

New York Life Outlook Revised To Negative; 'AAA' Ratings Affirmed

Overview

- New York Life's capital adequacy has declined because of equity and credit investment losses and higher Standard & Poor's required capital because of incremental asset stress.
- As a result, we have revised our outlook on New York Life to negative from stable.
- We have also affirmed our 'AAA' ratings on New York Life because of the stability and strength of its business profile and competitive position.

Rating Action

On June 17, 2009, Standard & Poor's Ratings Services revised its outlook on New York Life Insurance Co. and New York Life Insurance & Annuity Corp. (collectively referred to as New York Life) to negative from stable. At the same time, Standard & Poor's affirmed its 'AAA' counterparty credit and financial strength ratings on these companies.

Rationale

The negative outlook primarily reflects our opinion of New York Life's weaker capitalization, which has stemmed from equity and credit investment losses. Capital adequacy was further affected by the incorporation of incremental stress factors into our capital adequacy analysis (see "Methodology For Incorporating Incremental Stress Factors Into The Capital Adequacy Analysis Of North American Insurers," Feb. 18, 2009, RatingsDirect). Although in our view New York Life's capital adequacy has weakened, we still consider it to be very strong. In addition, we expect that it will return to historical levels over the next few years through the generation of organic earnings.

The affirmation reflects our opinion of New York Life's sustained extremely strong competitive position and business profile, even in the current harsh economic environment.

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The group's financial profile remains very strong despite relative pressures from investment losses and capitalization. New York Life's established effective career agency distribution system—with its emphasis on participating whole life insurance, a product we consider to have a relatively low risk profile—supports its creditworthiness. The policyholder dividend mechanism in participating whole life policies transfers a share of investment, mortality, and expense experience—favorable and unfavorable—to policyholders. We believe the ability to reduce policyholder dividends is an important source of financial flexibility that can protect an insurer's capital position if it experiences investment losses or other unfavorable experience.

The ratings reflect our view of New York Life's superior brand and competitive position in individual life and annuities. The ratings also reflect the exceptional quality of the company's career agency force, its very strong risk-based capital position, its very strong operating earnings, and its growing presence in international markets. We consider New York Life to be one of the most respected names in the domestic life insurance business, characterized by a commitment to mutuality and its policyholders. Traditionally, the group's most important product has been participating whole life sold through its domestic career agency distribution. However, in recent years, it has branched out into a variety of life insurance, protection, and investment products sold through multiple outlets, generally to middle- and upper-middle-income clientele. New York Life's supplemental distribution channels complement the strength of its career agent distribution.

New York Life's capitalization, which historically has been a foundation of the ratings, has weakened. Total adjusted capital (including the asset valuation reserve) declined by \$2.7 billion through the first quarter of 2009 to \$12.8 billion from a high of \$15.5 billion at year-end 2007. In addition to the available capital declining, the required Standard & Poor's risk-based capital has increased because of the incremental stress factors mentioned above, resulting in an even greater change in risk-based capital and a deficiency at the 'AAA' level.

Outlook

The negative outlook reflects the possibility that investment losses could exceed our expectations or that operating earnings or capitalization could exhibit greater negative volatility than anticipated. If one or both of these occur, we could lower the ratings by one notch.

We believe that New York Life will likely restore capitalization to extremely strong levels over time through the generation of organic earnings and the sharing of investment losses with participating policyholders through the use of the dividend mechanism. If that happens, we could revise the outlook back to stable.

We expect that New York Life's earnings and business profile will demonstrate continued stability. We consider it unlikely that operating earnings will decline by more than 10% in 2009, while revenues across the enterprise should show single-digit growth. We expect that liquidity will remain extremely strong and that investment losses will be in line with industry experience.

Today, Standard & Poor's has taken various rating actions on a number of other U.S. life insurance groups. For a more detailed explanation of these actions and the broader issues affecting all of these companies, see "Unfavorable Rating Actions Taken On Three U.S. Life Insurance Groups Because Of Expected Rise In Credit Impairments," June 17, 2009, RatingsDirect.

Ratings List

Ratings Affirmed; Outlook Action

	To	From
New York Life Insurance Co. Counterparty Credit Rating		
Local Currency	AAA/Negative/A-1+	AAA/Stable/A-1+
Subordinated	AA	
New York Life Insurance Co. New York Life Insurance & Annuity Corp. Financial Strength Rating		
Local Currency	AAA/Negative/—	AAA/Stable/—
New York Life Insurance & Annuity Corp. Counterparty Credit Rating		
Local Currency	AAA/Negative/—	AAA/Stable/—
Ratings Affirmed		
New York Life Capital Corp. Commercial Paper	A-1+	
New York Life Funding Senior Secured	AAA	
New York Life Global Funding Senior Secured	AAA	

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