale and trading securities, and investments of consolidated investment companies.

Net transfers into (out of) Level 3 for fixed maturities available-for-sale totaled \$(2,392) million during the year ended December 31, 2009. For the year ended December 31, 2009, transfers out of Level 3 were primarily the result of observable inputs utilized within valuation methodologies and observable information from third party pricing services or internal models in place of previous broker quotes. Partially offsetting these transfers out of Level 3 were transfers into Level 3 due to the use of unobservable inputs in valuation methodologies as well as the utilization of broker quotes for certain assets.

The tables below present a reconciliation of all Level 3 assets and liabilities for the years ended December 31, 2010 and 2009 (in millions):

	2010				
	U.S. Treasury agency and government guaranteed	U.S. agencies, state and municipal	Foreign governments	U.S. corporate	Foreign corporate
<b>Changes in fair value of Level 3 assets and liabilities</b>					
Fair value, beginning of year	\$ 21	\$ -	\$ 25	\$ 726	\$ 835
Total gains or (losses) (realized/unrealized):					
Included in earnings					
Net investment gains (losses)	-	-	-	(7)	(22)
Net investment income <sup>1</sup>	-	-	-	11	4
Interest credited to policyholders' account balances	-	-	-	-	-
Other comprehensive income	2	-	-	12	(2)
Purchases, sales, issuances, and settlements	(3)	22	29	(26)	(130)
Transfers into Level 3 <sup>2</sup>	-	-	-	70	136
Transfers out of Level 3 <sup>2</sup>	-	-	(25)	(211)	(548)
Fair value, end of year	<u>\$ 20</u>	<u>\$ 22</u>	<u>\$ 29</u>	<u>\$ 575</u>	<u>\$ 273</u>
	Residential mortgage-backed securities	Commercial mortgage- backed securities	Asset-backed securities	Other fixed maturity securities	Total fixed maturities - available- for- sale
<b>Changes in fair value of Level 3 assets and liabilities</b>					
Fair value, beginning of year	\$ 1,048	\$ 54	\$ 1,438	\$ 8	\$ 4,155
Total gains or (losses) (realized/unrealized):					
Included in earnings					
Net investment gains (losses)	1	-	(8)	-	(36)
Net investment income <sup>1</sup>	30	1	2	-	48
Interest credited to policyholders' account balances	-	-	-	-	-
Other comprehensive income	33	7	53	9	114
Purchases, sales, issuances, and settlements	460	(22)	44	-	374
Transfers into Level 3 <sup>2</sup>	227	3	3	-	439
Transfers out of Level 3 <sup>2</sup>	(326)	(24)	(252)	-	(1,386)
Fair value, end of year	<u>\$ 1,473</u>	<u>\$ 19</u>	<u>\$ 1,280</u>	<u>\$ 17</u>	<u>\$ 3,708</u>
	U.S. Treasury agency and government guaranteed	U.S. agencies, state and municipal	U.S. corporate	Foreign corporate	Residential mortgage-backed securities
<b>Changes in fair value of Level 3 assets and liabilities</b>					
Fair value, beginning of year	\$ 22	\$ -	\$ 68	\$ 39	\$ 2
Total gains or (losses) (realized/unrealized):					
Included in earnings					
Net investment gains (losses)	(1)	-	5	2	-
Net investment income <sup>1</sup>	1	-	-	-	1
Interest credited to policyholders' account balances	-	-	-	-	-
Other comprehensive income	-	-	-	-	-
Purchases, sales, issuances, and settlements	(22)	4	(5)	8	17
Transfers into Level 3 <sup>2</sup>	-	-	8	5	6
Transfers out of Level 3 <sup>2</sup>	-	-	(2)	(18)	-
Fair value, end of year	<u>\$ -</u>	<u>\$ 4</u>	<u>\$ 74</u>	<u>\$ 36</u>	<u>\$ 26</u>

	2010				
	Commercial mortgage-backed securities	Asset-backed securities	Total fixed maturities - trading	Common stock	Non-redeemable preferred stock
<b>Changes in fair value of Level 3 assets and liabilities</b>					
Fair value, beginning of year	\$ 1	\$ 59	\$ 191	\$ 142	\$ 2
Total gains or (losses) (realized/unrealized):					
Included in earnings					
Net investment gains (losses)	-	1	7	5	-
Net investment income <sup>1</sup>	-	-	2	-	-
Interest credited to policyholders' account balances	-	-	-	-	-
Other comprehensive income	-	-	-	(3)	8
Purchases, sales, issuances, and settlements	(1)	(7)	(6)	(6)	-
Transfers into Level 3 <sup>2</sup>	-	-	19	-	-
Transfers out of Level 3 <sup>2</sup>	-	(4)	(24)	(1)	-
Fair value, end of year	\$ -	\$ 49	\$ 189	\$ 137	\$ 10

	Total equity securities	Investment, at fair value, of consolidated investment companies	Collateralized third party loans of certain consolidated VIEs	Derivative assets (including embedded)	Other invested assets
	<b>Changes in fair value of Level 3 assets and liabilities</b>				
Fair value, beginning of year	\$ 144	\$ 1,603	\$ -	\$ 3	\$ 13
Total gains or (losses) (realized/unrealized):					
Included in earnings					
Net investment gains (losses)	5	66	-	-	-
Net investment income <sup>1</sup>	-	41	-	-	-
Other income	-	-	-	-	-
Interest credited to policyholders' account balances	-	-	-	-	-
Other comprehensive income	5	-	-	(2)	-
Purchases, sales, issuances, and settlements	(6)	(20)	26	-	(9)
Transfers into Level 3 <sup>2</sup>	-	61	-	-	-
Transfers out of Level 3 <sup>2</sup>	(1)	(39)	-	(1)	-
Fair value, end of year	\$ 147	\$ 1,712	\$ 26	\$ -	\$ 4

	Separate account assets	Total assets
	<b>Changes in fair value of Level 3 assets and liabilities</b>	
Fair value, beginning of year	\$ 63	6,172
Total gains or (losses) (realized/unrealized):		
Included in earnings		
Net investment gains (losses)	-	42
Net investment income <sup>1</sup>	46	137
Other income	-	-
Interest credited to policyholders' account balances	-	-
Other comprehensive income	38	155
Purchases, sales, issuances, and settlements	9	368
Transfers into Level 3 <sup>2</sup>	446	965
Transfers out of Level 3 <sup>2</sup>	-	(1,451)
Fair value, end of year	\$ 602	\$ 6,388

## 2010

	<b>Policyholders' account balances</b>	<b>Debt of collateralized structures</b>	<b>Derivative liabilities</b>	<b>All other liabilities</b>	<b>Total liabilities</b>
<b>Changes in fair value of Level 3 assets and liabilities</b>					
Fair value, beginning of year	\$ 263	\$ -	\$ 19	\$ -	\$ 282
Total gains or (losses) (realized/unrealized):					
Included in earnings					
Net investment gains (losses)	-	(35)	(6)	-	(41)
Net investment income <sup>1</sup>	-	-	-	-	-
Other income	-	-	-	-	-
Interest credited to policyholders' account balances	169	-	-	-	169
Other comprehensive income	-	-	3	-	3
Purchases, sales, issuances, and settlements	17	1,833	(6)	67	1,911
Transfers into Level 3 <sup>2</sup>	-	-	-	-	-
Transfers out of Level 3 <sup>2</sup>	-	-	-	-	-
Fair value, end of year	<u>\$ 449</u>	<u>\$ 1,798</u>	<u>\$ 10</u>	<u>\$ 67</u>	<u>\$ 2,324</u>

<sup>1</sup> Net investment income (loss) includes amortization of discount and premium on fixed maturities.

<sup>2</sup> Transfers into or out of Level 3 are reported at the value as of beginning of the year in which the transfer occurred.

## 2009

	<b>U.S. Treasury agency and government guaranteed</b>	<b>U.S. agencies, state and municipal</b>	<b>Foreign governments</b>	<b>U.S. corporate</b>	<b>Foreign corporate</b>
<b>Changes in fair value of Level 3 assets and liabilities</b>					
Fair value, beginning of year	\$ 37	\$ 16	\$ 15	\$ 1,122	\$ 902
Total gains or (losses) (realized/unrealized):					
Included in earnings					
Net investment gains (losses)	-	-	-	(30)	(27)
Net investment income <sup>1</sup>	-	-	-	14	5
Interest credited to policyholders' account balances	-	-	-	-	-
Other comprehensive income	(2)	-	-	138	127
Purchases, sales, issuances, and settlements	23	-	25	(158)	188
Transfers into (out of) Level 3 <sup>2</sup>	(37)	(16)	(15)	(360)	(360)
Fair value, end of year	<u>\$ 21</u>	<u>\$ -</u>	<u>\$ 25</u>	<u>\$ 726</u>	<u>\$ 835</u>

  

	<b>Residential mortgage-backed securities</b>	<b>Commercial mortgage- backed securities</b>	<b>Asset-backed securities</b>	<b>Other fixed maturity securities</b>	<b>Common stock</b>
<b>Changes in fair value of Level 3 assets and liabilities</b>					
Fair value, beginning of year	\$ 1,026	\$ 93	\$ 1,731	\$ 14	\$ 86
Total gains or (losses) (realized/unrealized):					
Included in earnings					
Net investment gains (losses)	2	(1)	13	(13)	(2)
Net investment income <sup>1</sup>	-	-	1	-	-
Interest credited to policyholders' account balances	-	-	-	-	-
Other comprehensive income	6	8	29	8	6
Purchases, sales, issuances, and settlements	712	(7)	531	(1)	54
Transfers into (out of) Level 3 <sup>2</sup>	(698)	(39)	(867)	-	(3)
Fair value, end of year	<u>\$ 1,048</u>	<u>\$ 54</u>	<u>\$ 1,438</u>	<u>\$ 8</u>	<u>\$ 141</u>

	2009				
	Non-redeemable preferred stock	Trading fixed maturities	Trading equity securities	Derivative assets (including embedded)	Other investments
<b>Changes in fair value of Level 3 assets and liabilities</b>					
Fair value, beginning of year	\$ 3	\$ 237	\$ -	\$ 11	\$ 1,696
Total gains or (losses) (realized/unrealized):					
Included in earnings					
Net investment gains (losses)	(3)	10	1	-	(122)
Net investment income <sup>1</sup>	-	4	-	-	30
Interest credited to policyholders' account balances	-	-	-	-	-
Other comprehensive income	2	-	-	(8)	3
Purchases, sales, issuances, and settlements	-	5	-	-	28
Transfers into (out of) Level 3 <sup>2</sup>	-	(65)	-	-	(19)
Fair value, end of year	<u>\$ 2</u>	<u>\$ 191</u>	<u>\$ 1</u>	<u>\$ 3</u>	<u>\$ 1,616</u>

	Separate account assets	Total assets	Policyholders' account balances	Derivative liabilities	Total liabilities
<b>Changes in fair value of Level 3 assets and liabilities</b>					
Fair value, beginning of year	\$ 166	\$ 7,155	\$ 159	\$ 50	\$ 209
Total gains or (losses) (realized/unrealized):					
Included in earnings					
Net investment gains (losses)	(1)	(173)	-	(2)	(2)
Net investment income <sup>1</sup>	-	54	-	(19)	(19)
Other income	-	-	-	-	-
Interest credited to policyholders' account balances	-	-	92	-	92
Other comprehensive income	-	317	-	3	3
Purchases, sales, issuances, and settlements	(101)	1,299	12	(13)	(1)
Transfers into (out of) Level 3 <sup>2</sup>	(1)	(2,480)	-	-	-
Fair value, end of year	<u>\$ 63</u>	<u>\$ 6,172</u>	<u>\$ 263</u>	<u>\$ 19</u>	<u>\$ 282</u>

<sup>1</sup> Net investment income (loss) includes amortization of discount and premium on fixed maturities.

<sup>2</sup> Transfers into or out of Level 3 are reported at the value as of beginning of the year in which the transfer occurred.

The tables below include the unrealized gains or losses for the years ended December 31, 2010 and 2009 by category for Level 3 assets and liabilities still held at December 31, 2010 and 2009 (in millions):

	2010				
	U.S. Treasury agency and government guaranteed	U.S. corporate	Foreign corporate	Residential mortgage-backed securities	Commercial mortgage-backed securities
<b>Unrealized gains (losses) relating to Level 3 assets still held</b>					
Earnings:					
Total gains or (losses) (realized/unrealized):					
Included in earnings					
Net investment gains (losses)	-	-	(41)	2	-
Net investment income	-	11	4	27	-
Interest credited to policyholders' account balances	-	-	-	-	-
Other comprehensive gains/(losses)	2	11	15	31	3
Total change in unrealized gains (losses)	\$ 2	\$ 22	\$ (22)	\$ 60	\$ 3

	Asset-backed securities	Other fixed maturity securities	Total fixed maturities - available-for-sale		Foreign corporate
			US. corporate		
<b>Unrealized gains (losses) relating to Level 3 assets still held</b>					
Earnings:					
Total gains or (losses) (realized/unrealized):					
Included in earnings					
Net investment gains (losses)	(8)	-	(47)	5	3
Net investment income	1	-	43	-	-
Interest credited to policyholders' account balances	-	-	-	-	-
Other comprehensive gains/(losses)	37	8	107	-	-
Total change in unrealized gains (losses)	\$ 30	\$ 8	\$ 103	\$ 5	\$ 3

	Residential mortgage-backed securities	Total fixed maturities - trading	Non-redeemable preferred stock		Total equity securities
			Common stock		
<b>Unrealized gains (losses) relating to Level 3 assets still held</b>					
Earnings:					
Total gains or (losses) (realized/unrealized):					
Included in earnings					
Net investment gains (losses)	1	9	5	-	5
Net investment income	1	1	-	-	-
Interest credited to policyholders' account balances	-	-	-	-	-
Other comprehensive gains/(losses)	-	-	-	8	8
Total change in unrealized gains (losses)	\$ 2	\$ 10	\$ 5	\$ 8	\$ 13

	Investment, at fair value, of consolidated investment companies	Separate account assets <sup>1</sup>	Total Assets	Policyholders' account balances	
				Total Assets	Total liabilities
<b>Unrealized gains (losses) relating to Level 3 assets still held</b>					
Earnings:					
Total gains or (losses) (realized/unrealized):					
Included in earnings					
Net investment gains (losses)	(3)	1	(35)	-	-
Net investment income	14	45	103	-	-
Interest credited to policyholders' account balances	-	-	-	179	179
Other comprehensive gains/(losses)	-	38	153	-	-
Total change in unrealized gains (losses)	\$ 11	\$ 84	\$ 221	\$ 179	\$ 179

<sup>1</sup> The net investment gains and losses included for separate account assets are offset by an equal amount for separate account liabilities, which results in a net zero impact on net income for the Company. Separate account liabilities are not included above as they are reported at contract value in the accompanying Consolidated Balance Sheet in accordance with the Company's policy (see Note 2 - Significant Accounting Policies).

	2009				
	U.S. Treasury agency and government guaranteed	U.S. corporate	Foreign corporate	Residential mortgage-backed securities	Commercial mortgage-backed securities
<b>Unrealized gains (losses) relating to Level 3 assets still held</b>					
Earnings:					
Total gains or (losses) (realized/unrealized):					
Included in earnings					
Net investment gains (losses)	-	-	-	(1)	-
Net investment income	-	12	5	-	-
Interest credited to policyholders' account balances	-	-	-	-	-
Other comprehensive gains/(losses)	(2)	89	127	1	7
Total change in unrealized gains (losses)	<u>\$ (2)</u>	<u>\$ 101</u>	<u>\$ 132</u>	<u>\$ -</u>	<u>\$ 7</u>

	Asset-backed securities	Other fixed maturity securities	Common stock	Non-redeemable preferred stock	Trading fixed maturities
<b>Unrealized gains (losses) relating to Level 3 assets still held</b>					
Earnings:					
Total gains or (losses) (realized/unrealized):					
Included in earnings					
Net investment gains (losses)	1	-	-	-	8
Net investment income	-	-	-	-	8
Interest credited to policyholders' account balances	-	-	-	-	-
Other comprehensive gains/(losses)	8	8	6	2	-
Total change in unrealized gains (losses)	<u>\$ 9</u>	<u>\$ 8</u>	<u>\$ 6</u>	<u>\$ 2</u>	<u>\$ 16</u>

	Derivative assets (including embedded)	Other investments	Separate account assets <sup>1</sup>	Total assets
<b>Unrealized gains (losses) relating to Level 3 assets still held</b>				
Earnings:				
Total gains or (losses) (realized/unrealized):				
Included in earnings				
Net investment gains (losses)	-	(112)	41	(63)
Net investment income	-	-	-	25
Interest credited to policyholders' account balances	-	-	-	-
Other comprehensive gains/(losses)	(8)	11	1	250
Total change in unrealized gains (losses)	<u>\$ (8)</u>	<u>\$ (101)</u>	<u>\$ 42</u>	<u>\$ 212</u>

	Policyholders' account balances	Derivative liabilities	Total liabilities
<b>Unrealized gains (losses) relating to Level 3 assets still held</b>			
Earnings:			
Total gains or (losses) (realized/unrealized):			
Included in earnings			
Net investment gains (losses)	-	(2)	(2)
Net investment income	-	-	-
Interest credited to policyholders' account balances	104	-	104
Other comprehensive gains/(losses)	-	3	3
Total change in unrealized gains (losses)	<u>\$ 104</u>	<u>\$ 1</u>	<u>\$ 105</u>

<sup>1</sup> The net investment gains and losses included for separate account assets are offset by an equal amount for separate account liabilities, which results in a net zero impact on net income for the Company. Separate account liabilities are not included above as they are reported at contract value in the accompanying Consolidated Balance Sheet in accordance with the Company's policy (see Note 2 - Significant Accounting Policies).

## **Determination of Fair Value**

The Company has an established and well-documented process for determining fair value. Security pricing is applied using a hierarchy approach whereby publicly available prices are first sought from third-party pricing services, the remaining un-priced securities are submitted to independent brokers for prices, and lastly securities are priced using an internal pricing model. The Company performs various analyses to ascertain that the prices represent fair value. Examples of procedures performed include, but are not limited to, initial and on-going review of third-party pricing services' methodologies, back testing recent trades, and monitoring of trading volumes, new issuance activity and other market activities.

For Level 1 investments, valuations are generally based on observable inputs that reflect quoted prices for identical assets in active markets.

The fair value for Level 2 and Level 3 valuations are generally based on a combination of the market and income approach. The market approach generally utilizes market transaction data for the same or similar instruments, while the income approach involves determining fair values from discounted cash flow methodologies.

The following represents a summary of significant valuation techniques for assets and liabilities used to determine fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy.

### **Level 1 measurements**

#### ***Fixed maturity securities, equity securities, and cash equivalents***

These securities are comprised of certain foreign fixed income securities, exchange traded U.S. and foreign common stock and mutual funds, including money market funds. Valuation of these securities is based on unadjusted quoted prices in active markets that are readily and regularly available.

#### ***Investment, at fair value, of consolidated investment companies***

These investments consist of the equity securities held in a consolidated VIE, as discussed in Note 4 - Investments, in addition to the equity investments held in consolidated limited partnerships. Valuation of these securities are based on unadjusted quoted prices in active markets that are readily and regularly available.

#### ***Separate account assets***

These assets are comprised of actively traded open-ended mutual funds with a daily NAV and equities securities. The NAV can be observed by redemption and subscription transactions between third parties, or may be obtained from fund managers. Equity securities are generally traded on an exchange.

### **Level 2 measurements**

#### ***Fixed maturity available for sale and trading securities***

The fair value of fixed maturity securities is obtained from third-party pricing services, and internal pricing models. Vendors generally use a discounted cash-flow model or a market approach. Typical inputs used by these pricing sources include, but are not limited to: benchmark yields, reported trades, issuer spreads, bids, offers, benchmark securities, estimated cash flows and prepayment speeds, which the Company has determined are observable prices.

If the price received from third-party pricing services does not appear to reflect market activity, the Company may challenge the price. Where the vendor updates the price to be consistent with the market observations, the security remains a Level 2.

Private placement securities are primarily priced by internally developed discounted cash flow models. This model uses observable inputs with a discount rate based off spreads of comparable public bond issues, adjusted for liquidity, rating and maturity. The Company assigns a credit rating for the private placement based upon internal analysis. The liquidity premium is based upon observable market transactions, while the maturity and rating adjustments are based upon data obtained from Bloomberg.

While the Company generally considers the public bond spreads, which are based on vendor prices, to be observable inputs, an evaluation is made of the similarities of private placements with the public bonds to determine whether the spreads utilized would be considered observable inputs for the private placement being valued. Examples of procedures performed include, but are not limited to, initial and on-going review of third-party pricing services' methodologies, review of pricing statistics and trends, back testing recent trades, and monitoring of trading volumes, new issuance activity and other market activities.

For certain private placements, which are below investment grade and not part of the Bloomberg data, the adjustments for maturity rating and liquidity are calculated by the analyst. If the impact of the liquidity adjustment is not significant to the overall value of the security, it is classified as Level 2.

For certain short term investments, amortized cost is used as the best estimate of fair value.

#### ***Equity securities***

These securities are valued using the market approach in which market quotes are available but are not considered actively traded. Valuations are based principally on observable inputs including quoted prices in markets that are not considered active.

#### ***Securities purchased under agreements to resell***

Due to the short-term nature (generally one month) of this investment, the asset's carrying value approximates fair value.

#### ***Investment at fair value, of consolidated investment companies***

These investments consist of fixed maturity securities held in consolidated limited partnerships where the fair value is obtained from third-party pricing services. It also contains the cash equivalents held in a consolidated VIE as discussed in Note 4 - Investments.

#### ***Collateralized third-party loans of certain consolidated VIEs***

These are collateralized third-party loans held in the collateralized structures discussed in Note 4 – Investments. The fair value of these assets is determined based on information obtained from a third-party pricing service.

#### ***Derivative assets and liabilities***

The fair value of these derivative instruments is generally derived through valuation models, which utilize observable market data. The market factors which have the most significant impact on the fair value of these instruments are U.S. swap rates and the exchange value of the U.S. dollar.

Over-the-counter (“OTC”) derivatives are privately negotiated financial contracts. OTC derivatives are valued using models based on actively quoted or observable market input values from external market data providers, third-party pricing vendors and/or recent trading activity. The selection of a particular model depends upon the contractual terms of, and specific risks inherent in the instrument, as well as the availability of pricing information in the market. The Company generally uses similar models to value similar instruments. Valuation model inputs, include contractual terms, market prices, yield curves, credit curves, and for options such as caps, floors, and swaptions measures of volatility. For OTC derivatives

that trade in liquid markets, such as currency forwards, swaps and options, model inputs are observable in the market for substantially the full term and can be verified.

Valuations of OTC derivatives are adjusted for non-performance risk. The Company uses default estimates implied by CDS spreads on senior obligations of the counterparty in order to provide an objective basis for such estimates. When in a liability position, the Company uses its own medium term note spread to estimate the default rate. The non-performance risk adjustment is applied only to the uncollateralized portion of the OTC derivative assets and liabilities. OTC derivative contracts are executed under master netting agreements with counterparties with a CSA, which is a bilateral ratings-sensitive agreement that requires collateral postings at established credit threshold levels. These agreements protect the interests of the Company and its counterparties should either party suffer a credit-rating deterioration. The vast majority of the Company's derivative agreements are with highly rated major international financial institutions.

#### ***Cash equivalents***

These include Treasury bills, commercial paper and other highly liquid instruments. These instruments are generally not traded in active markets, however their fair value are based on observable inputs. The prices are either from a pricing vendor or amortized cost is used as the best estimate of fair value.

#### ***Separate account assets***

These are investments primarily related to investment in privately placed corporate bonds, mortgage-backed securities, commercial mortgages and equities, as well as publicly traded investment grade corporate bonds, high-yield bonds, and treasury bonds. These separate account assets are valued and assigned within the fair value hierarchy, consistent with the methodologies described herein for similar financial instruments held within the general account of the Company.

### **Level 3 measurements**

#### ***Fixed maturity available for sale and trading securities***

The valuation techniques for most Level 3 fixed maturity securities are generally the same as that described in Level 2, however, if the investments are less liquid or are lightly traded, there is generally less observable market data, and therefore these investments will be classified as Level 3. Circumstances where observable market data are not available may include events such as market illiquidity and credit events related to the security. In addition, certain securities are priced based upon internal valuations using significant unobservable inputs.

If the price received from third-party pricing services does not appear to reflect market activity, the Company may challenge the price. For securities which go through this formal price challenge process, if the vendor does not update the price, a non-binding broker quote, another vendor price or current methodology is used to support the fair value instead. The Company also uses non-binding broker quotes to fair value certain bonds, when the Company is unable to obtain prices from third-party vendors.

Private placement securities where adjustments for liquidity are considered significant to the overall price are classified as Level 3.

#### ***Equity securities***

These securities include equity investments with privately held entities, including a government organization, where the prices are derived from internal valuations or the Company's private placement models since the securities are not actively traded in an active market.

### *Investment, at fair value, of consolidated investment companies*

Assets of consolidated limited partnerships are valued using models that contain significant unobservable inputs and therefore are classified as Level 3.

The Company uses the NAV to determine the fair value of all the underlying investments in consolidated limited partnerships which (a) do not have a readily determinable fair value and (b) either have the attributes of an investment company or prepare their financial statements consistent with the measurement principles of an investment company.

The following table lists investments in other investment companies (or similar entities) by major investment category as of December 31, 2010 and 2009, respectively (in millions):

		2010					
Category of investment	Investment Strategy	Fair Value Determined Using NAV	Unfunded Commitments	Remaining Life	Redemption Terms	Redemption Restrictions and Terms	Redemption Restrictions and Terms in Place at Year End
Private equity funds	To invest in privately held middle market companies primarily in the United States	\$ 44	\$ 54	~ 8 years	N/A	N/A	N/A
		2009					
Category of investment	Investment Strategy	Fair Value Determined Using NAV	Unfunded Commitments	Remaining Life	Redemption Terms	Redemption Restrictions and Terms	Redemption Restrictions and Terms in Place at Year End
Private equity funds	To invest in privately held middle market companies primarily in the United States	\$ 22	\$ 55	~ 8 years	N/A	N/A	N/A

### *Separate account assets*

Separate account assets are primarily related to limited partnership investments that are restricted with respect to transfer or withdrawals. The limited partnerships are valued based on the latest NAV received if applicable, or an estimate of fair value provided by the investment manager.

### *Policyholders' account balances*

Policyholders' account balances consist of embedded derivatives bifurcated from host contracts. Included are the embedded derivatives for GMAB IPG contracts.

The fair values of GMAB liabilities are calculated as the present value of future expected payments to customers less the present value of assessed rider fees attributable to the embedded derivative feature. The expected cash flows are discounted using the swap rate plus a spread based upon the Company's medium term notes. The spread reflects the market's perception of the Company's non-performance risk. Since there is no observable active market for the transfer of these obligations, the valuations are calculated using internally developed models. Significant inputs to these models include capital market assumptions, such as interest rate, equity market, and implied volatility assumptions, as well as various policyholder behavior assumptions that are actuarially determined, including lapse rates, benefit utilization rates, mortality rates and withdrawal rates. These assumptions are reviewed at least annually, and updated based upon historical experience. Since many of the assumptions utilized are unobservable and are considered to be significant inputs to the liability valuation, the liability included in policyholders' account balances has been reflected within Level 3 in the fair value hierarchy.

The IPG contracts provide for a return through periodic crediting rates and termination adjustments that are based on the performance of a contractually referenced pool of assets owned by the Company and thus contain an embedded derivative under the authoritative guidance for derivatives. The fair value of the embedded derivative is based primarily on the fair value adjustment on the referenced pool of asset.

## *Debt*

The fair value of the debt obligations of the collateralized structures are based on non-binding broker quotes. The Company validated the broker quotes by calculating the internal rate of return (yield to maturity) and discount margin (spread over index) for each of the debt obligations based on various scenarios. The results of the scenario analysis were used to validate the broker quotes.

### **Fair Value Option**

Upon adoption of the new VIE guidance for seven of the newly consolidated collateralized structures on January 1, 2010 (see Note 4 – Investments), the Company elected to adopt the fair value option provisions for eligible assets and liabilities.

The following table presents, as of December 31, 2010, the fair value of those assets and liabilities selected for fair value accounting (in millions):

	<b>2010</b>	
	<b>Fair Value</b>	<b>Outstanding Principal <sup>1</sup></b>
Fixed maturities, trading	\$ 135	\$ 171
Equity securities, trading	2	4
Other investments	1,907	1,933
Cash and cash equivalents	74	74
Investment income due and accrued	9	9
Total assets	<u>\$ 2,127</u>	<u>\$ 2,191</u>
Debt	\$ 1,798	\$ 2,120
Other liabilities	11	11
Total liabilities	<u>\$ 1,809</u>	<u>\$ 2,131</u>

<sup>1</sup> Amount represents cost for equity securities, par for fixed maturities and other investments, and unpaid principal for debt. For all other amounts, outstanding principal equals fair value.

During the year ended December 31, 2010, the change in fair value of the assets and liabilities of the seven collateralized structures was a \$181 million loss which was recorded in net investment gains in the accompanying Consolidated Statement of Income. Interest income is recorded in net investment income and interest expense is recorded in operating expenses in the accompanying Consolidated Statement of Income.

### **Non-recurring Fair Value Measurements**

Assets and liabilities measured at fair value on a non-recurring basis include mortgage loans, collateralized third-party loans, and other invested assets, which are described in detail below.

The following table represents certain assets measured at estimated fair value during the period and still held as of December 31, 2010 and 2009, respectively (in millions):

	<b>2010</b>		
	<b>Carrying Value Prior to Impairment</b>	<b>Estimated Fair Value After Impairment</b>	<b>Net Investment Gains (Losses)</b>
Mortgage loans	\$ 95	\$ 82	\$ (13)
Collateralized third party loans	40	29	(11)
Other invested assets	12	10	(2)
Total assets	<u>\$ 147</u>	<u>\$ 121</u>	<u>\$ (26)</u>

  

	<b>2009</b>		
	<b>Carrying Value Prior to Impairment</b>	<b>Estimated Fair Value After Impairment</b>	<b>Net Investment Gains (Losses)</b>
Mortgage loans	\$ 138	\$ 109	\$ (29)
Collateralized third party loans	130	96	(34)
Other invested assets	36	21	(15)
Total assets	<u>\$ 304</u>	<u>\$ 226</u>	<u>\$ (78)</u>

The impaired mortgage loans and collateralized third-party loans presented above were written down to their estimated fair values at the date the impairments were recognized. Estimated fair values for impaired loans are based on observable market prices or, if the loans are in foreclosure or are otherwise determined to be collateral dependent, on the estimated fair value of the underlying collateral or the present value of the expected future cash flows. Impairments to estimated fair value represent non-recurring fair value measurements that have been categorized as Level 3 due to the lack of price transparency inherent in the limited markets for such mortgage loans and collateralized third-party loans.

The impaired investments presented above were accounted for using the cost basis. Impairments on these cost basis investments were recognized at estimated fair value determined from information provided in the financial statements of the underlying entities in the period in which the impairment was incurred. These impairments to estimated fair value represent non-recurring fair value measurements that have been classified as Level 3 due to the limited activity and price transparency inherent in the market for such investments.

### **Fair Value of Other Financial Instruments**

Authoritative guidance related to financial instruments requires disclosure of fair value information of financial instruments whether or not fair value is recognized in the Consolidated Balance Sheet, for which it is practicable to estimate fair value.

The carrying value and estimated fair value of financial instruments not otherwise disclosed in Notes 4, 12, and 15 of Notes to the Consolidated Financial Statements at December 31, 2010 and 2009 are presented below (in millions):

	2010		2009	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
<b>Assets</b>				
Mortgage loans	\$ 15,203	\$ 16,156	\$ 15,264	\$ 15,022
Collateralized third party loans	2,828	2,954	2,441	2,434
Other invested assets	224	336	575	659
<b>Liabilities</b>				
Policyholders' account balances - Investment contracts	\$ 60,608	\$ 61,495	\$ 58,717	\$ 59,590
Debt	3,322	3,579	3,481	3,456
Collateral received on securities lending and repurchase agreements	1,121	1,121	1,146	1,146
Separate account liabilities - Investment contracts	3,956	3,956	2,479	2,479

### ***Mortgage loans***

Fair value is determined by discounting the projected cash flow for each loan to determine the current net present value. The discount rate used approximates the current rate for new mortgages with comparable characteristics and similar remaining maturities.

### ***Collateralized third-party loans***

The estimated fair value for the loan portfolio is based on prevailing interest rate spreads in the market. Fair value was calculated by discounting future cash flows using prevailing interest rates on similar loans.

### ***Other invested assets***

Primarily represent bills of exchange, which are fair valued by discounting the estimated cash flows for each tranche at the prevailing interest rates on the valuation date.

### ***Policyholders' account balances - Investment contracts***

This includes dividend accumulations, supplementary contracts without life contingencies and other deposit type contracts where account value approximates fair value. For fixed deferred annuities, fair value is based upon a stochastic valuation using risk neutral assumptions for financial variables and Company specific assumptions for lapses, mortality and expenses. The cash flows were discounted using the yield on the Company's medium term notes. For funding agreements backing medium term notes, fair values were based on available market prices for the notes. For other guaranteed investment contracts and annuities certain liabilities, fair values are estimated using discounted cash flow calculations based on interest rates currently being offered for similar contracts with maturities consistent with those remaining for the contracts being valued. For IPG contracts, which have no defined maturities, fair values are equal to the estimated amount payable on demand at the balance sheet date.

### ***Debt***

The carrying amount for commercial paper approximates fair value since these borrowings are generally short-term in nature with maturities less than three months. The fair value of the SAILS liability is estimated based on a quoted market price from Credit Suisse International and Credit Suisse, which is calculated using a discounted cash flow technique. Significant inputs are the LIBOR flat rate and the swap rate. The fair value for surplus notes is based upon a quoted market price from a pricing service. The carrying amount of the Company's non-recourse debt and other debt approximates fair value.

***Collateral received on securities lending and repurchase agreements***

The carrying value of the liability approximates fair value since these borrowings are generally short-term in nature.

***Separate account liabilities - investment contracts***

For these contracts, fair value is the contract's cash surrender value.

**NOTE 18 - EQUITY**

The balance of and changes in each component of AOCI attributable to New York Life are as follows (in millions):

	Foreign Currency Translation Adjustment	Net Unrealized Investment Gains (Losses) <sup>1</sup>	Defined Benefit Plans Adjustment	Total Accumulated Other Comprehensive Income (Loss)
<b>Balance, December 31, 2008</b>	\$ (433)	\$ (4,312)	\$ (1,000)	\$ (5,745)
Cumulative effect of changes in accounting principles, net of related offsets, reclassification adjustments and income taxes		(116)		(116)
<b>Balance, January 1, 2009, as adjusted</b>	<b>\$ (433)</b>	<b>\$ (4,428)</b>	<b>\$ (1,000)</b>	<b>\$ (5,861)</b>
Other comprehensive income (loss), net of tax:				
Change in foreign currency translation adjustment (net of income tax benefit of \$55 million)	(16)			(16)
Change in net unrealized investment gains (losses), net of related offsets, reclassification adjustments and income taxes		4,546		4,546
Defined benefit plans:				
Net actuarial losses arising during the period (net of income tax benefit of \$76 million)			(140)	
Amortization of prior service costs and net actuarial (gains)/losses included in net periodic pension costs, (net of income tax expense of \$12 million)			20	
Defined benefit plans, net			(120)	(120)
Other comprehensive income (loss), net of tax				4,410
<b>Balance, December 31, 2009</b>	<b>\$ (449)</b>	<b>\$ 118</b>	<b>\$ (1,120)</b>	<b>\$ (1,451)</b>
Other comprehensive income (loss), net of tax:				
Change in foreign currency translation adjustment (net of income tax benefit of \$48 million)	12			12
Change in net unrealized investment gains (losses), net of related offsets, reclassification adjustments and income taxes		2,509		2,509
Defined benefit plans:				
Net actuarial losses arising during the period (net of income tax benefit of \$84 million)			(194)	
Amortization of prior service costs and net actuarial (gains)/losses included in net periodic pension costs, (net of income tax expense of \$20 million)			38	
Defined benefit plans, net			(156)	(156)
Other comprehensive income (loss), net of tax				2,365
<b>Balance, December 31, 2010</b>	<b>\$ (437)</b>	<b>\$ 2,627</b>	<b>\$ (1,276)</b>	<b>\$ 914</b>

<sup>1</sup> Includes cash flow hedges. See Note 14 - Derivative Financial Instruments and Risk Management for information on cash flow hedges. See Note 5 - Investment Income and Investment Gains and Losses for additional information regarding unrealized investment gains (losses), including the split between amounts related to fixed maturity securities on which an other-than-temporary impairment loss has been recognized, and all other unrealized investment gains (losses).

## NOTE 19 - SUPPLEMENTAL CASH FLOW INFORMATION

Income taxes paid were \$355 million and \$445 million for the years ended December 31, 2010 and 2009, respectively.

Interest paid was \$301 million and \$155 million for the years ended December 31, 2010 and 2009, respectively.

### Non-cash transactions

On September 23, 2009, the Company issued non-recourse debt of \$105 million (See Note 12 – Debt) in its acquisition of a collateralized third-party loan portfolio included in other investments in the accompanying Consolidated Balance Sheet with an outstanding face amount of \$105 million.

## NOTE 20 - STATUTORY FINANCIAL INFORMATION

As discussed in Note 1 - Nature of Operations, the Department recognizes only SAP prescribed or permitted by the State of New York for determining and reporting the financial condition and results of operations of an insurance company, its solvency under New York State Insurance Law and whether its financial condition warrants the payment of a dividend to its policyholders. In addition, the Company's insurance subsidiaries, NYLIAC and NYLIFE of Arizona, are subject to reporting requirements with the Delaware and Arizona Insurance Departments. No consideration is given by any of the State Insurance Departments to financial statements prepared in accordance with GAAP in making such determinations.

The NAIC Accounting Practices and Procedures Manual ("NAIC SAP") has been adopted as a component of prescribed or permitted practices by the State of New York. Prescribed statutory accounting practices include state laws and regulations. Permitted statutory accounting practices encompass accounting practices that are not prescribed; such practices differ from state to state, may differ from company to company within a state, and may change in the future. The Company has no permitted practices.

The following table reconciles the Company's net income for the years ended December 31, 2010 and 2009 between practices prescribed by the State of New York and NAIC SAP (in millions):

	December 31,	
	2010	2009
Statutory net income, New York basis	\$ 526	\$ 455
State prescribed practices		
Deferred premiums	5	-
Admitted unearned reinsurance premiums	(1)	-
Statutory net income, NAIC SAP	<u>\$ 530</u>	<u>\$ 455</u>

The following table reconciles the Company's surplus for the years ended December 31, 2010 and 2009 between practices prescribed by the State of New York and NAIC SAP (in millions):

	December 31,	
	2010	2009
Statutory surplus, New York basis	\$ 14,717	\$ 13,686
State prescribed practices		
Deferred premiums	93	-
Admitted unearned reinsurance premiums	(35)	-
Statutory surplus, NAIC SAP	<u>\$ 14,775</u>	<u>\$ 13,686</u>

During 2010, the Department issued Circular Letter No. 11, as well as the Seventh Amendment to Regulation No. 172 (“Reg. 172”), *Financial Statement Filings and Accounting Practices and Procedures*. Circular Letter No. 11 clarified the accounting for deferred premium assets when reinsurance is involved. Reg. 172 prescribed the establishment of an admitted unearned reinsurance premium asset.

The following reconciles consolidated GAAP net income attributable to New York Life to the statutory net income of New York Life, as reported to regulatory authorities (in millions):

	<u>2010</u>	<u>2009</u>
GAAP net income attributable to New York Life	\$ 1,655	\$ 1,327
Removal of subsidiaries net income	(825)	(676)
GAAP net income - New York Life parent company	<u>830</u>	<u>651</u>
Adjustments to GAAP New York Life parent company basis for:		
Removal of net amortization/(capitalization) of DAC	71	(19)
Re-estimation of future policy benefits and policyholders' account balances	39	(187)
Removal of unrealized limited partnership gains in GAAP net investment income	(240)	(98)
Removal of deferred income taxes	256	246
Policyholder dividends	27	96
Inclusion of interest maintenance reserve ("IMR") capitalization, net of amortization	(91)	(83)
Fair value adjustment of certain liabilities	265	269
Net investment gains	(554)	(758)
Inclusion of dividend income from subsidiaries	-	244
Other	<u>(77)</u>	<u>94</u>
Statutory net income/(loss)*	<u>\$ 526</u>	<u>\$ 455</u>

\* Statutory net income (loss) includes the net income (loss) of New York Life only, and excludes the statutory net income (loss) of its domestic insurance subsidiaries of \$566 million and \$228 million for the years ended December 31, 2010 and 2009, respectively.

The following reconciles consolidated New York Life GAAP equity to statutory capital of the Company, as reported to regulatory authorities (in millions):

	<u>2010</u>	<u>2009</u>
Consolidated New York Life GAAP equity	<b>\$ 23,644</b>	<b>\$ 19,416</b>
Adjustments to GAAP basis for:		
Removal of capitalization of DAC	(7,038)	(8,425)
Re-estimation of future policy benefits and policyholders' account balances	3,178	2,610
Establishment of IMR	(382)	(213)
Mark to market on investments, pre-tax and DAC	(6,048)	(599)
Removal of certain assets that are non-admitted for statutory accounting	(1,778)	(1,289)
Net adjustment for deferred taxes	2,286	695
Removal of goodwill in excess of statutory limitations	(405)	(380)
Inclusion of surplus notes	1,989	1,989
Liability for pension and post retirement benefits	2,069	1,599
Net assets of separate accounts	(144)	73
Subsidiaries held for sale	(353)	(471)
Appropriated retained earnings of certain consolidated VIEs	(208)	-
Other	<u>(28)</u>	<u>4</u>
Statutory capital**	<u>\$ 16,782</u>	<u>\$ 15,009</u>

\*\*Statutory capital includes statutory surplus and the asset valuation reserve (“AVR”) on a consolidated basis of the Company. New York Life’s statutory surplus was \$14,717 million and \$13,686 million at December 31, 2010 and 2009, respectively. Included in New York Life’s statutory surplus is NYLIAC’s statutory surplus totaling \$5,424 million and \$4,998 million at December 31, 2010 and 2009, respectively. AVR for New York Life was \$1,477 million and \$832 million at December 31, 2010 and 2009, respectively. AVR for New York Life’s domestic insurance subsidiaries was \$588 million and \$491 million at December 31, 2010 and 2009, respectively.

## NOTE 21 – ACQUISITION AND DISCONTINUED OPERATIONS

### Acquisition

On December 30, 2010, pursuant to the terms and conditions of the Agreement, New York Life Investments acquired a 60% ownership interest in Private Advisors. Private Advisors is an investment adviser providing investment advisory and related services to various clients. The acquisition is being accounted for in accordance with the authoritative guidance on business combinations, which requires that the assets and liabilities of Private Advisors be measured at their fair values as of December 31, 2010. The purchase price has been allocated to the fair value of the net assets acquired, which primarily consisted of intangible assets (see Note 8 – Goodwill and Other Intangible Assets for further details). The purchase price included a liability representing the present value of the expected future payments, which is included in other liabilities on the accompanying Consolidated Balance Sheet. The change in the fair value of this liability will be recorded through net income at each reporting period. The Agreement also contains a provision for contingent payments to be made to employees, which is contingent on employment and is therefore being treated as compensation expense and will be expensed as incurred.

### Discontinued Operations

On October 26, 2010, the Company signed a definitive agreement with ACE INA International Holdings, Ltd. to sell its wholly owned subsidiaries in Hong Kong and South Korea for a combined sales price of \$425 million, with a final purchase price adjustment to reflect the changes in U.S. GAAP equity (as defined in the Sale and Purchase Agreement) since June 30, 2010. The South Korea transaction closed on February 1, 2011 and Hong Kong is expected to close in the first quarter of 2011. These transactions qualify for held-for-sale and discontinued operations accounting at December 31, 2010.

The Company met the criteria for classification of its investment in Qingdao Haier New York Life (“Haier NYL”), the joint venture life insurance company formed between the Company and Qingdao Haier Investment & Development Co. Ltd. (“Haier”), as held for sale and discontinued operations at the balance sheet date (see Note 22 – Subsequent Events for further details).

As a result, Hong Kong’s, South Korea’s and Haier NYL’s results of operations are included in net loss from discontinued operations, net of income tax benefit in the accompanying Consolidated Statement of Income.

The following is an analysis of the net loss from discontinued operations for the year ended December 31, 2010, included in the accompanying Consolidated Statement of Income (in millions):

	<u>2010</u>
Impairment recorded to reduce investment to fair value	\$ (84)
Direct closing costs	(8)
Tax benefit on sale	<u>32</u>
Loss on disposal, net of tax	(60)
Income of subsidiaries held for sale, net of tax	<u>31</u>
Net loss from discontinued operations	<u>\$ (29)</u>

The assets and liabilities of Hong Kong, South Korea and Haier NYL are presented separately as single line items, assets of subsidiaries held-for-sale and liabilities of subsidiaries held-for-sale, in the accompanying Consolidated Balance Sheet. At December 31, 2010, the major classes of assets and liabilities of subsidiaries held-for-sale were as follows (in millions):

	<u>2010</u>
<b>Assets</b>	
Fixed maturities	\$ 905
Other investments	409
Cash and cash equivalents	126
Deferred policy acquisition costs	509
Other assets	<u>651</u>
<b>Total assets</b>	<u><u>\$ 2,600</u></u>
<b>Liabilities</b>	
Policyholders' account balance	\$ 389
Future policy benefits	1,235
Other liabilities	<u>351</u>
<b>Total liabilities</b>	<u><u>\$ 1,975</u></u>

## NOTE 22 – SUBSEQUENT EVENTS

On January 7, 2011, the Company signed definitive agreements with Haier and Japanese insurer, Meiji Yasuda Life Insurance Company, to sell its ownership interest in Haier NYL. The sale closed on January 28, 2011.

On February 17, 2011, NYL International signed a definitive agreement to sell its ownership interest in Siam Commercial New York Life Insurance Public Company Limited to its joint venture partner, The Siam Commercial Bank Public (“Siam”) Company Limited. The transaction is subject to closing conditions, including regulatory and Siam shareholder approval, and is expected to close in March 2011.

The Company has evaluated subsequent events through March 16, 2011, the date these financial statements were available to be issued.