New York Life Insurance Co.

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New York Life Insurance Co.

Credit Highlights

Overview

Key strengths

Excellent financial risk capital with appropriate leverage and a long history of 'AAA' capital adequacy
Consistent strategic focus on whole life policyholders resulting in a stable and highly persistent block of profitable in-force business
Top market positions in the U.S. individual life insurance industry, propelled by a successful, controlled distribution model

Key risks

Spread compression due to low interest rates (despite the recent increase in key rates), which may pressure profitability in some legacy blocks of business
Uncertain macroeconomic conditions

We expect New York Life Insurance Co. to maintain its excellent financial risk position. New York Life Insurance Co. (with its subsidiaries, NYL) has consistently shown 'AAA' capital redundancy, and we expect this to continue despite recent capital market volatility stemming from the geopolitical and inflationary environment. We believe NYL will maintain appropriate leverage and, through its sophisticated risk controls and conservative tolerances, moderately low risk exposure.

NYL will continue to defend its excellent competitive position by investing in its field agency force and prioritizing policyholders. NYL's excellent competitive position comes from its long-standing success selling individual life insurance in the mature U.S. life insurance market, its strong brand name, and diverse other lines that support its core whole life business.

NYL's exceptionally strong credit characteristics compare favorably with peers', but the rating is capped by our 'AA+' sovereign rating on the U.S. We have a favorable view of NYL's mutual status, which has served as a consistent strategic anchor to prioritize its participating whole life policyholders, as well as the company's continued strength and
predictability of earnings. This results in a group credit profile of 'aaa'. However, we limit the rating to 'AA+' because of the U.S. sovereign rating.

**Outlook**

The stable outlook reflects our expectations that NYL will maintain its excellent business and financial risk positions.

**Downside scenario**

We could lower the ratings in the next two years if:

- New York Life's capital adequacy deteriorates below 'AAA' and we believe it will not recover within one to two years;
- The company's risk exposure worsens materially through product mix changes or significant investment portfolio changes; or
- We lower the rating on the U.S. sovereign.

**Upside scenario**

We are unlikely to raise the ratings given NYL's U.S.-focused operations and our current view of the credit quality of the U.S. sovereign, which constrains the rating.

**Assumptions**

- Real U.S. GDP growth of 1.7% in 2023 and 1.3% in 2024
- Average 10-year Treasury note yield of about 3.7% in 2023 and 3.6% in 2024
- S&P 500 Index at 4,288.8 in 2023 and 4,295.4 in 2024
- Average unemployment rate of 3.5% in 2023 and 4.0% in 2024


### Key metrics

<table>
<thead>
<tr>
<th></th>
<th>2024f</th>
<th>2023f</th>
<th>2022</th>
<th>2021</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>EBIT (mil. $)</td>
<td>&gt;1,500</td>
<td>&gt;1,500</td>
<td>(176.8)</td>
<td>2,205.2</td>
<td>1,567.8</td>
</tr>
<tr>
<td>Pre-dividend return on assets, excluding investment gains/losses (%)</td>
<td>&gt;1.0</td>
<td>&gt;1.0</td>
<td>0.4</td>
<td>1.0</td>
<td>0.9</td>
</tr>
<tr>
<td>Return on capital and surplus (%)</td>
<td>&gt;4.0</td>
<td>&gt;4.0</td>
<td>(3.2)</td>
<td>5.2</td>
<td>1.9</td>
</tr>
<tr>
<td>Return on revenue (%)</td>
<td>&gt;3.0</td>
<td>&gt;3.0</td>
<td>(0.3)</td>
<td>4.5</td>
<td>3.1</td>
</tr>
<tr>
<td>Financial leverage (%)</td>
<td>25-30</td>
<td>25-30</td>
<td>24.8</td>
<td>25.9</td>
<td>29.2</td>
</tr>
<tr>
<td>Fixed-charge coverage (x)</td>
<td>&gt;4</td>
<td>&gt;4</td>
<td>1.0</td>
<td>9.9</td>
<td>8.3</td>
</tr>
</tbody>
</table>

Metrics are based on statutory financials. f–S&P Global Ratings' forecast.
**Business Risk Profile**

NYL has a consistent top-tier market position in the highly competitive U.S. retail life business, as well as a top market position in direct insurance sales and guaranteed lifetime income. NYL has been successful in selling whole life insurance to the U.S. middle market largely because of its 12,000 career agents--its "cultural market" focus allows it to expand into markets that many other life insurance companies tend to ignore. This positions the company well to deal with changing demographics in the U.S. Its cultural market agents, accounting for about half of NYL's proactive agents, sold a significant proportion of the agency channel's life insurance and retail annuities.

NYL focuses on participating whole life insurance (about 32% of general account reserves in 2022), complemented by other life and annuity lines, including retail and institutional annuities designed to be low risk, as well as asset-management services. (See the breakdown of general account reserves in chart 1.) Participating whole life insurance, as a percentage of total reserves, has been consistent over the last five years, and we continue to view this liability profile as supportive of NYL's ratings. While we do not expect material changes to the liability profile, if the company gradually shifts its product portfolio to more annuities or spread-based business over time, where participating whole life products become less meaningful to the overall liability profile, we could view this as a negative ratings factor.

**Chart 1**

Reserves as a percentage of general account liabilities

![Chart showing reserves as a percentage of general account liabilities]

Source: S&P Global Ratings.
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New York Life's newest strategic business, the Group Benefits Solutions segment, has maintained its top market positions, ranking as the No. 7 group life writer (by premiums) and the No. 5 group disability insurer in the U.S. as of year-end 2022. The business integration of the segment, which was acquired in 2020, continues to go smoothly, with minimal employee and customer disruption as well as strong client retention thus far.
After the group life business experienced excess mortality related to the pandemic in 2020 and 2021, pandemic mortality decreased by about 20% in 2022. We expect the company's group life ratios to return to their historical norms in the next two years as the pandemic continues to subside. In our view, this business complements New York Life's existing products, is less sensitive to interest rates, and is lower risk than longer-duration products since the company has the ability to reprice the business every three to five years when contracts renew. Despite near-term losses, we anticipate that the business will be accretive to the group's capital and earnings over the long term, which ultimately benefits New York Life's policyholders.

Historically, NYL's statutory return on assets has been in line with peers', with the exception of 2022. That was when the company opportunistically increased its annuity sales amid higher interest rates, resulting in higher reserves and lower statutory operating earnings. However, in management's view of operating earnings, where adjustments are made to arrive at a more economic view of underlying profitability, the company generated record earnings of $2.8 billion in 2022. The main adjustments to this metric in 2022 were policyholder dividends supported by capital gains and reserve adjustments.

NYL's general expense ratio of 7.8% was lower than peers' 10.6% average for 2022. New York Life is the only large mutual that employs a managerial agency system where the insurance company covers the distribution's expenses and would report relatively higher general expense ratios and lower commission expenses. On a total expense ratio basis, NYL posted an expense ratio of 10.4%, compared with the peer average of about 15%, demonstrating its disciplined focus on overall expense management on both general and total expense metrics.

We also view favorably NYL's formal process for strategic capital allocation. The company applies its risk-adjusted surplus volatility consistently across the enterprise when making decisions. This creates value for policyholders with strategic alignment and optimal capital allocation between its businesses to accomplish its corporate mission. Relative to what most mutual companies do, this is a more sophisticated approach that we believe supports NYL's risk position.

**Financial Risk Profile**

NYL's excellent financial risk position is anchored by its consistent track record of 'AAA' capital adequacy per our model. As of year-end 2022, NYL maintained 'AAA' capital adequacy, and we expect this to persist.

NYL's investment portfolio has performed well since the start of the pandemic, with minimal credit losses, credit migration, and impairments. As commercial whole loans (CWL) come into focus after the pandemic, we believe that credit losses will slightly increase for the portfolio, like in the rest of the industry. But it will be manageable for NYL given the strong credit metrics on its CWL portfolio, such as the low loan-to-value ratio of 54% and the healthy debt service coverage ratio of 2.4x at year-end 2022. Its office allocation is about 23% of its $38.7 billion CWL portfolio and is mainly focused on multifamily and industry lending, with pressured sectors such as office and retail exposure declining historically. We still believe that, should investment portfolio losses exceed expectations, NYL's capitalization at the 'AAA' level will be able to withstand such pressure because of organic earnings and a comfortable redundancy at the 'AAA' level.

NYL has a high-quality investment portfolio, with an average credit quality near 'A-'. We have a favorable view of
NYL’s risk controls, which will enable it to remain within its risk appetite tolerance if detrimental market movements occur. In our view, NYL is unlikely to experience losses outside the tolerances defined in its risk appetite statement given its formally developed framework around credit, insurance, and interest rate risks.

The company's funding structure remains neutral to the rating, with financial leverage of 25% at year-end 2022, mostly comprising surplus notes ($4.25 billion outstanding). We give these surplus notes intermediate equity credit until 10 years before the maturity date since the notes were issued by New York Life Insurance Co., a prudentially regulated legal entity (regulated by the New York State Department of Financial Services). The first of these notes matures in 2033.

NYL's fixed-charge coverage of 1.0x is thin. But when considering management's view of earnings, fixed-charge coverage is 13.5x. Because of the company's strong organic earnings engine, we expect fixed-charge coverage to be above 4x in 2023-2024.

Chart 2

Pre-dividend return on assets (excluding investment gains/losses)

Source: S&P Global Ratings.
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Chart 3

General expense ratio

Source: S&P Global Ratings.
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Chart 4

Net investment yield

Source: S&P Global Ratings.
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Other Credit Considerations

Governance
We view NYL’s governance as neutral to the rating. It has a conservative risk management culture with a demonstrated commitment to enterprise risk management and a well-defined risk appetite statement with clearly articulated risk limits based on stress levels. We regard the risk oversight by the board of directors, risk management leadership teams, and risk committee structure favorably. These groups encompass asset-liability and risk steering committees as well as committees at different levels of the company, all of which have clearly defined roles and responsibilities.

Liquidity
We believe NYL’s liquidity is exceptional and estimate its liquidity ratio to be 253%. The company’s exposure to other liquidity events such as ratings triggers and collateral posting requirements is immaterial relative to its ability to cover these needs.

Comparable ratings analysis
We factor in a favorable adjustment due to NYL’s mutual status and stable earnings. Many other mutual companies have long since deemphasized whole life sales, which we consider as having the most favorable risk profile of traditional individual life products because of its profit-sharing characteristics (whereby policyholders’ dividends can be reduced if losses occur) and historically low lapse rates. We consider NYL’s success in selling whole life insurance and its continuing focus on whole life policyholders to be a key credit strength. This has also served NYL well in terms of producing predictable and stable earnings as overall mortality trends continue to improve.

Group support
The short-term funding agreement-backed commercial paper notes issued out of New York Life Short Term Funding LLC (NYLSTF) are backed by NYL-issued funding agreements. These notes have payment terms that are equivalent to those of the funding agreements. The funding agreements are ranked pari passu with policyholder obligations, and therefore our ratings on the notes are linked to NYL’s financial strength. Our short-term debt rating on NYLSTF issuances is ‘A-1+’ in accordance with the standard mapping between short- and long-term ratings under our criteria.

We rate New York Life Capital Corp.’s (Capital Corp.) commercial paper based on our group rating methodology. In our view, the potential for regulatory restrictions for New York Life Insurance Co. to make payments to New York Life Capital Corp. is lower than we typically observe for prudentially regulated entities. Furthermore, a support agreement is in place whereby New York Life Insurance Co. agrees to keep Capital Corp.’s net worth above $1, which also backs our ‘A-1+’ rating on Capital Corp.’s commercial paper.

Senior secured medium-term notes issued out of New York Life Global Funding are backed by New York Life Insurance Co.-issued funding agreements held by New York Life Global Funding, and the notes have payment terms that are equivalent to those of the funding agreements. The funding agreements are ranked pari passu with policyholder obligations, and therefore, our ratings on the notes reflect the ‘AA+’ financial strength rating on New York Life Insurance Co.
Environmental, social, and governance
NYL's environmental, social, and governance (ESG) exposure is similar to the ESG exposure of others in the broader life insurance sector. NYL’s operations are mainly exposed to social risk factors such as increasing longevity, risks to social safety net programs, and long-term demographics trends in the U.S. The company has a top market position in direct insurance sales and guaranteed lifetime income. It has been very successful in selling whole life insurance to the underpenetrated U.S. middle market largely owing to its 12,000 career agents. It also has a conservative risk management culture, and we regard its risk oversight favorably. As with many of its peers and competitors, the company has minimal exposure to environmental risks.

Related Criteria

• General Criteria: Hybrid Capital: Methodology And Assumptions, March 2, 2022
• General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
• General Criteria: Group Rating Methodology, July 1, 2019
• Criteria | Insurance | General: Insurers Rating Methodology, July 1, 2019
• General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
• Criteria | Insurance | General: Methodology For Assessing Capital Charges For U.S. RMBS And CMBS Securities Held By Insurance Companies, Aug. 29, 2014
• Criteria | Insurance | General: Methodology For Calculating The Convexity Risk In U.S. Insurance Risk-Based Capital Model, April 27, 2011
• General Criteria: Principles Of Credit Ratings, Feb. 16, 2011
• Criteria | Insurance | General: Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010
Appendix

New York Life--Credit metrics history

<table>
<thead>
<tr>
<th>(Mil. $)</th>
<th>2022</th>
<th>2021</th>
<th>2020</th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>S&amp;P Global Ratings' capital adequacy</td>
<td>AAA</td>
<td>AAA</td>
<td>AAA</td>
<td>AAA</td>
<td>AAA</td>
</tr>
<tr>
<td>Gross premiums written</td>
<td>44,495</td>
<td>36,816</td>
<td>38,389</td>
<td>30,240</td>
<td>30,348</td>
</tr>
<tr>
<td>Pre-dividend return on assets, excluding investment gains/losses (%)</td>
<td>0.42</td>
<td>1.02</td>
<td>0.92</td>
<td>1.01</td>
<td>1.02</td>
</tr>
<tr>
<td>Return on revenue (%)</td>
<td>(0.3)</td>
<td>4.5</td>
<td>3.1</td>
<td>3.7</td>
<td>4.0</td>
</tr>
<tr>
<td>Capital and surplus</td>
<td>23,887</td>
<td>24,566</td>
<td>21,728</td>
<td>22,032</td>
<td>21,006</td>
</tr>
<tr>
<td>Return on capital and surplus (%)</td>
<td>(3.2)</td>
<td>5.2</td>
<td>1.9</td>
<td>4.7</td>
<td>7.1</td>
</tr>
<tr>
<td>Total invested assets</td>
<td>318,707</td>
<td>298,530</td>
<td>285,994</td>
<td>267,939</td>
<td>256,252</td>
</tr>
<tr>
<td>EBIT</td>
<td>(177)</td>
<td>2,205</td>
<td>1,568</td>
<td>1,538</td>
<td>1,504</td>
</tr>
<tr>
<td>Net income, attributable to all shareholders</td>
<td>(775)</td>
<td>1,204</td>
<td>406</td>
<td>1,099</td>
<td>1,477</td>
</tr>
<tr>
<td>General expense ratio (%)</td>
<td>7.8</td>
<td>8.7</td>
<td>9.0</td>
<td>9.4</td>
<td>8.9</td>
</tr>
<tr>
<td>Net investment yield (%)</td>
<td>3.9</td>
<td>4.4</td>
<td>4.4</td>
<td>4.3</td>
<td>4.5</td>
</tr>
<tr>
<td>Financial leverage (%)</td>
<td>24.8</td>
<td>25.9</td>
<td>29.2</td>
<td>23.7</td>
<td>19.6</td>
</tr>
<tr>
<td>EBITDA fixed-charge coverage (x)</td>
<td>1.0</td>
<td>9.9</td>
<td>8.3</td>
<td>10.0</td>
<td>11.1</td>
</tr>
</tbody>
</table>

Metrics are based on statutory financials. Statutory numbers for 2020-2022 include Life Insurance Co. of North America.

Business And Financial Risk Matrix

<table>
<thead>
<tr>
<th>Business risk profile</th>
<th>Excellent</th>
<th>Very Strong</th>
<th>Strong</th>
<th>Satisfactory</th>
<th>Fair</th>
<th>Marginal</th>
<th>Weak</th>
<th>Vulnerable</th>
</tr>
</thead>
<tbody>
<tr>
<td>Excellent</td>
<td>aa+</td>
<td>aa</td>
<td>aa-</td>
<td>a+</td>
<td>a-</td>
<td>bbb</td>
<td>bb+</td>
<td>b+</td>
</tr>
<tr>
<td>Very Strong</td>
<td>aa</td>
<td>aa/aa-</td>
<td>aa-/a+</td>
<td>a+/a</td>
<td>a-/bbb+</td>
<td>bbb/bbb-</td>
<td>bb+/bb</td>
<td>b+</td>
</tr>
<tr>
<td>Strong</td>
<td>aa-/a+</td>
<td>a+/a</td>
<td>a/a-</td>
<td>a-/bbb+</td>
<td>bbb+/bbb</td>
<td>bbb-/bbb+</td>
<td>bb-/bb</td>
<td>b+/b</td>
</tr>
<tr>
<td>Satisfactory</td>
<td>a</td>
<td>a/a-</td>
<td>a-/bbb+</td>
<td>bbb+/bbb</td>
<td>bbb/bbb-</td>
<td>bbb-/bb+</td>
<td>bb-/b+</td>
<td>b/-b</td>
</tr>
<tr>
<td>Fair</td>
<td>a-</td>
<td>a-/bbb+</td>
<td>bbb+/bbb</td>
<td>bbb/bbb-</td>
<td>bbb-/bb+</td>
<td>bb-/bb-</td>
<td>b+/b</td>
<td>b-/b</td>
</tr>
<tr>
<td>Weak</td>
<td>bbb+/bbb</td>
<td>bbb/bbb-</td>
<td>bbb-/bb+</td>
<td>bb+/bb</td>
<td>bb/bb-</td>
<td>bb-/b+</td>
<td>b-/b</td>
<td>b-/b</td>
</tr>
<tr>
<td>Vulnerable</td>
<td>bbb-/bb+</td>
<td>bbb/+bb</td>
<td>bb/bb-</td>
<td>bb-/b+</td>
<td>b+/b</td>
<td>b/b-</td>
<td>b-</td>
<td>b-/b</td>
</tr>
</tbody>
</table>

Note: Where table indicates two possible outcomes, we determine the anchor as follows: For financial risk profiles that we assess as satisfactory or stronger, we consider the relative strength of both the business risk and financial risk profiles within the cell. This is based on a holistic assessment of the relative strengths of the rating factors of the business risk profile and financial risk profile. For financial risk profiles that we assess as fair or weaker, we typically place more weight on the relative strength of the rating factors of the financial risk profile.

Ratings Detail (As Of August 10, 2023)*

Operating Companies Covered By This Report

New York Life Insurance Co.

Financial Strength Rating

Local Currency

Issuer Credit Rating

Local Currency

Subordinated
## New York Life Insurance & Annuity Corp.

- **Financial Strength Rating**
  - **Local Currency**: AA+/Stable/--

- **Issuer Credit Rating**
  - **Local Currency**: AA+/Stable/--

### Related Entities

#### New York Life Capital Corp.
- **Commercial Paper**
  - **Local Currency**: A-1+

#### New York Life Global Funding
- **Senior Secured**
  - **AA+**

#### New York Life Short Term Funding Llc
- **Commercial Paper**
  - **Local Currency**: A-1+

### Domicile
- **New York**

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.*