

## New York Life Insurance Co. And New York Life Insurance & Annuity Corp.

### *Major Rating Factors*

#### *Strengths:*

- Excellent business profile and strategy with strong diversification by product type, distribution channel, and geographic market.
- Extremely strong diversified competitive position in life insurance and annuities.
- Exceptionally strong core distribution in its career agency system, which is complemented by other channels.
- Very strong and consistent adjusted GAAP pretax operating earnings.
- Strong and comprehensive approach to enterprise risk management.
- Considerable financial flexibility.

#### *Weaknesses:*

- Although we expect it to recover, capitalization is currently a relative weakness to the ratings, with a deficiency at the 'AAA' level as a result of incremental stress factors and investment losses.
- We view the company's investments as very strong, but also a relative weakness to the ratings because of the volatility of capital caused by investment losses in 2008 and the first half of 2009.

#### *Rationale*

The insurer financial strength ratings on New York Life Insurance Co. and New York Life Insurance & Annuity Corp. (collectively, NYL) reflect NYL's superior diversified business

#### *Operating Companies Covered*

#### *By This Report*

Financial Strength Rating

#### *Local Currency*

AAA/Negative/—

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profile and well-aligned strategy as well as its extremely strong competitive position in individual life and annuities. The ratings also reflect the exceptional quality of the company's career agency force, its strong and comprehensive approach to risk management, its very strong and stable operating earnings, and its excellent financial flexibility. Marginally offsetting these strengths are NYL's current level of capitalization, which we consider to be deficient at the ratings level. Standard & Poor's Ratings Services also considers NYL's investments as a relative weakness to the ratings as a result of investment losses in 2008 and the first quarter of 2009. NYL's superior business profile is a cornerstone of the ratings. It pairs an extremely strong and very well diversified, market-leading competitive position in life insurance and annuities with a well-aligned and highly productive captive agency channel. This agency field force provides NYL with a distinct competitive advantage and presents a significant barrier to competition. NYL's strategic focus on agency distribution works well because it allows the company to sell conservatively designed and priced products that contribute to the financial strength of the enterprise. Furthermore, in addition to maintaining a top-three market position in whole life sales sold through its domestic career agency distribution, in recent years NYL has successfully diversified by branching out into a variety of life insurance and annuity products sold through multiple outlets, generally to middle- and upper-middle-income clientele. In 2008, agent life sales increased 1% in the face of a highly competitive market. Agent sales of income annuities increased by 42%, and investment products grew by 12%. The historical strength of career agent distribution is complemented by NYL's supplemental distribution channels, which produced about 37% of individual life insurance sales in 2008. NYL's annuity sales through third-parties have increased in 2009 as customers have sought out companies of higher credit quality to invest with in order to weather the current recession. NYL has established a good foothold in several foreign markets, most prominently in Mexico. International sales increased by 26% (in constant U.S. dollars). They accounted for about 30% of all NYL insurance sales in 2008, with the expectation for continued growth in several key markets. Standard & Poor's also considers NYL's operating performance to be a strength to the ratings, as evidenced by the stability of adjusted pretax operating earnings despite recent market events. Earnings stability is provided by the strong base of mortality and spread-driven life insurance products, which is complemented by spread-based annuity and institutional earnings and fee-based separate account products. The overall level of adjusted pretax earnings of \$1.25 billion in 2008, which generated a return on assets (ROA) of 64 basis points (bps) in 2008, compares favorably with 'AAA' rated mutual peers. When considering the policyholder dividend payment within earnings, the earnings also compare very favorably to public peers. Considering the stability of mortality and spread-driven earnings from insurance and annuity products, we do not expect 2009 and 2010 earnings to exhibit negative volatility in excess of 10%. We view NYL's enterprise risk management (ERM) as strong, and it benefits the ratings. Given the comprehensive nature of the program, Standard & Poor's believes it is unlikely that NYL will experience losses outside its tolerances. We also believe that NYL has developed processes to identify and evaluate risk/reward trade-offs and that the company uses that process to optimize risk-adjusted returns. NYL's extremely strong financial flexibility is also a strength to the ratings. The modest use of leverage (approximately \$1 billion of outstanding surplus notes), the considerable flexibility inherent in the participating policyholder dividend mechanism, and the substantial block of in-force insurance provide a degree of strength and flexibility that well exceeds NYL's modest financial flexibility needs. NYL's capitalization, which historically has been a strength to the ratings, is now somewhat of a weakness because of the introduction of incremental stress factors introduced in February 2009, which

increased risk-based capital charges by approximately \$3 billion, as well as investment losses in 2008 and the first half of 2009 that reduced total adjusted capital (see related research). Total adjusted capital (including the asset valuation reserve) declined by \$2.0 billion through the second quarter of 2009 to \$13.5 billion from a high of \$15.5 billion as of year-end 2007. Combined, these resulted in a deficiency of \$1 billion at the 'AAA' level. Despite recent reductions in total adjusted capital and anticipated investment losses, we expect NYL to restore capitalization to 'AAA' levels within the next two years. In the past, we have viewed NYL's investments as a strength to the ratings. There is good diversification across the portfolio of investments and strong credit risk controls. More recently, we have viewed the company's investments as a relative weakness because of the significant investment losses experienced since 2007: Declining equity and credit investments have generated more than \$2.5 billion in losses and impairments. Despite these pressures, the group's financial profile remains very strong. NYL'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.

### ***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 expected. Operating earnings are expected to decline but not by more than 10%. Similarly, even with further reductions to capital through investment losses, we would expect the overall level of capitalization to improve modestly in 2009 with further increases in 2010 and 2011. If either or both of these develop more negatively than we expect, we could lower the ratings by one notch. We believe that NYL will likely restore capitalization to extremely strong levels within the next two years 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 NYL's earnings and business profile will demonstrate continued stability. We consider it unlikely that operating earnings will decline by more than 10% in 2009 and 2010. 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.

### ***Competitive Position: Excellent Based On Its Leading Position In Life And Annuities***

Standard & Poor's considers NYL to have an excellent competitive position, characterized by a top-five position in individual life insurance sales and a top-10 position in annuity sales. Products are primarily sold through a highly productive career agent force, as well as through third-party distribution. In addition, the company has been very successful in long-term care, investment management, and increasingly in international markets. We expect that NYL will continue to maintain an excellent competitive position and continue to see a flight to quality by investors in the form of higher annuity sales and agent growth through 2009 and potentially into 2010 as investors and agents seek stability in these turbulent markets. We expect life insurance sales to continue their pace of steady growth, albeit with a shifted focus toward more protection-centric term products in the near term as NYL's clientele seek to reduce expenses in the recession.

**New York Life Insurance Co. And New York Life Insurance & Annuity Corp.**

Table 1

<b>New York Life Insurance Co. And New York Life Insurance &amp; Annuity Corp./Selected Statistics</b>					
<b>—Year ended Dec. 31—</b>					
<b>(Mil. \$)</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>
Capital adequacy ratio (%)	AA	AAA	414.8	423.6	393.0
GAAP earnings adequacy ratio (%)	N/A	N/A	174.2	182.3	194.3
Liquidity ratio (%)	242.9	275.8	279.5	271.9	269.4
Total assets (including separate accounts)	174,540.0	179,623.7	165,665.1	153,951.6	144,420.8
Total premiums and considerations	21,958.7	17,063.7	16,580.5	15,707.9	16,023.7
Pretax income	267.7	1,181.9	1,075.2	972.5	1,154.8
Total adjusted capital (including asset valuation reserve)	13,495.9	15,469.8	14,597.2	13,559.0	12,512.1

N/A—not available.

Table 2

<b>New York Life Insurance Co. And New York Life Insurance &amp; Annuity Corp./Business Statistics</b>					
<b>—Year ended Dec. 31—</b>					
<b>(Mil. \$)</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>
Total revenue	30,382.2	25,823.7	24,849.2	23,443.4	22,968.7
Total premiums and considerations	21,958.7	17,063.7	16,580.5	15,707.9	16,023.7
Premium revenue increase (%)	28.7	2.9	5.6	(2.0)	7.4
Deposits	9,049.8	8,277.3	8,304.6	8,194.8	7,507.0
Total premiums, considerations, and deposits	31,008.6	25,341.0	24,885.1	23,902.7	23,530.7
Premiums, consideration, and deposit revenue increase (%)	22.4	1.8	4.1	1.6	9.8
Net first-year premiums	1,592.5	2,497.9	2,105.2	1,889.3	2,596.0
Net first-year increase (%)	(36.2)	18.7	11.4	(27.2)	4.6
Net single premiums*	10,343.6	5,993.5	6,481.7	6,078.7	5,981.2
Net single increase (%)	72.6	(7.5)	6.6	1.6	38.9
Separate accounts assets	20,708.5	27,169.1	23,859.0	20,720.5	19,241.4
Increase in separate accounts assets (%)	(23.8)	13.9	15.1	7.7	13.7
<b>Major lines</b>					
Individual life	6,854.7	6,673.6	6,573.9	6,223.8	6,662.1
Individual annuities	9,593.4	6,056.0	6,213.3	5,871.1	5,869.8
Group life	1,456.2	1,586.9	1,296.6	1,037.7	900.3
Group annuities	3,562.6	2,268.5	2,017.1	2,073.5	2,121.2
Group accident and health	331.8	333.1	351.0	387.3	368.2
Individual accident and health	160.1	145.5	128.7	114.5	102.0
Deposits	9,049.8	8,277.3	8,304.6	8,194.8	7,507.0

\*Excludes annuity and fund deposits for 2001 and later.

With \$249 billion of assets under management as of Dec. 31, 2008, NYL is one of the most successful life insurance organizations in the U.S. The company manages four operating divisions: U.S. life and agency, which includes individual life, AARP life insurance, AARP lifetime income products and membership association (60% of 2008 operating revenue); retirement income security, which includes individual fixed and variable annuities as well as long-term care (16%); investment

management (8%); and international (16%). NYL is a market leader in individual life, annuities, and direct marketing to AARP and professional associations. The U.S. life and agency division focuses on the sale of individual life insurance products to predominantly middle- and upper-middle-income clientele. Historically this market was served almost exclusively through the career agency network, but this distribution has been augmented in recent years by insurance brokerage sales to high-end individual, bank, and corporate clients. Standard & Poor's believes that one of life and agency's strengths is the breadth of its life product line, which includes term, whole life, universal life, and variable universal life, as well as both deferred and immediate fixed annuities and variable annuities. This breadth of product offering ensures that NYL does not suffer when one product (e.g. variable universal life) goes out of favor. It also ensures that NYL's captive distribution force has the full complement of products to offer its clientele. NYL has demonstrated a clear competitive advantage in the management of its 11,000 member career agency field force. In 2008, approximately 2,200 domestic NYL agents qualified for the "Million Dollar Round Table," an industry association of top producing agents. This was NYL's 54th consecutive year with the largest number of qualifying agents in the life insurance industry. NYL's branch agency system is one of the most productive of its kind in the industry, helping NYL to consistently produce a total statutory expense ratio of about 10%. Domestically, agent life sales increased 1% in 2008 amid a highly competitive market. Agent sales of income annuities grew by 42%, and investment products increased by 12%. This captive distribution channel is a distinct competitive advantage for NYL. Only a handful of companies can afford to cultivate and manage such a sizeable distribution channel, and many barriers exist for new entrants. Additional benefits that NYL derives from its career channel include sales penetration. The company achieves very high market share penetration within its career distribution platform. Similarly, the career distribution channel promotes stronger policyholder retention with significantly less incentive for its agents to try and roll products sold at NYL to a new firm. NYL can also ensure better product suitability to its policyholders than peers who distribute through third-party channels as the interest of a career life agent is to generate long-term relationships with clients. This compares favorably with the transactional focus that is more typical of other insurance distribution channels. The historical strength of career agent distribution is complemented by NYL's supplemental distribution channels, which produced about 37% of individual life and annuity sales in 2008,

although this channel has slowed down with the economic downturn. Through this network, NYL sells life insurance to retail consumers through high-end insurance brokers, and it uses specialized brokers to sell corporate-owned life insurance and bank-owned life insurance. NYL also runs the largest affinity markets insurance group, with clientele including AARP. NYL's size and considerable expense base allows it to take on this business as a supplement to its existing insurance business. The additional concentration risk inherent in the assumption of such large relationships might have represented a risk to the ratings of other firms, but it is merely seen as a good diversification for NYL given their size. The career agency system is NYL's clear competitive advantage in the market, although these alternative channels enable NYL to extend its reach and add the benefits of enhanced scale and cost dispersal. Retirement income security is NYL's second major line. This is seen as a complementary line of business for NYL that provides good returns, which ultimately flow through to the benefit of participating life insurance policyholders in the form of stronger levels of capitalization and provide a broader product suite for the distribution network. Retirement income security includes individual fixed and variable annuities sales as well as long-term care. NYL is a top-five seller of fixed annuities

through banks, and a top-10 seller of annuities. In addition, NYL has developed a fixed guaranteed lifetime income annuity business that has shown significant growth in both agent and bank channels, and it led to the company maintaining the No. 1 market share in fixed immediate annuities in 2008. This is seen as a competitive differentiator; it accesses a segment of the market that the industry at large has not effectively penetrated, while helping to offset the company's exposure to systemic mortality risk. Also included in this segment is NYL's variable annuity platform. This is a relatively small book of business for NYL, with no guaranteed minimum withdrawal benefits and conservative pricing of guarantee riders, which should continue to generate profitability in this environment. NYL's third major business is its New York Life Investments division. New York Life Investments' diverse products and services include NYL's guaranteed product business (including guaranteed investment contracts and medium-term notes sold outside of the U.S.), in which it has been among the leading writers for the past five years, benefiting from institutional investors' flight to quality. It also includes the MainStay mutual fund family, which now includes approximately 50 funds. The division uses a multi-boutique operating model within the institutional business to deliver a diverse source of investment products to its institutional client base. The division also includes New York Life Investments' retirement plan services, a full-service defined-benefit and defined-contribution plan administration provider that has received several industry awards for superior client service. Consolidation in this sector has led to a strong increase in retirement sales to \$4.8 billion and in assets under management to \$18 billion as of Dec. 31, 2008. In all of these areas, New York Life Investments continues to build to the scale necessary for consistent long-term profitability. A fourth business of increasing importance is the international division, which seeks to leverage NYL's distribution and product core competencies and extend them into other markets. The company currently has operations in eight foreign markets, with a significant presence in Mexico, India, and Thailand, as well as growing positions in several Asian markets with high growth potential. The company has streamlined its strategy in recent years, beefing up compliance, actuarial systems, and distribution oversight at headquarters. The result has been a 26% increase in overall insurance sales (in constant U.S. dollars) in 2008 and the expectation for continued growth in several key markets.

***Prospective***

Standard & Poor's expects NYL's combination of a strong career agent network and independent distribution to continue to yield life and annuity sales that exceed industry averages. Investment management is likely to face some competitive growth and scale challenges in this environment, but the retirement plan services division is well positioned to achieve high-single-digit sales growth. Retirement income is likely to see extremely strong growth continue as fixed and variable annuities continue to sell strongly in a market that is seeking security. International growth will remain high in aggregate with low double-digit sales increases expected. The mature Mexico operation should continue producing steady top-line and bottom-line growth, and certain high-growth Asia markets, particularly India and Korea, will continue to grow at a rapid pace.

## ***Management And Corporate Strategy: Commitment To The Customer And Mutual Status***

### ***Strategic positioning***

We view NYL's management team and its strategy as clear strengths to the ratings. Its strategy is focused on long-term stability and strength with a commitment to mutuality and to the customer. Of key importance to the strategy is an emphasis on a distribution and a product mix that focuses on value for the customer and profitability for the firm. Given the old adage that insurance is sold, not bought, distribution is typically one of the most important aspects of strategy for an insurance company. NYL focuses on different channels of distribution for different product sets. There are three avenues for distribution of life insurance products, including a captive career distribution channel of 11,000 agents, an advanced marketing effort through brokerage channels, and an affinity markets focus. The foremost among these from a ratings standpoint is the career agency channel, but each enhances the strategic position of NYL. NYL's other products consist of NYL's retirement income security, which includes fixed and variable deferred annuities, fixed-income annuities and long-term care insurance. Although these products do not have the same credit strength as pure life insurance does, they provide a good fit for the organization and are distributed through complementary channels including primarily the agency force, but also bank brokerage, and other third-party relationships. NYL's asset management capabilities are a natural complement to their insurance businesses. In addition to its external offerings, New York Life Investments provides asset management for NYL's general account and some separate account assets. NYL's international businesses are also a good strategic fit because they leverage NYL's experience and expertise by focusing on building strong agency networks and distributing traditional insurance product offerings in those markets. The company has shown consistent commitment to its career agency distribution and to its core individual life insurance product line. The participating whole life product is its core. As a result, NYL has stayed away from the aggressive universal life guarantee market, emphasizing long-term customer value and stability. Other products are focused on meeting the financial needs of the customer, such as annuities and long-term care, or enhancing the return to the mutual policyholders' capital, such as the current returns added by the stable value products or long-term potential of the international division. On July 1, 2008, Ted Mathas, NYL's president, assumed the position of CEO, succeeding Sy Sternberg. On June 1, 2009, Mathas succeeded Sternberg as chairman of the board of directors. Sternberg had served as chairman and CEO since 1997. Standard & Poor's does not expect significant changes in corporate strategy, risk tolerance, or commitment to mutuality under Mathas' leadership.

### ***Operational skills***

At its core, NYL has one of the strongest career agency networks as measured by size, productivity, and retention. The captive nature of this distribution engine and the long-term nature of their compensation create the right incentives for pricing and product design. NYL has strong risk controls in place, including strength in mortality underwriting, product design and pricing. These are best evidenced by favorable mortality experience relative to pricing, as well as appropriately conservative morbidity pricing on long-term care insurance compared with the industry. Furthermore, NYL has shown a strong ability to capitalize on its core capabilities and extend them into new areas where it can add value. For example, the company has leveraged the historical product and distribution strength of

its career agency channel and extended that strength to independent channels and to product design and distribution management in international markets. Similarly, the company uses the expertise it gained from its AARP relationship in other direct marketing campaigns through affinity associations. The investment management businesses, although generally ancillary to the overall strategy, leverage the capabilities built around management of NYL's general account portfolio to bring additional spread income.

***Financial risk tolerance***

NYL has conservative financial risk tolerance. Management's main priority is to increase NYL's considerable financial strength. The company's risk-management framework is comprehensive and includes investment risk limits on the amount of surplus at risk resulting from investment activities, which the company monitors to ensure that risks incurred are consistent with management's risk tolerance. Similarly, the product design process contemplates risk limits and tolerances. Standard & Poor's considers NYL's investment risk profile to be about average for the industry. We consider the company to be conservative in its assumption of product risk. For example, NYL has held back from participating in the aggressively priced universal life no-lapse guarantee market because of concerns about long-term product profitability. This conservative approach has built and will continue to maintain the capital strength and stability of the enterprise. Similarly, NYL's variable annuity does not have guaranteed minimum withdrawal benefits. In addition, NYL's other secondary guarantees are conservative relative to those of its peers, and its rider fees should continue to cover the cost of the guarantee, which differentiates NYL from its peers.

***Enterprise Risk Management: Strong, With Developed Processes To Identify And Evaluate Risk/Reward Trade-Offs***

NYL has a strong ERM program. Standard & Poor's believes it is unlikely that NYL will experience losses outside its tolerances. We also believe that NYL has developed processes to identify and evaluate risk/reward trade-offs and that the company uses that process to optimize risk-adjusted returns. NYL has developed an extensive enterprise risk assessment and reporting process on emerging risks and risk management programs that the company shares with the board. Most responsibility for risk management has been delegated to the business units at NYL, which is consistent with the ERM framework overseen by the company's chief risk officer and risk management department that have been in place for more than eight years. NYL's risk tolerance framework has been reviewed with the board for several years and is clearly the impetus for some corporate decision-making. Investment risks are all aggregated within an investment risk budgeting process. This provides a strong control of investment-related risks, including credit, interest rate and equity risks, from direct investments and through insurance products. This allows the investment department to work on developing trade-offs between different risk positions according to its views of risk and returns of the various options. Credit risk management follows a robust set of guidelines and operates under a risk-sensitive limit structure. The company follows these changes in limits consistently, with credit exposures consolidated across activities and monitored closely against the limits and guidelines carefully monitored and approved at the highest levels. Standard & Poor's views these measures as indications of strong investment risk controls. NYL performs insurance risk control within its business units. The insurance risks of the individual life business of mortality, longevity, morbidity, and lapse are all controlled through

traditional pricing, monitoring, and underwriting practices. The business is looking at the offset between mortality and longevity risks, with the expectation that it will reduce the company's net portfolio exposures to systemic mortality risk. NYL's strategic risk management uses a process of setting risk-adjusted return targets based on a market-driven weighted average cost of capital, as well as an economic capital allocation process that it uses to assure that products are giving adequate returns for their risk levels. This is the company's method for enforcing appropriate returns on capital for different situations proportionate to their risks. The movement of the risk capital among NYL's businesses is a major topic in the formation of their three-year plans.

### ***Accounting***

NYL completes audited statutory and GAAP financial statements. Because of certain deficiencies in GAAP accounting for participating policyholder liabilities for mutual life insurers (Statement of Financial Accounting Standard No. 120), Standard & Poor's uses a combination of GAAP and statutory financial measures in its analysis of NYL's earnings. As a mutual company, NYL is not required to comply with the provisions of Sarbanes-Oxley, but has elected to implement many of its provisions, including pushing certification requirements down to subsidiary management. Standard & Poor's has historically made certain adjustments to NYL's published financials in its analysis of the company, primarily relating to NYL's ownership stake in Express Scripts Inc. (ESI), a publicly listed company. During 2006, NYL changed its accounting methodology for its investment in ESI from the equity method to market value accounting, which allows the mark to market of the shares that NYL holds to be recorded in net investment gains. We will continue to focus primarily on NYL's earnings after removing the effect of ESI. In addition, between 2001 and 2003, NYL entered into forward sale agreements covering its ESI holdings. These agreements act to limit NYL's downside risk while maintaining rights to share in future appreciation. Under GAAP (Statement of Financial Accounting Standard No. 133), the forward sale agreements are accounted for as derivatives with changes in fair value making up a component of income, as these agreements do not qualify for hedge accounting. As a result, Standard & Poor's adjusts NYL's stated income to remove the impact of these agreements because they do not reflect permanent economic gains/losses. Similarly, Standard & Poor's capital analysis is adjusted to reflect NYL's actual exposure to market value losses on its investment in ESI, net of the forward sale agreements. For NYL's year-end 2008 capital model, this resulted in a reduction in C-1 charges of approximately \$400 million.

### ***Operating Performance: Very Strong, Stable Operating Earnings Support The Ratings***

Standard and Poor's considers NYL's operating performance to be very strong and supportive of the ratings. The overall level of earnings, with an adjusted pretax GAAP ROA of approximately 64 bps on earnings of \$1.25 billion, compares favorably with similarly rated mutual peers. We expect earnings in 2009 and onward to remain consistent with those of recent years. Furthermore, adjusted earnings in 2008 were flat with those of 2007 despite the market dislocations and economic downturns that have ensued. This degree of earnings consistency from year to year is indicative of a level of consistency appropriate for a 'AAA' rating.

Table 3

<b>New York Life Insurance Co. And New York Life Insurance &amp; Annuity Corp./Summary Operating Statistics</b>					
<b>—Year ended Dec. 31—</b>					
<b>(Mil. \$)</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>
Pretax income	273.2	1,176.9	1,075.8	961.9	1,141.8
Net income	(949.7)	1,141.8	1,045.2	1,421.6	1,197.0
GAAP earnings adequacy ratio (%)	N/A	N/A	174.2	182.3	194.3
Return on revenue (%)	0.90	4.56	4.33	4.10	4.97
Return on assets (%)	0.15	0.68	0.67	0.64	0.83
Pretax statutory rate of return on capital (%)	N/A	N/A	10.86	11.17	13.59
Pretax GAAP income	1,248.0	1,335.0	1,232.0	1,118.0	1,247.0
Pretax GAAP rate of return on capital (%)	N/A	N/A	12.43	12.98	14.85
Pretax GAAP return on assets (%)	0.64	0.70	0.70	0.68	0.82

N/A—not available.

Table 4

<b>New York Life Insurance Co. And New York Life Insurance &amp; Annuity Corp./Operating Statistics</b>					
<b>—Year ended Dec. 31—</b>					
<b>(Mil. \$)</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>
General expenses	2,074.8	2,016.7	2,060.0	1,847.7	1,617.1
General expense ratio (%)	6.9	8.2	8.6	8.0	7.1
Expense ratio (%)	9.6	11.2	11.5	10.9	10.1
Unit expenses (in whole dollars)	333.9	333.8	342.3	312.8	281.1
General expenses as a percentage of operating income (%)	1.2	1.1	1.2	1.2	1.1
Commission ratio (%)	5.2	5.6	5.8	6.1	5.0
Lapse ratio (ordinary only) (%)	5.7	5.5	5.5	5.4	5.6
Mortality ratio (%)	210.8	204.2	195.2	200.7	221.5
Investment spread (%)	2.1	2.6	2.6	2.2	2.1
Accident and health					
Loss ratio (%)	79.6	89.8	82.8	83.9	85.4
Expense ratio (%)	21.3	31.5	23.9	21.4	23.0
Combined ratio (%)	100.8	121.4	106.7	105.3	108.5

N/A—not available.

Standard & Poor's reviews NYL's earnings on a GAAP and statutory basis. Earnings are primarily reviewed after policyholder dividends are issued because dividends are largely considered a genuine business expense. Qualitatively, one could view policyholder dividends as another form of earnings. When considering earnings gross of policy holder dividends, earnings are substantially stronger and compare very favorably with public life insurance peers as well.

### **Historical**

NYL has produced relatively consistent operating profits in the past several years. The company derives earnings primarily from U.S. Life and Agency (63% of earnings in 2008), New York Life Investments (15%), Retirement Income Security (8%), international (8%), and surplus management

account (6%). These results after policyholder dividends are somewhat low relative to those of similarly rated public companies, but compare well with those of NYL's mutual peers. As a mutual company, NYL manages for long-term earnings growth and stable policyholder dividends, but it can absorb some short-term earnings volatility. As a result, the company invests in an above-average amount of capital gains-oriented investments that do not contribute to operating profits, but support the strong policyholder dividend payout. Reflecting the mutual nature of the company, a lower rate of operating earnings is expected from participating individual life insurance, consistent with the goal of low net insurance cost to the policyholders. Certain start-up businesses have been a modest drag on operating earnings. Within investment management, margins are generally strong and stable in the guaranteed products area. However, retail mutual funds and retirement services have not had the scale to produce consistent profitability. Similarly, most international operations, other than Mexico, have not yet achieved consistent profitability. Earnings from the new markets are likely to emerge over time. On the whole, these lines have long-term growth potential, but are projected to make small, although improving, near-term contributions.

***Prospective***

Recent equity market declines and the ensuing decline in assets under management, as well as lower alternative investment income in this market may result in modest earnings volatility in 2009. Nevertheless GAAP pretax earnings are not expected to decrease by more than 10% in 2009 before beginning to rebound in 2010. Opportunistic increased levels of fixed annuity sales in 2009 capturing attractive yields should help offset some of these negative factors and enhance earnings in 2009 and 2010. The impact of improving scale in certain businesses, particularly NYLIM's retirement plan services, as well as international operations should contribute to operating earnings improvement during the next several years.

***Investments: A Relative Weakness To The Ratings, Despite A Very Strong, Well-Diversified Portfolio***

We consider NYL's investments to be very strong overall, but nonetheless a relative weakness to the ratings. This is particularly true considering recent capital volatility, which was fueled by investment losses and impairments.

Table 5

<i>New York Life Insurance Co. And New York Life Insurance &amp; Annuity Corp./Investment Statistics</i>					
	<i>—Year ended Dec. 31—</i>				
<i>(Mil. \$)</i>	<i>2008</i>	<i>2007</i>	<i>2006</i>	<i>2005</i>	<i>2004</i>
Net investment income	7,863.9	8,084.7	7,624.1	6,885.1	6,424.4
Total invested assets	149,788.5	148,741.5	138,268.2	129,991.2	122,050.1
Net realized capital gains	(1,255.8)	219.9	304.4	480.8	196.0
Asset risk to invested assets (%)	N/A	N/A	3.5	3.3	3.6
High-risk assets to total invested assets (%)	13.3	13.4	13.8	13.4	14.3
Net investment yield (%)	5.27	5.63	5.68	5.46	5.50
Five-year realized capital gains to invested assets (%)	0.16	0.27	0.20	0.18	0.22
<b><i>Portfolio composition</i></b>					

Table 5

*New York Life Insurance Co. And New York Life Insurance & Annuity Corp./Investment Statistics (cont. 'd)*

	—Year ended Dec. 31—				
<i>(Mil. \$)</i>	<i>2008</i>	<i>2007</i>	<i>2006</i>	<i>2005</i>	<i>2004</i>
Cash, cash equivalents, and short-term investments (%)	2.2	4.1	2.7	2.9	2.9
Bonds (%)	55.7	55.7	57.4	57.2	55.8
Mortgage-backed securities (%)	17.1	14.8	16.1	16.8	16.4
Mortgages (%)	10.2	9.5	8.8	8.7	8.8
Policy loans (%)	5.2	4.9	5.0	5.1	5.2
Stocks (%)	2.7	4.2	4.5	4.6	4.2
Real estate (%)	0.3	0.3	0.4	0.4	0.4
Other (%)	6.6	6.5	5.1	4.3	6.3

N/A—not available.

We consider NYL's investment capabilities to be very strong. With \$149.6 billion of statutory invested assets as of year-end 2008, NYL has one of the largest and most diversified portfolios in the industry. At the end of 2008, the portfolio consisted primarily of investment-grade corporate and government bonds (51%), asset-backed securities (12%), mortgage loans (10%), mortgage-backed securities (5%), policy loans (5%), and equities (3%). The distribution remained substantially unchanged from the prior year. The portfolio is segmented by product, with appropriate risk selection for each liability category. Duration and maturity are tightly monitored and matched. Credit and equity investment losses were substantial during 2008 and the first half of 2009. Total losses and impairments taken were in excess of \$2.5 billion. Most of the losses experienced to date were related to equity investments; only approximately \$1 billion were related to credit. This included investment losses from the company's planned effort to recover previously paid capital gains taxes through a program to realize offsetting capital losses. The company has tight diversification standards in place to avoid overconcentration, in both investment-grade and speculative-grade securities. The company allocates new money to speculative-grade securities based on a careful relative value analysis for each security and allocates exposure through a complex risk assessment and capital budgeting process. As of year-end 2008, 8% of the company's total invested assets were in speculative-grade bonds, which is near the industry average and in line with recent levels. Commercial mortgages, which have experienced recent cyclically low foreclosures, are not likely to perform as well for the industry in the next few years. NYL's commercial mortgage exposure as a percentage of total invested assets is below average for the industry and has outperformed the industry through several cycles. The portfolio is well diversified, and a prior concentration in downtown office space has been gradually decreasing. The company has nominal exposure to subprime mortgage investments, with the combined subprime and Alternative-A residential mortgage backed securities accounting for 1.3% of invested assets, with 72% of these rated 'AAA' as of year-end 2008.

***Liquidity: Extremely Strong, Effectively Managing Cash And Monitoring Liquidity Position***

We view NYL's liquidity as extremely strong, based on a conservative balance sheet profile and a liquidity ratio of 243% as measured by Standard & Poor's liquidity model. Given the stability of NYL's business profile, we expect NYL to maintain very strong liquidity, with a liquidity ratio of at

least 220%. The company's liability portfolio is well balanced, with nearly half relating to individual life insurance products sold by the company's career agents. These liabilities are considered very stable and the least susceptible to liquidity risk. The remainder of the liabilities is well diversified between institutional and retail spread-based businesses. Most of the institutional businesses are not surrenderable or are only surrenderable with a market value adjustment, which protects the company. The retail annuity liabilities are generally surrenderable, although a large percentage of the portfolio has significant surrender charge protection.

Table 6

<i>New York Life Insurance Co. And New York Life Insurance &amp; Annuity Corp./Liquidity and Reserves Statistics</i>					
<i>—Year ended Dec. 31—</i>					
<i>(%)</i>	<i>2008</i>	<i>2007</i>	<i>2006</i>	<i>2005</i>	<i>2004</i>
<i>Allocation of reserves</i>					
Individual life	45.9	46.8	47.4	47.9	49.1
Group life	1.0	1.0	0.9	0.8	0.8
Individual annuities	28.3	25.2	25.2	24.5	23.4
Group annuities (including guaranteed investment contracts)	20.1	22.4	21.8	21.4	21.1
Accident and health	1.5	1.5	1.6	1.6	1.6
Other	3.2	3.1	3.2	3.8	4.1
Liquidity ratio (%)	242.9	275.8	279.5	271.9	269.4
Surrenderable annuities to total reserves (%)	10.4	11.7	11.8	12.2	10.9
Liquid assets to total assets (%)	55.8	56.8	57.6	56.2	55.3

NYL's asset portfolio is highly liquid, with about 43% in cash, U.S. government securities, and highly liquid investment-grade corporate bonds. The remainder of the portfolio is spread across various classes that have some liquidity, including investment-grade private placement bonds. The company actively manages its cash based on projected future needs and routinely monitors its liquidity position under specific crisis scenarios to ensure its ability to meet potential cash demands, even in times of stress.

***Capitalization: A Relative Weakness To The Ratings, With A Capital Deficiency At The 'AAA' Level***

Standard & Poor's view of NYL's capitalization has weakened. Capitalization has historically been extremely strong and a foundation of the ratings. Standard & Poor's risk-based capital charges for NYL have increased \$3 billion because of the incremental asset stress factors that we are including in our analysis of insurers during this period (see related research). In addition, total adjusted capital (including the asset valuation reserve) declined by \$2.0 billion through the second quarter of 2009 to \$13.5 billion from a high of \$15.5 billion at year-end 2007, largely because of investment losses. These two influences have combined to generate a capital deficiency in excess of \$1 billion at the 'AAA' level.

Table 7

<b>New York Life Insurance Co. And New York Life Insurance &amp; Annuity Corp./Capitalization Statistics</b>					
<b>—Year ended Dec. 31—</b>					
<b>(Mil. \$)</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>
Total assets	174,540.0	179,623.7	165,665.1	153,951.6	144,420.8
General account assets	167,944.9	165,619.9	154,488.1	145,319.6	136,336.1
Total liabilities excluding separate accounts (excluding asset valuation reserve)	155,123.2	150,948.6	140,700.5	132,546.1	124,576.4
Total adjusted capital (including asset valuation reserve)	13,495.9	15,469.8	14,597.2	13,559.0	12,512.1
Unrealized capital gains	(1,530.6)	(19.4)	(47.8)	391.7	10.0
Capital adequacy ratio (%)	AA	AAA	41,482.9	42,360.0	39,295.0
Company action level to NAIC risk-based capital ratio (%)	429.1	406.7	438.2	432.4	455.5
Assets risk to total adjusted capital ratio (%)	N/A	N/A	39.2	37.3	41.5
High-risk assets to total adjusted capital ratio (%)	147.9	128.8	130.3	128.8	139.8
Surplus from operating earnings after dividends (%)	223.1	190.4	152.7	192.5	200.2
Stockholder dividends/net income	N/A	N/A	N/A	N/A	N/A
Net premiums to gross premiums (%)	96.1	95.0	94.8	94.4	97.1
Net reserves to gross reserves (%)*	95.3	94.9	94.8	94.6	94.4
Stockholders' dividends	N/A	N/A	N/A	N/A	N/A
Stockholders' dividends to net operating income (%)	N/A	N/A	N/A	N/A	N/A

\* Includes annuity and fund deposits. N/A—not available.

Nevertheless, we consider NYL to continue to have a very strong level of capitalization redundant at the 'AA' level. We expect NYL to restore capital to the 'AAA' level within the next two years through operating and investment earnings and expense-saving initiatives. As a mutual company, NYL does not face pressure from public shareholders to deploy excess capital. As a result, over the five-year period ended in 2007, the company built up more than \$6 billion in capital, which allowed it to offset investment losses, while still maintaining a very strong capital base. The company has approximately \$1 billion of long-term surplus notes outstanding, which are included in our assessment of total available capital.

### ***Financial Flexibility: Extremely Strong Despite A Lack Of Direct Access To Equity Capital***

We consider NYL to have extremely strong financial flexibility. As a mutual company, it lacks direct access to equity capital. However, the company has successfully raised additional capital through surplus notes, which significantly augments its already very strong capital base. The company's very large, stable block of life insurance and other liabilities contain significant embedded value. Including the surplus notes, the company has a financial leverage ratio of less than 7% and a fixed-charge coverage of approximately 16x. 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.

***Related Research***

“ Methodology For Incorporating Incremental Stress Factors Into The Capital Adequacy Analysis Of North American Insurers,” Feb. 18, 2009

***Ratings Detail (As Of 04-Sep-2009)\****

***Operating Companies Covered By This Report***

New York Life Insurance Co.

Financial Strength Rating

Local Currency AAA/Negative/—

Counterparty Credit Rating

Local Currency AAA/Negative/A-1+

Senior Secured (1 Issue)

AAA

Subordinated (2 Issues)

AA

New York Life Insurance & Annuity Corp.

Financial Strength Rating

Local Currency AAA/Negative/—

Issuer Credit Rating

Local Currency AAA/Negative/—

***Domicile***

New York

\*Unless otherwise noted, all ratings in this report are global scale ratings. Standard & Poor's credit ratings on the global scale are comparable across countries. Standard & Poor's credit ratings on a national scale are relative to obligors or obligations within that specific country.

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