NEW YORK LIFE INSURANCE COMPANY

FINANCIAL STATEMENTS
(STATUTORY BASIS)

DECEMBER 31, 2008 and 2007

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers LLP
PricewaterhouseCoopers Center
300 Madison Avenue
New York NY 10017
Telephone (646) 471 3000
Facsimile (813) 286 6000

Report of Independent Auditors

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

We have audited the accompanying statutory statements of financial position of New York Life Insurance Company (the "Company") as of December 31, 2008 and 2007, and the related statutory statements of operations, of changes in surplus, and of cash flows for the years then ended. 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 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. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As described in Note 1 to the financial statements, the Company prepared these financial statements using accounting practices prescribed or permitted by the Insurance Department of the State of New York ("statutory basis of accounting"), which practices differ from accounting principles generally accepted in the United States of America. The effects on the financial statements of the variances between the statutory basis of accounting and accounting principles generally accepted in the United States of America are material; they are described in Note 1.

In our opinion, the financial statements referred to above (1) do not present fairly in conformity with generally accepted accounting principles, the financial position of the Company as of December 31, 2008 and 2007, or the results of its operations or its cash flows for the years then ended because of the effects of the variances between the statutory basis of accounting and accounting principles generally accepted in the United States of America referred to in the third paragraph of this report, and (2) present fairly, in all material respects, its financial position and the results of its operations and its cash flows, on the statutory basis of accounting described in Note 1.

March 18, 2009

NEW YORK LIFE INSURANCE COMPANY

STATUTORY STATEMENTS OF FINANCIAL POSITION

	December 31, 2008	December 31, 2007
	(in millions)	
Assets		
Bonds	$ 65,391	$ 66,668
Common and preferred stocks	6,519	8,811
Mortgage loans	9,758	9,081
Real estate	440	453
Policy loans	7,051	6,619
Limited partnerships and other investments	6,917	7,700
Cash, cash equivalents and short-term investments	2,301	4,608
Other invested assets	1,016	1,257
Total cash and invested assets	99,393	105,197
Deferred and uncollected premiums	1,463	1,385
Investment income due and accrued	1,086	1,078
Separate account assets	5,875	6,611
Funds held by reinsurer	4,944	4,839
Other assets	4,545	3,829
Total assets	$ 117,306	$ 122,939
Liabilities and Surplus		
Liabilities:		
Policy reserves	$ 69,957	$ 67,121
Deposit funds	19,983	22,150
Dividends payable to policyholders	1,354	1,598
Policy claims	568	492
Borrowed money	775	2,894
Separate account liabilities	5,864	6,512
Amounts payable under security lending agreements	2,109	4,052
Other liabilities	4,158	3,637
Interest maintenance reserve	96	267
Asset valuation reserve	649	2,257
Total liabilities	105,513	110,980
Surplus:		
Surplus notes	992	991
Unassigned surplus	10,801	10,968
Total surplus	11,793	11,959
Total liabilities and surplus	$ 117,306	$ 122,939

See accompanying notes to financial statements

NEW YORK LIFE INSURANCE COMPANY

STATUTORY STATEMENTS OF OPERATIONS

	Years Ended December 31,	
	2008	2007
	(in millions)	
Income		
Premiums	$ 11,286	$ 9,752
Net investment income	5,173	5,653
Other income	465	548
Total income	16,924	15,953
Benefits and expenses		
Benefit payments:		
Death benefits	2,207	2,075
Annuity benefits	1,052	1,020
Health and disability insurance benefits	322	344
Surrender benefits	2,200	1,951
Payments on matured contracts	3,091	3,180
Other benefit payments	853	1,066
	9,725	9,636
Additions to reserves	3,330	1,787
Net transfers from Separate Accounts	(16)	230
Operating expenses	1,976	1,963
Total benefits and expenses	15,015	13,616
Gain from operations before dividends and federal income taxes	1,909	2,337
Dividends to policyholders	1,421	1,644
Gain from operations before federal income taxes	488	693
Federal income taxes	55	116
Net gain from operations	433	577
Net realized capital (losses) gains, after tax and transfers to interest maintenance reserve	(997)	279
Net (loss) income	$ (564)	$ 856

See accompanying notes to financial statements

NEW YORK LIFE INSURANCE COMPANY

STATUTORY STATEMENTS OF CHANGES IN SURPLUS

	December 31,	
	2008	2007
	(in millions)	
Surplus, beginning of year	$ 11,959	$ 11,300
Net (loss) income	(564)	856
Change in net unrealized losses on investments	(1,549)	(23)
Change in net deferred income tax	(76)	(72)
Cumulative effect of changes in accounting principles	328	(1)
Change in asset valuation reserve	1,608	(170)
Change in nonadmitted assets	(202)	(37)
Change in surplus notes indemnification reserve	11	11
Change in reserve valuation basis	268	81
Other adjustments, net	10	14
Surplus, end of year	$ 11,793	$ 11,959

See accompanying notes to financial statements

NEW YORK LIFE INSURANCE COMPANY

STATUTORY STATEMENTS OF CASH FLOWS

	Years Ended December 31,	
	2008	**2007**
	(in millions)	
Cash flow from operating activities:		
Premiums received	$ 11,175	$ 9,690
Net investment income received	4,928	5,396
Other	142	286
Total received	16,245	15,372
Benefits and other payments	8,857	8,806
Operating expenses	2,088	2,064
Dividends to policyowners	1,665	1,534
Federal income taxes	187	289
Other	(100)	218
Total paid	12,697	12,911
Net cash from operations	3,548	2,461
Cash flow from investing activities:		
Proceeds from investments sold	26,889	27,772
Proceeds from investments matured or repaid	21,557	15,128
Cost of investments acquired	(49,454)	(47,038)
Net change in policy loans and premium notes	(433)	(370)
Net cash from investing activities	(1,441)	(4,508)
Cash flow from financing and miscellaneous activities:		
Net borrowings under repurchase agreements	13	-
Net (repayments) borrowings under credit agreements	(529)	498
Other changes in borrowed money	(60)	27
Net (outflows) proceeds from deposit contracts	(1,941)	1,735
Other miscellaneous (uses) sources	(1,897)	1,448
Net cash from financing and other activities	(4,414)	3,708
Net increase (decrease) in cash, cash equivalents and short-term investments	(2,307)	1,661
Cash, cash equivalents and short-term investments, beginning of year	4,608	2,947
Cash, cash equivalents and short-term investments, end of year	$ 2,301	$ 4,608

See accompanying notes to financial statements

NEW YORK LIFE INSURANCE COMPANY

STATUTORY STATEMENTS OF CASH FLOWS (supplemental)

	Years Ended December 31,	
	2008	2007
	(in millions)	
Supplemental disclosures of cash flow information:		
Non-cash investing and financing activities during the year not included in the Statutory Statements of Cashflow:		
Transfer of unaffiliated equity investment to investment in subsidiary	$ 901	$ -
Transfer of debt investment to investment in subsidiary	301	-
Transfer of affiliated equity investment in fullfilment of contractual liability	305	-
Conversion of debt securities to equity securities	17	28
Transfer of affiliated equity investments to unaffiliated equity investments	11	-
Exchange of mortgage loan to real estate	1	-
Exchange of equity investment to debt investment	-	8
Merger of debt investment to equity investment	-	3
Real estate acquired in satisfaction of debt	-	2
Total non-cash transactions	$ 1,536	$ 41

See accompanying notes to financial statements

NOTE 1 - NATURE OF OPERATIONS

New York Life Insurance Company ("the Company"), a mutual life insurance company, and its subsidiaries offer a wide range of insurance and investment products and services including life and health insurance, long term care, annuities (including guaranteed lifetime income annuities), pension products, mutual funds (through its broker/dealer subsidiary), and other investments and investment advisory services. The Company, which is domiciled in New York State, is comprised of four primary business segments: Life and Annuity, Investment Management, Special Markets and International operations. Life and Annuity operations are conducted primarily through the Company and its wholly owned insurance subsidiaries New York Life Insurance and Annuity Corporation ("NYLIAC") and NYLIFE Insurance Company of Arizona ("NYLAZ"). Investment Management operations are conducted through the Company and various registered investment advisory subsidiaries of its wholly owned subsidiary, New York Life Investment Management Holdings LLC ("New York Life Investments"). Special Markets is a niche business area of the Company and NYLIAC that markets group life and health insurance to membership associations, long term care insurance and is the exclusive provider of life insurance and guaranteed lifetime income annuity products to the American Association of Retired Persons ("AARP"). The Company and its subsidiaries market their products in all 50 of the United States, its territories and the District of Columbia, primarily through its agency force. The Company markets insurance and investment products in Asia and Latin America through New York Life International, LLC ("NYLI"), a wholly owned subsidiary. NYLIFE LLC is a wholly owned subsidiary of the Company, and is a holding company for certain non-insurance subsidiaries of the Company. NYLIFE LLC, through its subsidiaries, offers securities brokerage, financial planning and investment advisory services, trust services and capital financing.

Beginning in 2009, the Company has merged its Special Markets operations into Life and Annuity, and then split the combined operation into two new business segments: US Life Insurance and Agency (which will comprise our individual and corporate owned life insurance operations, and the products offered through affinity programs, including membership associations, and our exclusive relationship with members of AARP discussed above) and Retirement Income Security (which will primarily comprise our guaranteed lifetime income annuities, investment annuities, and long-term care insurance).

Basis of Presentation

The accompanying financial statements have been prepared using accounting practices prescribed or permitted by the New York State Insurance Department ("statutory accounting practices"), which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America ("GAAP").

The New York State Insurance Department recognizes only statutory accounting practices prescribed or permitted by the State of New York for determining and reporting the financial position and results of operations of an insurance company and for determining its solvency under New York Insurance Law. The National Association of Insurance Commissioners' ("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.

In 2008, New York Insurance Law was amended to remove the statutory impediments to full adoption of NAIC SAP (see Change in Accounting Principles below, for a full description). The one remaining difference between accounting practices prescribed by the state of New York and NAIC SAP is that the Company is required to hold an indemnity reserve in connection with its outstanding surplus note, whereas this is not required under NAIC SAP.

At December 31, 2007, material differences between NAIC SAP and statutory accounting practices prescribed by the State of New York for the Company included: (1) Electronic Data Processing ("EDP") equipment and operating software could only be admitted under New York State Insurance Law if the individual cost exceeded fifty thousand dollars, whereas NAIC SAP allows these items to be admitted assets, subject to a 3% limitation of a Company's capital and surplus; (2) the value of aircraft held by a non-insurance subsidiary that has no significant ongoing operations was permitted to be carried as an admitted asset if approved by the Superintendent of Insurance, whereas NAIC SAP requires that it be excluded from the subsidiary's GAAP equity value carried in surplus; (3) goodwill, whether held directly or by a subsidiary (insurance or non-insurance) was nonadmitted and reduced surplus of the Company, whereas NAIC SAP permits goodwill to be carried as an asset subject to certain limitations; (4) New York State required the Company to establish an indemnity reserve initially equal to 10% of the face value of its surplus note issuance. This reserve is not required under NAIC SAP; and (5) Prepaid real estate taxes would be capitalized and admitted under New York Insurance Law, whereas NAIC SAP requires that they be capitalized, nonadmitted, and charged against surplus.

For the years ended December 31, 2008 and 2007, there were no differences in net income between NAIC SAP and practices prescribed by the State of New York. A reconciliation of the Company's surplus at December 31, 2008 and 2007 between NAIC SAP and practices prescribed by the State of New York is shown below (in millions):

	2008	2007
Statutory Surplus, New York basis	$ 11,793	$ 11,959
State Prescribed Practices:		
1. EDP equipment, net	-	38
2. Aircraft owned by subsidiary, net	-	(21)
3. Goodwill of non-insurance subsidiaries	-	311
4. Surplus notes indemnity reserve	67	78
5. Prepaid real estate taxes	-	(1)
Statutory Surplus, NAIC SAP	$ 11,860	$ 12,364

Certain amounts in prior years have been reclassified to conform to the current year presentation. These reclassifications had no effect on net income or surplus as previously reported.

Change in Accounting Principles

Accounting changes adopted to conform to the provisions of NAIC SAP are reported as changes in accounting principles. The cumulative effect of changes in accounting principles is reported as an adjustment to unassigned funds (surplus) in the period of the change in accounting principle. The cumulative effect is the difference between the amount of capital and surplus at the beginning of the year and the amount of capital and surplus that would have been reported at that date if the new accounting principles had been applied retroactively for all prior periods.

The New York State legislature passed a bill that was signed by the governor on July 21, 2008; that removed the statutory impediments to full adoption of NAIC SAP as the accounting basis for insurance companies in New York State. The bill amended aspects of insurance law to alter what can be treated as

an admitted asset and what is considered nonadmitted for the purpose of presentation of insurance company results in annual and quarterly statements. The Company recorded a net positive impact on surplus of $328 million as a change in accounting principle. This positive impact is the result of the admission of EDP equipment and operating software of $38 million and goodwill and intangibles of non-insurance subsidiaries of $311 million that was previously nonadmitted and nonadmitting aircraft owned by a subsidiary of $21 million that was previously admitted. The surplus notes indemnification reserve listed as a difference between accounting practices prescribed by the State of New York and NAIC SAP was not addressed by the bill and continued to be a difference. The reserve will be released in accordance with its original schedule, which calls for a release of the remaining balance on May 15, 2009, if no claims arise.

Effective January 1, 2007, the Company adopted Statements of Statutory Accounting Principles ("SSAP") No. 97, "Investments in Subsidiary, Controlled and Affiliated (SCA) Entities", which replaced SSAP No. 88. SSAP No. 97 states that assets and liabilities of a downstream holding company, other than the investments in SCA entities, should be valued in accordance with statutory accounting rules. At January 1, 2007, the cumulative effect of adopting SSAP No. 97 reduced surplus by $1 million. This amount represented intercompany receivables that were not supported by a formal service agreement and must be nonadmitted in accordance with SSAP No. 96, "Settlement Requirements for Intercompany Transactions", An Amendment of SSAP No. 25, "Accounting for the Disclosures about Transactions with Affiliates and Other Related Parties"**.**

New Accounting Pronouncements

The NAIC issued SSAP No. 99 "Accounting for Debt Securities Subsequent to an Other-Than Temporary Impairment", which provides guidance for the accounting treatment of premium or discount for a debt security subsequent to other-than temporary impairment recognition. This guidance is effective January 1, 2009 with early adoption permitted. The Company will adopt this guidance effective January 1, 2009 with a prospective application.

The NAIC issued SSAP No. 98, "Treatment of Cash Flows when Quantifying Changes in Valuation and Impairments", An Amendment to SSAP No. 43 with an effective date of January 1, 2009 with early adoption permitted. The Company early adopted this guidance in 2008 and the adoption did not have a material impact on the Company's financial statements.

The NAIC issued nonsubstantive modifications to existing statutory accounting guidance to allow audited U.S tax basis prepared financial statements as an acceptable basis for valuing investments in joint ventures, partnerships, and limited liability companies in which the reporting entity has a minor ownership interest (i.e., less than 10%) or lacks control as stipulated in paragraphs 9 and 10 of SSAP No. 48, "Joint Ventures, Partnerships and Limited Liability Companies" and for which audited GAAP financial statements of the investee are not available. The effect of applying this clarification resulted in an increase in surplus of $24 million and is included in the change in nonadmitted assets in the Statutory Statements of Changes in Surplus.

The NAIC issued nonsubstantive modifications to existing statutory accounting requirements to allow audited IFRS or foreign GAAP prepared financial statements as an acceptable basis for valuing investments in non-U.S. joint ventures, partnerships, and limited liability companies where the reporting entity has a minor ownership interest (i.e., less than 10%) or lacks control as set forth in paragraphs 9 and 10 of SSAP No. 48 and for which audited U.S. GAAP financial statements of the investee are not available, provided that such audited IFRS or foreign GAAP prepared financial statements include an audited footnote reconciliation of the investee's IRFS or foreign GAAP income and equity to U.S. GAAP. The effect of applying this clarification resulted in no change to surplus.

The NAIC issued modifications to allow multiple market based valuations to be utilized as an alternative to published SVO unit prices. See Note 2 - Significant Accounting Policies, for further details on the Company's policy on securities valuation.

The NAIC issued for 2008 financial statements additional disclosures for all security lending arrangements, whether on or off balance sheet as of the date of each balance sheet. See Note 2 - Significant Accounting Policies for further details on the Company's policy on security lending arrangements.

The NAIC adopted for 2008 financial statements additional disclosures for funding agreements issued to a Federal Home Loan Bank. See Note 8 - Insurance Liabilities for these additional disclosures.

The NAIC issued disclosures for credit derivatives, amendments to SSAP No. 86, "Accounting for Derivatives Instruments and Hedging Activities" and SSAP No. 5, "Liabilities, Contingencies and Impairments of Assets". See Note 2 - Significant Accounting Policies, for the Company's policy on derivatives.

Effective January 1, 2007 the Company adopted SSAP No. 96, uncollected receivable balances that were not addressed by a written agreement or were over ninety days past due were nonadmitted. The adoption of SSAP No. 96 had no impact on to the Company's surplus other than that disclosed under SSAP No. 97.

The New York State Insurance Department has raised an issue with the industry's statutory accounting when premiums are paid to reinsurers at a different frequency than received from policyholders. It is very common for reinsurance premiums to be paid annually even though the underlying policy premiums are collected monthly or quarterly to accommodate customer demand. When net valuation premiums exceed gross premiums, this can result in a negative net liability or a net asset that is larger than the total of the gross premiums the ceding insurer will receive between the valuation date and the next reinsurance premium due date. At issue is how to account for the value of the reinsurance coverage under statutory accounting. The New York State Insurance Department has not required any changes in statutory accounting for this situation in 2008, but is likely to issue new guidance in 2009. The impact to the Company's financials is still being assessed.

Statutory vs. GAAP Basis of Accounting

Financial statements prepared under the statutory basis of accounting as determined under New York State Insurance Law vary from those prepared under GAAP, primarily as follows: (1) non-public majority owned subsidiaries are generally carried at net equity value whereas under GAAP they would be consolidated; earnings of such subsidiaries are recognized in net investment income only when dividends are declared whereas under GAAP net income from such subsidiaries would be recognized when earned and dividends would be eliminated in consolidation; at December 31, 2007 the Company's publicly-traded investment, Express Scripts, Inc. ("ESI") was carried at market value, less a haircut, as defined in NAIC SAP, whereas under GAAP, the Company's investment in ESI was carried at market value. All directly-owned ESI shares have been disposed of as of December 31, 2008; (2) the costs related to acquiring business, principally commissions, certain policy issue expenses and sales inducements, are charged to income in the year incurred, whereas under GAAP they would be deferred and amortized over the periods benefited; (3) life insurance reserves are based on different assumptions than they are under GAAP and dividends on participating policies are provided when approved by the Board of Directors, whereas under GAAP, they are recognized when credited to the policies; (4) life insurance companies are required to establish an Asset Valuation Reserve ("AVR") by a direct charge to surplus to offset potential investment losses, whereas under GAAP, the AVR would not be recognized and any losses on investments would be deducted from the assets to which they relate and would be charged to income; (5) investments in bonds are generally carried at amortized cost or values as prescribed by the New York

State Insurance Department; under GAAP, investments in bonds that are classified as available for sale or trading, would be carried at fair value, with changes in fair value charged or credited to equity or reflected in earnings, respectively; (6) realized gains and losses resulting from changes in interest rates on fixed income investments are deferred in the Interest Maintenance Reserve ("IMR") and amortized into investment income over the remaining life of the investment sold, whereas under GAAP, the gains and losses would be recognized in income at the time of sale; (7) deferred income taxes exclude state income taxes and are admitted to the extent they can be realized within one year subject to a 10% limitation of capital and surplus with changes in the net deferred tax reflected as a component of surplus; under GAAP, deferred income taxes include federal and state income taxes and a valuation allowance would be recorded to reduce a deferred tax asset to that portion that is expected to more likely than not be realized and changes in the deferred tax are reflected in either earnings or other comprehensive income; (8) certain reinsurance transactions are accounted for using deposit accounting for statutory purposes and reinsurance accounting under GAAP, and assets and liabilities are reported net of reinsurance for statutory purposes and gross of reinsurance for GAAP; (9) certain assets, such as intangible assets, furniture and equipment, deferred taxes that are not realizable within one year and unsecured receivables are considered nonadmitted and excluded from assets on the statutory statements of financial position, whereas they would be included under GAAP, subject to a valuation allowance, as appropriate; (10) contracts that have any mortality and morbidity risk, regardless of significance, and contracts with life contingent annuity purchase rate guarantees are classified as insurance contracts; whereas under GAAP, contracts that do not subject the Company to significant risks arising from policyholder mortality or morbidity would be accounted for in a manner consistent with the accounting for interest bearing or other financial instruments, (11) as of December 31, 2008 goodwill held by non-insurance subsidiaries are an admissible asset, subject to certain limitations and as of December 31, 2007 all goodwill was not permitted to be carried as an admitted asset, whereas under GAAP, goodwill, which is considered to have an indefinite useful life, would be tested for impairment and a loss recorded, where appropriate; (12) postretirement obligations are measured for only vested employees and agents, whereas under GAAP, these costs would be measured for both vested and non-vested employees and agents; (13) surplus notes are included as a component of surplus, whereas under GAAP, they would be presented as a liability; (14) GAAP requires that for certain reinsurance arrangements whereby assets are retained by the ceding insurer (such as funds withheld or modified coinsurance) and a return is paid based on the performance of underlying investments, then the liabilities for these reinsurance arrangements must be adjusted to reflect the fair value of the invested assets; statutory accounting practices do not contain a similar requirement; (15) contracts that contain an embedded derivative are not bifurcated between components and are accounted for consistent with the host contract, whereas under GAAP the embedded derivative would be bifurcated from the host contract and accounted for separately; (16) under GAAP, the overfunded or underfunded status of defined benefit pension and postretirement plans would be recognized as an asset or liability in the statement of financial position, and changes in the funded status would be recognized through comprehensive income, whereas under statutory accounting, no such impacts are currently required to be reflected in the financial statements; (17) changes in the fair value of derivative financial instruments are recorded as changes in surplus, whereas GAAP generally reports these changes as revenue unless deemed an effective hedge; (18) certain derivative instruments are carried at amortized cost, whereas under GAAP all derivative instruments are carried at fair value; and (19) certain group annuity policies which do not pass through all investment gains to policyholders are maintained in separate accounts, whereas GAAP reports these policies in the general account assets and liabilities of the Company. The effects on the financial statements of the variances between the statutory accounting practices and GAAP are material to the Company.

The following table reconciles the Company's statutory surplus determined in accordance with accounting practices prescribed by the New York State Insurance Department with consolidated equity determined on a GAAP basis (in millions):

	Years ended December 31,	
	2008	**2007**
Statutory surplus	$ 11,793	$ 11,959
AVR	649	2,257
Statutory surplus and AVR	12,442	14,216
Adjustments to STAT basis for:		
Inclusion of deferred policy acquisition cost asset ("DAC")	10,132	6,616
Removal of interest maintenance reserve ("IMR")	106	295
Policyholder dividends	91	246
Mark-to-market on investments	(8,502)	1,524
Inclusion of certain assets that are nonadmitted for statutory accounting	1,317	1,489
Deferred tax asset	2,571	(450)
Inclusion of goodwill in excess of statutory limitations	371	554
Re-estimation of future policy benefits and policyholder account balances	(2,147)	(2,717)
Removal of surplus notes, net of indemnification reserve	(924)	(913)
Liability for pension and postretirement benefits	(1,923)	(1,220)
Inclusion of AVR of domestic insurance companies	384	464
Other	(239)	95
Total adjustments	1,237	5,983
Total consolidated GAAP equity	$ 13,679	$ 20,199

The following table reconciles the Company's statutory net income determined in accordance with accounting practices prescribed by the New York State Insurance Department with net income determined on a GAAP basis (in millions):

	Years ended December 31, 2008	2007
Statutory net gain from operations	$ 433	$ 577
Net realized capital (losses) gains	(997)	279
Statutory net (loss) income	(564)	856
Adjustments to NYL parent company STAT basis for:		
Inclusion of DAC	792	41
Re-estimation of future policy benefits and policyholder account balances	240	142
Inclusion of unrealized limited partnership (losses) gains	(995)	106
Inclusion of deferred income taxes	174	(106)
Policyholder dividends	(148)	17
Removal of IMR capitalizations, net of amortization	(171)	(45)
Fair value adjustment of certain liabilities	345	46
Inclusion of GAAP net investment losses	(493)	(158)
Removal of dividend income from subsidiaries	-	(11)
Inclusion of net (loss) income from subsidiaries	(222)	563
Other	26	46
Total adjustments	(452)	641
Total consolidated GAAP net income	$ (1,016)	$ 1,497

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements. Management is also required to disclose contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expense during the period. Actual results may differ from those estimates.

Investments

Investments are valued in accordance with methods and values prescribed by the New York State Insurance Department.

Bonds not backed by loans are stated at amortized cost using the interest method. Bonds in default are stated at the lower of amortized cost or fair value. Loan-backed bonds and structured securities are valued at amortized cost using the interest method including anticipated prepayments at the date of purchase; changes in prepayment speeds and estimated cash flows from the original purchase assumptions are evaluated quarterly and are generally accounted for on a retrospective yield adjustment method. The prospective yield adjustment method is used for certain securities with floating rates as well as securities that have the potential for a loss of a portion of the original investment (e.g. interest only securities). The Company has elected to use the book value as of January 1, 1994 as the cost for applying the retrospective method to securities purchased prior to January 1, 1994 where historical cash flows are not readily available. Prepayment assumptions for single class and multi-class mortgage-backed/asset-backed

securities were obtained from internal estimates and Citigroup. There was no change in methodology due to negative yield on specific securities. See Note 17 - Fair Value of Financial Instruments, for discussion of valuation methods for bonds.

Preferred stocks in "good standing" (NAIC designation of 1 to 3) are valued at amortized cost. Preferred stocks "not in good standing" (NAIC designation of 4 to 6) are valued at the lower of amortized cost or fair value. See Note 17 - Fair Value of Financial Instruments, for discussion of valuation methods for preferred stocks.

Common stocks include the Company's investments in unaffiliated stocks, mutual funds and the following direct, wholly owned subsidiaries and membership interests: NYLIAC, NYLAZ, NYLI, NYLIFE LLC, and New York Life Investments.

Unaffiliated common stocks are carried at fair value. See Note 17 - Fair Value of Financial Instruments, for discussion of valuation methods of unaffiliated common stocks.

Investments in stocks and membership interests of subsidiaries are carried as an asset, provided the entity's U.S. GAAP equity is audited; otherwise the entire investment is nonadmitted. Each of the Company's subsidiaries has a GAAP audit with the exception of New York Life Haier, J.V. ("HAIER"), which is nonadmitted. The remaining subsidiaries are stated as follows: (1) domestic insurance subsidiaries are stated at the value of their underlying statutory net assets; (2) foreign insurance operations that have GAAP audits are stated at GAAP equity adjusted for certain assets that are disallowed under the statutory basis of accounting otherwise the investment is nonadmitted; (3) non-insurance subsidiaries are carried at GAAP equity unless they are engaged in certain transactions that are for the benefit of the Company or its affiliates and receive 20% or more of their revenue from the Company or its affiliates; in this case, non-insurance subsidiaries are carried at GAAP equity adjusted for the same items as foreign insurance subsidiaries; (4) all other assets and liabilities in a downstream holding company are accounted for in accordance with the appropriate US statutory guidance. Dividends and distributions from subsidiaries are recorded in investment income when declared and changes in the equity of subsidiaries are recorded as unrealized gains or losses.

Mortgage loans on real estate 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 its estimated fair value, 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. Specific valuation allowances on individual mortgage loans are based on the fair value of the collateral. If impairment is other than temporary, a direct write-down is recognized as a realized loss and a new cost basis, which is equal to the fair value of the collateral for the individual mortgage loan, is established. See Note 17 - Fair Value of Financial Instruments, for discussion of valuation methods for mortgage loans.

Real estate held for the production of income and home office properties are stated at cost less accumulated depreciation and encumbrances. Real estate held for sale is stated at the lower of cost less accumulated depreciation or fair value less encumbrances and estimated cost to sell, which may result in an other than temporary impairment. Real estate joint ventures are recorded based on their underlying GAAP equity. Depreciation of real estate is calculated using the straight-line method over the estimated lives of the assets, generally 40 years. Costs of permanent improvements are depreciated over their estimated useful life.

Policy loans are stated at the aggregate balance due. The excess of the unpaid balance of the policy loan that exceeds the cash surrender value is nonadmitted.

Limited partnerships and limited liability companies, which have admissible audits, as set forth in SSAP No. 97, are carried at the underlying audited equity of the investee. The Company nonadmits the entire investment, where an admissible audit is not performed. Dividends and distributions from limited partnerships and limited liability companies are recorded in investment income. Undistributed earnings are included in unrealized gains and losses and are reflected in surplus, net of deferred taxes.

The cost basis of bonds, equity securities, limited partnerships and limited liability companies are adjusted for impairments in value deemed to be other than temporary, with the associated realized loss reported in net income. Factors considered in evaluating whether a decline in value is other than temporary include: 1) whether the decline is substantial; 2) the financial condition and near-term prospects of the issuer; 3) the amount of time that the fair value has been less than cost; and 4) the Company's ability and intent to retain the investment for the period of time sufficient to allow for an anticipated recovery in value.

Derivative instruments that are effective hedges are valued consistent with the items being hedged. Investment income or expense is recorded on an accrual basis. Gains and losses related to contracts that are effective hedges on specific assets and liabilities are recognized in income in the same period as a gain or loss on the hedged assets or liabilities. Realized gains and losses that are recognized upon termination or maturity that are interest related are transferred, net of taxes, to the IMR. All other realized gains and losses are recognized in net income, net of taxes, upon termination or maturity of derivative contracts.

Written equity covered call options that are entered into as income generation transactions are carried at fair value, with changes in fair value reported as unrealized gains and losses in surplus. Realized gains and losses are recognized, net of taxes, in net income upon expiration or termination.

Derivative instruments that do not qualify as effective hedges are carried at fair value with unrealized gains and losses reported in surplus, net of deferred taxes. Periodic payments received during the term of the derivatives are reported in realized gains or losses for hedges that are not highly effective. Realized gains and losses upon termination, maturity or expiration are reported in net income, net of taxes.

Short-term investments consist of securities that have original maturities of greater than three months and less than twelve months at date of purchase and are stated at amortized cost. Cash and cash equivalents include cash on hand, amounts due from banks and highly liquid debt instruments that have original maturities of three months or less at date of purchase and are carried at amortized cost.

All securities are recorded in the financial statements on a trade date basis except for the acquisition of private placement bonds, which are recorded on the funding date.

The AVR is used to stabilize surplus from fluctuations in the market value of bonds, stocks, mortgage loans, real estate, limited partnerships and other investments. Changes in the AVR are accounted for as direct increases or decreases in surplus. The IMR captures interest related realized gains and losses on sales (net of taxes) and interest related other-than-temporary-impairments (net of taxes) of bonds, preferred stocks, mortgage loans and derivative instruments which are amortized into net income over the expected years to maturity of the investments sold or the item being hedged by the derivative for those derivatives that qualify for hedge accounting using the grouped method. An interest related other-than-temporary-impairment occurs when the Company has the intent to sell an investment, at the balance sheet date, before recovery of the cost of the investment.

Loaned Securities and Repurchase Agreements

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 obtains collateral in an amount equal to 102% and 105% of the fair value of the domestic and foreign securities, respectively. 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. It is the Company's policy to generally take possession or control of the securities purchased under these agreements to resell. However, for triparty repurchase agreements, the Company's designated custodian takes possession of the underlying collateral securities. Securities purchased under agreement to resell are reflected in short-term investments on the accompanying Statutory Statements of Financial Position. 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 borrowed money in the accompanying Statutory Statements of Financial Position.

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.

Premiums and Related Expenses

Life premiums are taken into income over the premium-paying period of the policies. Annuity considerations are recognized as revenue when received. Commissions and other costs associated with acquiring new business are charged to operations as incurred. Guaranteed investment contracts ("GICs") with purchase rate guarantees, which introduce an element of mortality risk, are recorded as income when received. Maturation of GICs with purchase rate guarantees are reported as payments on matured contracts. Amounts received or paid under contracts without mortality or morbidity risk are recorded directly on the Statutory Statements of Financial Position as an adjustment to deposit funds and not reflected in the Statutory Statements of Operations.

Dividends to Policyholders

The liability for dividends to policyholders consists principally of dividends expected to be paid during the subsequent year. The allocation of dividends is approved annually by the Board of Directors and is determined by means of formulas, which reflect the relative contribution of each group of policies to divisible surplus.

Policy Reserves

Policy reserves are based on mortality tables and valuation interest rates, which are consistent with statutory requirements and are designed to be sufficient to provide for contractual benefits. The Company holds reserves greater than those developed under the minimum statutory reserving rules when the Valuation Actuary determines that the minimum statutory reserves are inadequate. See Note 8 - Insurance Liabilities, for discussion of reserves in excess of minimum NAIC requirements.

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 ("DTAs") and liabilities ("DTLs") are recognized for expected future tax consequences of temporary differences between statutory and taxable income. Temporary differences are identified and measured using a balance sheet approach whereby statutory and tax balance sheets are compared. Net deferred tax assets are admitted to the extent permissible under NAIC SAP. Changes in DTAs and DTLs are recognized as a separate component of surplus.

The Company 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 settled quarterly on an estimated basis with a final settlement within 30 days of the filing of the consolidated return.

Separate Accounts

The Company has established both non-guaranteed and guaranteed separate accounts with varying investment objectives which are segregated from the Company's general account and are maintained for the benefit of separate account contractholders. Separate account assets are primarily invested in bonds and common stocks and are generally stated at market value. The liability for non-guaranteed separate accounts represents contractholders' interests in the separate account assets, including accumulated net investment income and realized and unrealized gains and losses on those assets.

Guaranteed separate accounts maintained on a market value basis provide a guarantee of principal and interest for contracts held to maturity. Guaranteed separate accounts maintained on an amortized cost/book value basis provide a guarantee of principal and interest during active status, and a book value payout with market value adjustment at discontinuance.

Nonadmitted Assets

Under statutory accounting practices, certain assets are designated as "nonadmitted assets" and are not included in the accompanying Statutory Statements of Financial Position since these assets are not permitted by the New York State Insurance Department to be taken into account in determining an insurer's financial condition. Nonadmitted assets often include furniture and equipment, agents' debit balances, deferred tax assets not realizable within 12 months, and receivables over 90 days old. Changes to nonadmitted assets are reported as a direct adjustment to surplus in the Statutory Statements of Changes in Surplus.

Fair Values of Financial Instruments and Insurance Liabilities

Fair values of various assets and liabilities are included throughout the notes to the financial statements. Specifically, fair value disclosure of investments held is reported in Note 3 - Investments. Fair values for derivative financial instruments are included in Note 5 - Derivative Financial Instruments and Risk Management. Fair values for insurance liabilities are reported in Note 8 - Insurance Liabilities. The aggregate fair value of all financial instruments summarized by type, is included in Note 17 – Fair Values of Financial Instruments.

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 such costs in the accrual.

Foreign Currency Translation

The Company's Canadian insurance operations are stated in Canadian dollars, with a single foreign currency adjustment of the net value reflected in unrealized gains and losses as a component of surplus. For all other foreign currency items, income and expenses are translated at the average exchange rate for

the period while balance sheet items are translated using the spot rate in effect at the balance sheet date. In addition, the impact of the cumulative translation adjustment on our foreign insurance subsidiary is included in the investment in subsidiaries with the change reported as an unrealized gain /loss.

Business Risks and Uncertainties

The securities and credit markets have been experiencing extreme volatility and disruption. In some cases, the markets have exerted downward pressure on the availability of liquidity and capital. In the event the Company needs access to additional capital, its ability to obtain such capital may be limited and the cost of any such capital may be higher.

Rating agencies assign the Company financial strength/claims paying ability ratings, based on their evaluations of the Company'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 the Company's markets, ratings are important competitive factors of insurance companies. Rating organizations continue to review the financial performance and condition of insurers, including the Company.

The Risk-Based Capital, or RBC ratio, is the primary measure, which regulators evaluate the capital adequacy of the Company. RBC is determined by statutory rules that consider risks related to the type and quality of invested assets, insurance-related risks associated with the Company's products, interest-rate risk and general business risks. A continuation or worsening of the disruptions in the capital markets could increase equity and credit losses and reduce the Company's statutory surplus and RBC ratio.

The Company's investment portfolio consists principally of fixed income bonds as well as mortgage loans, policy loans, investments in subsidiaries, 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. For example, if interest rates rise, the securities in the Company's fixed-income portfolio will decrease in value. If interest rates decline, the securities in the fixed-income portfolio will increase in value. For various reasons, the Company may, from time to time, be required to sell certain investments at a price and a time when their fair value is less than their book value.

Mortgage loans, many of which have balloon payment maturities, and equity real estate, are generally less liquid and carry a greater risk of investment losses than investment grade bonds.

Changes in interest rates can have significant effects on the Company's profitability. Under certain interest rate scenarios, the Company could be subject to disintermediation risk and reduction in net interest spread or profit margins. The fair value of the Company's invested assets fluctuates depending on market and other general economic conditions and the interest rate environment In addition, mortgage prepayments, life insurance and annuity surrenders and bond calls are affected by interest rate fluctuations. 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. The future path of interest rates is uncertain. Large shocks to the level of interest rates or the shape of the yield curve may have an adverse financial impact to the Company as a result of the potential changes in policyholder behavior, spreads between our portfolio yields and crediting rates, or investment gains (losses).

Credit defaults and impairments may result in write-downs in the value of fixed income and equity securities held by the Company. Additionally, credit rating agencies may in the future downgrade certain issuers or guarantors of fixed maturity securities held by the Company due to changing assessments of the credit quality of the issuers or guarantors.

The Company regularly invests in mortgage loans, mortgage-backed bonds and other bonds 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 bonds 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.

The Company has exposure to subprime and midprime (primarily Alt-A) residential mortgage lending through its fixed maturity investments that are collateralized by mortgages that include subprime or midprime lending. Subprime residential mortgage lending is the origination of residential mortgage loans to customers with weak credit profiles, including using relaxed mortgage-underwriting standards that provide for affordable mortgage products. These investments are primarily in the form of asset-backed securities (ABS) supported by subprime or midprime mortgage loans or collateralized debt securities (CDO) that contain a subprime or midprime loan component. At December 31, 2008, the collective carrying value of the subprime investments is $187 million representing 0.3% of total fixed maturity investments. Of this amount, 93.0% had "AAA" or "AA" credit quality ratings. At December 31, 2008, the collective carrying value of the midprime investments is $784 million representing 1.2% of total fixed maturity investments. Of this amount, 72.7% had "AAA" or "AA" credit quality ratings. The Company manages its subprime and midprime risk exposure by limiting the Company's holdings in these types of instruments, maintaining high credit quality investments, and performing ongoing analysis of cash flows, prepayment speeds, default rates and other stress variables.

Weak equity market performance may adversely affect sales for its domestic subsidiaries for variable products, mutual funds or investment management products, cause potential purchasers of the Company's or its subsidiaries products to refrain from new or additional investments, and may cause current customers to surrender or redeem their current products and investments. A prolonged decline in the equity markets or a drop in fixed income rates could also cause the Company's surplus to be reduced by higher pension costs and can create funding shortfalls in pension assets relative to the projected pension obligation, that the Company could be required to fund.

The development of policy reserves for the Company's products requires management to make estimates and assumptions regarding mortality, morbidity, lapse, expense and investment experience. Such estimates are primarily based on historical experience and, in many cases, state insurance laws require specific mortality, morbidity and investment assumptions to be used by the Company. Actual results could differ materially from those estimates. Management monitors actual experience, and where circumstances warrant, revises its assumptions and the related reserve estimates. However, these revisions do not result in reserves that are lower than the reserves that would be determined using the specific mortality, morbidity and investment assumptions required by state insurance laws.

The Company faces strong competition in its 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.

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.

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 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 of these changes will be made, whether any such

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. These tax laws have been put in place to serve the social purpose of encouraging the purchase of life insurance for the protection of families and businesses. 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 NYLI 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 – INVESTMENTS

Bonds

The amortized cost and estimated fair value of bonds as of December 31, 2008 and 2007, by contractual maturity are presented below (in millions). See Note 17 - Fair Value of Financial Instruments, for discussion of valuation methods for bonds. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	2008		2007	
	Amortized Cost	**Estimated Fair Value**	**Amortized Cost**	**Estimated Fair Value**
Due in one year or less	$ 1,392	$ 1,376	$ 1,477	$ 1,483
Due after one year through five years	11,616	10,923	10,247	10,483
Due after five years through ten years	13,876	12,757	14,962	14,955
Due after ten years	18,846	19,707	20,866	22,333
Mortgage and asset backed securities:				
U.S. government or U.S. government agency	213	219	1,053	1,055
Other mortgage backed securities	13,495	11,304	11,118	11,118
Other asset backed securities	5,953	4,767	6,945	6,748
Total	$ 65,391	$ 61,053	$ 66,668	$ 68,175

At December 31, 2008 and 2007, the distribution of gross unrealized gains and losses on bonds was as follows (in millions):

	2008			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
U.S. Treasury and U.S. Government Corporations	$ 7,151	$ 2,022	$ 4	$ 9,169
U.S. agencies, state and municipal	278	2	48	232
Foreign governments	1,387	300	16	1,671
Corporate	37,127	804	4,021	33,910
Other mortgage backed securities	13,495	236	2,427	11,304
Other asset backed securities	5,953	11	1,197	4,767
Total	$ 65,391	$ 3,375	$ 7,713	$ 61,053

	2007			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
U.S. Treasury and U.S. Government Corporations	$ 6,214	$ 598	$ 14	$ 6,798
U.S. agencies, state and municipal	1,474	292	-	1,766
Foreign governments	1,446	160	1	1,605
Corporate	39,471	1,465	796	40,140
Other mortgage backed securities	11,118	176	176	11,118
Other asset backed securities	6,945	19	216	6,748
Total	$ 66,668	$ 2,710	$ 1,203	$ 68,175

Common and Preferred Stocks

Investments in subsidiaries and affiliates, including membership interests, totaled $5,232 million and $5,724 million at December 31, 2008 and 2007, respectively. The Company records its share of gains or losses from subsidiaries as unrealized gains or losses. In 2008 and 2007, the Company recorded net unrealized (losses) gains of $(1,937) million and $1,092 million, respectively, which included net unrealized (losses) gains attributable to ESI, from both direct and indirect holdings, of $(1,238) million and $868 million in 2008 and 2007, respectively. Included in the net unrealized losses attributable to ESI in 2008 was the reversal of cumulative unrealized gains of $1,254 million from the Shared Appreciation Income Linked Securities II ("SAILS II") settlement, whereby the Company delivered approximately 21 million ESI shares to Credit Suisse on the settlement date. This was partially offset by the reversal of cumulative unrealized losses of $1,240 million in 2008 related to the contingent liability due to Credit Suisse under the SAILS II forward contract agreement (see Note 14 - Commitments and Contingencies - Borrowed Money). In 2007, the Company recorded unrealized losses of $818 million related to the contingent liability due to Credit Suisse under the same agreement, reflecting a reduction to the unrealized capital gains mentioned above.

Investments in unaffiliated common stocks totaled $1,127 million and $2,891 million at December 31, 2008 and 2007, respectively. In 2008 and 2007, the Company recorded net unrealized gains (losses) of $449 million and $(415) million, respectively.

The carrying amount and fair value of preferred stocks at December 31, 2008 was $160 million and $128 million, respectively. The carrying amount and fair value of preferred stock at December 31, 2007 was $196 million and $202 million, respectively.

Mortgage Loans

The Company's mortgage loans are diversified by property type, location and borrower, and are collateralized. The maximum and minimum lending rates for commercial mortgage loans funded during 2008 were 8.82% and 3.36% (7.85% and 5.37% for 2007). There were no residential mortgage loans funded in 2008 or 2007. The maximum percentage of any one commercial loan to the value of the security, exclusive of insured or guaranteed or purchase money mortgages was 75.0% for loans funded in 2008 (95.2 % in 2007). The maximum percentage of any residential loan to the value of the security was 80.0% for 2008 and 2007. The Company has no significant credit risk exposure to any one individual borrower.

At December 31, 2008 and 2007, the distribution of the mortgage loan portfolio by property type and geographic location was as follows (in millions):

	2008		2007	
	Carrying Amount	% of Total	Carrying Value	% of Total
Property Type:				
Office Buildings	$ 3,308	33.90%	$ 2,693	29.66%
Retail Facilities	2,168	22.22%	2,341	25.78%
Industrial	2,068	21.19%	1,958	21.56%
Apartment Buildings	1,911	19.58%	1,834	20.20%
Residential	137	1.40%	174	1.92%
Other	166	1.70%	81	0.89%
Total	$ 9,758	100.00%	$ 9,081	100.00%

	2008		2007	
	Carrying Amount	% of Total	Carrying Value	% of Total
Geographic Location:				
Central	$ 2,797	28.66%	$ 2,472	27.22%
South Atlantic	2,317	23.74%	2,256	24.84%
Pacific	2,095	21.47%	1,953	21.51%
Middle Atlantic	2,107	21.59%	1,893	20.85%
New England	439	4.50%	503	5.54%
Other	3	0.03%	4	0.04%
Total	$ 9,758	100.00%	$ 9,081	100.00%

When a loan is determined to be in default (per the contractual terms of the loan), the accrued interest on the loan is recorded as investment income due and accrued if deemed collectible. If a loan in default has any investment income due and accrued that is 90 days past due and collectible, the investment income shall continue to accrue, but all interest related to the loan is reported as a nonadmitted asset. If accrued interest on a mortgage loan in default is not collectible, the accrued interest is written off immediately and no further interest is accrued. Interest income on non-performing loans is generally recognized on a cash basis. At December 31, 2008 and 2007 the Company did not have any investments in mortgage loans with interest reductions, investments in mortgage loans excluding accrued interest or investments in mortgage loans excluding advances of taxes, assessments or other advances.

At December 31, 2008 and 2007, the Company had no interest on mortgages that was more than 180 days past due.

Impaired mortgage loans at December 31, 2008 and 2007 were as follows (in thousands):

	2008	2007
Impaired loans with related allowance for credit losses	$ 930	$ -
Related allowance for credit losses	$ 67	$ -
Impaired loans without an allowance for credit losses	$ -	$ 2,000
Average recorded investment in impaired loans	$ (383)	$ 1,000
Interest income recognized during the period	$ 7	$ -
Interest income recognized on a cash basis during the period	$ -	$ -

The related allowance for credit losses for the years ended December 31, 2008 and 2007 are summarized below (in thousands).

	2008	2007
Beginning balance	$ -	$ -
Additions charged to operations	67	-
Direct write-downs charged against the allowance	-	-
Recoveries of amounts previously charged off	-	-
Reduction due to sale	-	-
Ending Balance	$ 67	$ -

Changes in the valuation allowance for mortgage loans are recorded as unrealized gains and losses. If the loan is determined to be other than temporarily impaired, a realized loss is recorded.

At December 31, 2008 and 2007, the Company did not have any investments in restructured mortgage loans and no allowance for credit losses for restructured mortgage loans. During the year ended December 31, 2008 and 2007, no investments in restructured mortgage loans were foreclosed. No additional funds were committed to debtors whose terms have been modified in the years ended December 31, 2008 and 2007.

Real Estate

At December 31, 2008 and 2007, the Company's real estate portfolio, at carrying amount, consisted of the following (in millions):

	2008	2007
Commercial:		
Investment	$ 99	$ 101
Acquired through foreclosure	37	38
Properties for Company use	304	314
Total real estate	$ 440	$ 453

Accumulated depreciation on real estate at December 31, 2008 and 2007 was $273 million and $254 million, respectively. Depreciation expense for 2008 and 2007 totaled $18 million and $19 million, respectively, and was recorded as an investment expense, a component of net investment income in the accompanying Statutory Statements of Operations.

At December 31, 2008, the Company reported $0.5 million of real estate as held for sale, which consisted of 1 residential property, acquired through foreclosure. The Company had $0.8 million and $0.4 million of impairments on real estate held for sale during 2008 and 2007, respectively, which are reflected in realized losses in the accompanying Statutory Statements of Operations. The Company actively markets its properties held for sale.

During 2008 and 2007, the Company recognized $0.3 million and $51 million of realized gains on the sale of properties held for sale.

Limited Partnerships and Other Investments

Limited partnerships and other investments primarily consist of limited partnership interests in venture capital, leveraged buy-out funds, limited liability companies, real estate and other equity investments. The underlying net equity of these investments amounted to $6,917 million and $7,700 million at December 31, 2008 and 2007, respectively. Net unrealized losses of $955 million and net unrealized gains of $95 million were recorded on these investments for the years ended December 31, 2008 and 2007, respectively. The Company recognized $125 million and $43 million in impairment write-downs on its investment in partnerships and limited liability companies during the years ended December 31, 2008 and 2007, respectively.

At December 31, 2008 and 2007, the Company had $135 million and $265 million, respectively, of investments in limited partnerships and limited liability companies that were nonadmitted. During the years ended December 31, 2008 and 2007, the change in nonadmitted assets resulted in a $130 million increase to surplus and a $79 million charge to surplus, respectively.

The Company had $231 million and $179 million of investments in low income housing tax credit ("LIHTC") properties at December 31, 2008 and 2007, respectively. The Company's unexpired tax credits on its investments in LIHTC expire within a range of less than 1 year to 12 years. The minimum holding period required for the Company's LIHTC investments extends from less than 1 year to 12 years. The LIHTC investments are periodically subject to regulatory reviews by housing authorities where the properties are located. The Company is not aware of any adverse issues related to such regulatory reviews. During 2008, there were no write-downs due to the forfeiture or ineligibility of tax credits.

During 2000, the Company and its affiliates formed the New York Life Short Term Fund ("NYL STIF") to improve short-term returns through greater flexibility to choose attractive maturities and enhanced portfolio diversification. The Company's share of investments in the NYL STIF totaled $852 million and $2,060 million at December 31, 2008 and 2007, respectively. The NYL STIF is primarily invested in short-term U.S. government and agency securities, CDs, bankers' acceptance notes and medium term floating rate notes, which maintained a weighted average maturity of fifty-four days.

Included in Other Investments is a loan agreement the Company has with Madison Capital Funding LLC ("MCF"), an indirect wholly owned subsidiary of the Company. Under the agreement, the Company provides funding to MCF that is used to acquire third party loans and equity investments. MCF loans were $2,199 million and $1,706 million at December 31, 2008 and 2007, respectively. See Note 6 - Related Party Transactions, for a more detailed discussion.

Assets on Deposit or Pledged as Collateral

Assets with a carrying value of $295 million and $284 million at December 31, 2008 and 2007, respectively, were on deposit with government authorities or trustees as required by certain state insurance laws and are included within related invested assets in the accompanying Statutory Statements of Financial Position. ESI common stock valued at $1,558 million at December 31, 2007, was pledged as collateral in connection with forward contracts entered into by the Company. The Company delivered 21

million shares of ESI common stock to Credit Suisse on April 28, 2008 in fulfillment of the forward contract (see Note 14 – Commitments and Contingencies - Borrowed Money).

NOTE 4 - INVESTMENT INCOME AND CAPITAL GAINS AND LOSSES

The components of net investment income for the years ended December 31, 2008 and 2007 were as follows (in millions):

	2008	2007
Bonds	$ 3,882	$ 3,955
Mortgage loans	594	554
Affiliated common stocks	-	11
Unaffiliated common and preferred stocks	93	106
Real estate	84	90
Limited partnerships	185	553
Policy loans	422	382
Other investments	154	202
Short-term investments	112	187
Derivatives	9	20
Other	15	31
Gross investment income	5,550	6,091
Investment expenses	(401)	(496)
Net investment income	5,149	5,595
Amortization of IMR	24	58
Net investment income, including IMR	$ 5,173	$ 5,653

Due and accrued investment income is excluded from surplus when amounts are over 90 days past due or collection is uncertain. $161 thousand and $762 thousand of due and accrued investment income was excluded from net investment income in 2008 and 2007, respectively.

For the years ended December 31, 2008 and 2007, realized capital gains and losses on sales computed under the specific identification method were as follows (in millions):

	2008		2007	
	Gains	Losses	Gains	Losses
Bonds	$ 344	$ 982	$ 264	$ 290
Mortgage loans	2	-	1	1
Affiliated common stock	66	-	-	-
Unaffiliated common and preferred stock	267	857	586	180
Real estate	-	1	51	-
Other investments	3	125	47	44
Derivatives	127	308	161	131
Other	2	-	1	20
	$ 811	$ 2,273	$ 1,111	$ 666
Net realized capital gains before tax and transfers to the IMR	$ (1,462)		$ 445	
Less:				
Capital gains tax	319		(153)	
Net realized capital (gains) losses after tax transferred to the IMR	146		(13)	
Net realized capital gains after tax and transfers to the IMR	$ (997)		$ 279	

The following table provides a summary of other than temporary impairment losses included as realized capital losses (in millions):

	2008	2007
Bonds	$ (394)	$ (71)
Unaffiliated common and preferred stocks	(180)	(40)
Other long-term investments	(127)	(43)
Total	$ (701)	$ (154)

Proceeds from investments in bonds sold were $15,314 million and $12,842 million for the years ended December 31, 2008 and 2007, respectively.

The following table presents the Company's gross unrealized losses and fair values for bonds and equities with unrealized losses that are not deemed to be other-than-temporarily impaired, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at December 31, 2008 and 2007 (in millions):

	2008					
	Less than 12 months		Greater than 12 months		Total	
	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses
Bonds						
U.S. Treasury and U.S. Government corporations and agencies	$ 13	$ 1	$ 24	$ 4	$ 37	$ 5
U.S. agencies, state and municipal	167	45	15	3	182	48
Foreign governments	97	14	1	-	98	14
Corporate	13,946	1,641	8,114	2,380	22,060	4,021
Other mortgage-backed bonds	3,835	1,051	2,095	1,376	5,930	2,427
Other asset-backed bonds	1,775	251	2,749	947	4,524	1,198
Total Bonds	19,833	3,003	12,998	4,710	32,831	7,713
Equity Securities (Unaffiliated)						
Common Stock	248	43	9	1	257	44
Preferred Stock	34	26	18	9	52	35
Total Equity Securities	282	69	27	10	309	79
Total temporarily impaired securities	$ 20,115	$ 3,072	$ 13,025	$ 4,720	$ 33,140	$ 7,792

	2007					
	Less than 12 months		Greater than 12 months		Total	
	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses
Bonds						
U.S. Treasury and U.S. Government corporations and agencies	$ 53	$ 1	$ 651	$ 13	$ 704	$ 14
U.S. agencies, state, and municipal	-	-	13	-	13	-
Foreign governments	29	-	44	1	73	1
Corporate	6,939	279	10,188	517	17,127	796
Other mortgage-backed bonds	2,377	87	2,385	89	4,762	176
Other asset-backed bonds	4,342	164	1,230	52	5,572	216
Total Bonds	13,740	531	14,511	672	28,251	1,203
Equity Securities (Unaffiliated)						
Common Stock	633	86	23	9	656	95
Preferred Stock	68	4	19	1	87	5
Total Equity Securities	701	90	42	10	743	100
Total temporarily impaired securities	$ 14,441	$ 621	$ 14,553	$ 682	$ 28,994	$ 1,303

At December 31, 2008, bonds represented approximately 99% of the Company’s total unrealized loss amount, which was comprised of approximately 4,935 different securities. Equity securities comprised the remaining 1%, consisting of 682 securities. Bonds that were in a continuous unrealized loss position less than twelve months at December 31, 2008, represent $3,003 million or 39% of the Company’s total unrealized loss, and bonds in a continuous unrealized loss position greater than twelve months represent $4,710 million or 60% of the Company’s total unrealized loss. Of the total amount of bond unrealized losses, $6,435 million or 83% is related to unrealized losses on investment grade securities. Investment grade is defined as a security having a credit rating from the 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 bonds with a rating below investment grade represent $1,277 million or 17% of the total amount of bond unrealized losses.

The amount of gross unrealized losses for bonds where fair value had declined by 20% or more of the amortized cost totaled $5,659 million. The amount of time that each of these securities has continuously been below amortized cost by 20% or more consists of $4,966 million for 6 months or less, $617 million for greater than 6 months through 12 months, and $76 million for greater than 12 months. In accordance with the Company's impairment policy, the Company performed quantitative and qualitative "money-good" 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 had the ability and intent to hold until recovery.

Despite a decline in interest rates during the latter half of 2008, credit spreads widened significantly during the same period as the market experienced a flight to quality securities. The declining U.S. housing market, global credit crisis, U.S. recession and declining global economy all contributed to the decline in value of our fixed maturity investments as follows:

Corporate Bonds. Unrealized losses on corporate bonds were $4,021 million or 52% of the total bond unrealized losses. The amount of unrealized losses on the Company’s investment in corporate bonds is spread over 3,045 individual securities with varying interest rates and maturities. Corporate securities that were priced below 80% of the security’s amortized cost represented $2,504 million or 32% of the total bond unrealized losses. General market volatility, liquidity concerns, a slowing economy and credit deterioration in certain sectors caused significant credit spread widening and contributed to unrealized losses. While the losses were spread across all industry sectors, the largest unrealized losses on securities that were priced below 80% of the security’s amortized cost were Real Estate Investment Trust (“REITs”) ($532 million), Utilities ($254 million), Finance ($213 million), Building Products ($173 million) and Gaming and Leisure ($121 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 has the ability and intent to retain the investment for the period of time sufficient to allow for an anticipated recovery in value, the Company did not consider these investments to be other than temporarily impaired at December 31, 2008.

Mortgage-Backed Securities. Unrealized losses on mortgage-backed securities were $2,427 million or 31% of the total bond unrealized losses. These losses are spread across approximately 990 fixed and variable rate investment grade securities. The majority of our holdings (over 98%) are investment grade and management believes all deals remain well collateralized. Mortgage-backed securities that were priced below 80% of the security’s amortized cost represented $2,121 million or 87% of the total unrealized losses for mortgage-backed securities. The Company evaluates these securities for other than temporary impairments in accordance with our impairment policy using cash flow modeling techniques coupled with an evaluation of facts and circumstances. The Company has the ability and intent to retain the investment for the period of time sufficient to allow for an anticipated recovery in value and therefore, the Company did not consider these investments to be other than temporarily impaired at December 31, 2008.

Asset-Backed Securities. Unrealized losses on asset-backed securities were $1,198 million or 16% of the total bond unrealized losses. These losses are spread across 839 securities. Asset-backed securities that were priced below 80% of the security's amortized cost represented $922 million or 77% of the total unrealized losses for asset-backed securities. The Company evaluates these securities for impairments based on facts and circumstances. The Company did not consider these investments to be other than temporarily impaired at December 31, 2008 because the Company has the ability and intent to retain the investment for the period of time sufficient to allow for an anticipated recovery in value.

NOTE 5 - DERIVATIVE FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Company uses derivative financial instruments to manage interest rate, currency, credit, and market risk. These derivative financial instruments include foreign exchange forward contracts, commodity, interest rate and equity options, interest rate swaps, credit default swaps and currency swaps. The Company does not engage in derivative financial instrument transactions for speculative purposes.

The Company deals with highly rated counterparties and does not expect the counterparties to fail to meet their obligations. 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 adjusts transaction levels, when appropriate, to minimize risk.

To further minimize risk, credit support annexes are negotiated as part of swap documentation entered into by the Company with counterparties. The credit support annex requires that a swap counterparty post collateral to secure that portion of its anticipated swap obligation in excess of a specified threshold. The threshold declines with a decline in the counterparties' rating. Collateral received is invested in short-term investments.

In September 2008 one of our derivative counterparties, Lehman Brothers, filed for Chapter 11 bankruptcy. As a result, the Company terminated all derivative contracts with Lehman Brothers prior to their scheduled maturity dates. A gain of $109 million was recorded for derivatives that were classified as qualified hedge transactions. The realized gain represents the effective portion of these contracts at the date they were dedesignated of which $15 million became subject to the IMR. The remaining $94 million represents the change in the spot rate for the effective portion of our currency swap positions, which will remain in surplus and impact realized gains and losses when the hedged item occurs. The ineffective portion of the hedge transactions, along with the gain or loss on contracts that did not qualify for hedge accounting resulted in an additional $136 million realized loss.

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 Company is exposed to credit-related losses in the event that a counterparty fails to perform its obligations under 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. 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. As of December 31, 2008 and 2007, the Company held collateral for derivatives of $57 million and $619 million, respectively. Credit risk exposure in a net gain position, net of offsets and collateral, was $41 million and $185 million at December 31, 2008 and 2007, respectively.

All derivatives that qualify for hedge accounting are reported in a manner similar to the item being hedged.

Derivative instruments that do not meet the criteria of an effective hedge are accounted for at fair value and the changes in the fair value are recorded in surplus as unrealized gains or losses, net of deferred tax.

Hedge Effectiveness

To qualify as a hedge, the hedge relationship is designated and formally documented at inception detailing the particular risk management objective and strategy for the hedge which includes the item and risk that is being hedged, the derivative that is being used, as well as how effectiveness is being assessed. 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 Company formally measures effectiveness of its hedging relationships both at the hedge inception and on an ongoing basis in accordance with its risk management policy. The hedging relationship is considered highly effective if the changes in fair value or discounted cash flows of the hedging instrument is within 80-125% of the inverse changes in the fair value of or discounted cash flows of the hedged item. 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 expires or is sold, terminated, or exercised, (iii) it is probable that the forecasted transaction will not occur, or (iv) management determines that designation of the derivative as a hedge instrument is no longer appropriate.

The Company's cash flow hedges primarily include hedges of floating rate securities and foreign currency denominated assets and liabilities. 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. Derivative instruments used in cash flow hedges that meet the criteria of a highly effective hedge are valued and reported in a manner that is consistent with the hedged asset or liability.

The Company hedges the forecasted purchases of fixed rate securities. For 2008 and 2007, there were no gains and losses related to cash flow hedges of forecasted transactions that have been discontinued because it was no longer probable that the original forecasted transactions would occur by the end of the originally specified time period.

For fair value hedges, in which derivatives hedge the fair value of assets and liabilities, changes in the fair value of derivatives are reported based on how the change in the fair value of the underlying asset or liability being hedged is reported.

For derivative instruments which hedge the foreign currency exposure of a net investment in a foreign operation that meet the criteria of an effective hedge, the change in the fair value is reflected in unrealized gains and losses as part of the foreign currency translation adjustment. Derivatives that do not meet the criteria of an effective hedge that are hedging the net investment of a foreign operation are carried at fair value with changes in fair value recorded in surplus as unrealized gains and losses, net of deferred tax. Unrealized losses for derivatives that meet the criteria for an effective hedge were $139 million and $52 million for the years ended December 31, 2008 and 2007, respectively.

Interest Rate Risk Management

The Company enters into various types of interest rate contracts primarily to minimize exposure of specific assets and liabilities held by the Company to fluctuations in interest rates.

Interest rate swaps are agreements with other parties to exchange, at specified intervals, the difference between fixed-rate and floating-rate interest amounts calculated by reference to an agreed notional amount. Generally, no cash is exchanged at the onset of the contract and no principal payments are made

by either party. A single net payment is usually made by one counterparty at each interest due date. Swap contracts outstanding at December 31, 2008 and 2007 are between less than 1 year and 30 years to maturity. The Company does not act as an intermediary or broker in interest rate swaps.

At December 31, 2008, the Company had 370 open contracts for interest rate swaps at a notional amount of $5,275 million. At December 31, 2007, the Company had 356 open contracts for interest rate swaps at a notional amount of $5,086 million. Fair values of interest rate swaps were $77 million and $(23) million at December 31, 2008 and 2007, respectively, based on the net present value of cash flows discounted at current rates. At December 31, 2008 and 2007, the carrying values of interest rate swaps were $(229) million and $(112) million, respectively.

Interest rate cap contracts entered into by the Company hedge the risk of increasing interest rates on policyholder liability obligations. The Company will receive payments from counterparties should interest rates exceed an agreed upon strike price. Changes in the fair value of open contracts are recognized in surplus as unrealized gains or losses, net of deferred taxes. At December 31, 2008, the Company had 1 open contract with a series of strike prices and an accreting notional amount of $876 million ($920 million at maturity) with a fair value and carrying value of $0.1 million. At December 31, 2007, the Company had 1 open contract at a notional amount of $828 million ($920 million at maturity) with a fair value and carrying value of $2 million.

Currency Risk Management

The Company enters into foreign currency swaps and foreign exchange forward contracts primarily as a hedge against foreign currency fluctuations. The primary purpose of the Company's foreign currency hedging activities is to protect it from the risk that the value of foreign currency denominated assets and liabilities and net investments in foreign subsidiaries will be adversely affected by changes in exchange rates. At December 31, 2008 the Company had 78 open contracts for foreign currency swaps in 9 currencies at a notional amount of $8,034 million, with a fair value of $(107) million and a carrying value of $(80) million. At December 31, 2007, the Company had 75 open contracts for foreign currency swaps in 9 currencies at a notional amount of $8,452 million, with a fair value of $704 million and a carrying value of $899 million.

The Company’s foreign exchange forward contracts involve the exchange of 12 currencies at a specified future date and at a specified price. The contracts range in duration from one to fifteen months. No cash is exchanged at the time the agreement is entered into. At December 31, 2008, the Company had 69 open foreign exchange forward contracts at a notional amount of $722 million, with a fair value and carrying value of $6 million, which has been recorded as a liability in the accompanying Statutory Statements of Financial Position. At December 31, 2007, the Company had 27 open foreign exchange forward contracts at a notional amount of $263 million, with a fair value and carrying value of $(15) million.

The Company did not have any outstanding purchased or written foreign currency options as of December 31, 2008 and December 31, 2007.

Market Risk Management

The Company has purchased equity put options to minimize exposure to the market risk associated with underlying equities. There are upfront fees paid or received related to option contracts at the time the agreements are entered into. At December 31, 2008, the Company had 10 equity put option contracts at a notional value of $6 million with a fair value and carrying value of $0.1 million. At December 31, 2007, the Company had 9 equity option contracts at a notional value of $7 million with a fair value and carrying value of $0.2 million.

Credit Risk

The Company enters into credit default swaps to transfer the credit exposure of fixed income products. At December 31, 2008, the Company had 4 open contracts to buy credit protection at a notional amount of $33 million with a fair value and carrying value of $(0.9) million. At December 31, 2007, the Company had 1 open contract to buy credit protection at a notional amount of $15 million with a fair value and carrying value of $0.1 million.

Income Generation

The Company seeks to increase profits and to mitigate losses in underlying equity positions by selling covered call options. At December 31, 2008, the Company had 32 written covered call options with a notional value of $17 million and a fair value and carrying value of $(0.1) million, which generated income of $3 million. At December 31, 2007, the Company had 44 written covered call options with a notional value of $49 million and a fair value and carrying value of $(0.3) million, which generated income of $1 million.

NOTE 6 – RELATED PARTY TRANSACTIONS

For the years ended December 31, 2008 and 2007, the Company made the following capital contributions to its insurance and holding company subsidiaries (in millions):

	2008		2007
NYLIAC	$ 1,218	*	$ -
NYLI	254		237
HAIER	16		11
NYLAZ	-		10
Total	$ 1,488		$ 258

* The capital contribution to NYLIAC was primarily a non-cash transfer.

During 2008, the Company did not receive any return of capital from any of its subsidiaries. During 2007, the Company received $20 million from NYLIFE LLC as return of capital.

During 2008, the Company did not receive a dividend distribution from any of its subsidiaries. During 2007, the Company received a dividend distribution of $11 million from NYLIFE LLC. Dividend distributions are included in net investment income on the Statutory Statements of Operations.

On April 27, 2005, NYLI and the Company entered into an Investment Participation Agreement related to NYLI's direct investment in 95% of the Class C shares of the New York Life International India Fund (Mauritius) LLC. In accordance with the Investment Participation Agreement, the Company advanced $4 million to NYLI towards the partial purchase price of such Class C shares for the right to receive a 52.63% beneficial interest in NYLI's interest in such shares. In addition, the Company agreed to fund expenses attributable to such beneficial interest and also agreed to receive any distribution annually through NYLI and participate in any capital calls relating to the payment of management fees and other fund expenses by funding payment directly to NYLI on a pro-rata annual basis. At December 31, 2008 and 2007, the Company's investment in New York Life International India Fund (Mauritius) LLC was $6 million and $5 million, respectively.

The Company has a loan agreement with NYLI dated April 1, 2006 associated with proceeds deposited with the Company from excess capital in a principal amount of $103 million. NYLI did not have an immediate need for the cash and as a result, loaned the proceeds to the Company to earn a return based on the general account investments. Interest is credited quarterly at an effective annual interest rate of 5.44%

less an investment management fee of 5.5 basis points. The investment income earned on the loan balance is capitalized to the loan. The effective termination date of this arrangement is March 31, 2009, but either party may terminate this arrangement with a minimum three months' notice. In addition during both 2008 and 2007, the Company made coupon payments of $5 million. The outstanding payable to NYLI totaled $47 million and $107 million at December 31, 2008 and 2007, respectively, and includes capitalized accrued interest of $4 million in each year. In addition, the Company paid $60 million in principal on the loan in 2008.

During August 2003, the Company transferred without recourse several private placement debt securities to Madison Capital Funding LLC ("MCF"). MCF is a wholly-owned subsidiary of New York Life Investments Holdings LLC, which is in turn a wholly-owned subsidiary of the Company. MCF paid the purchase price of the securities transferred by delivering to the Company promissory notes with terms identical to the securities transferred. At December 31, 2008 and 2007, the outstanding balance payable to the Company totaled $14 million and $21 million, respectively. During 2008 and 2007, the Company received interest payments from MCF totaling $2 million and $1 million, respectively, which are included in net investment income on the accompanying Statutory Statements of Operations.

The Company has a revolving loan agreement dated April 16, 2001, as amended and restated as of October 1, 2007, to provide funding to MCF in a principal amount not to exceed the lesser of $3,200 million or 3% of the Company's admitted assets as of December 31 of the prior year. Terms of the loan specify that quarterly interest be paid on 85% of the outstanding balance in cash based on the 90 day LIBOR rate plus a spread based on an agreed formula, with interest on the remaining 15% of 16% per annum, compounded quarterly. Effective June 1, 2003, the MCF loan agreement was amended to provide that a portion of the loan used to acquire equity investments would earn interest at 10% per annum, payable quarterly. The principal balance and compounded interest is not due until maturity on October 1, 2012. The Company recorded $124 million and $108 million in interest income for the years ended December 31, 2008 and 2007, respectively. At December 31, 2008 and 2007, the Company had outstanding loans receivable from MCF of $2,185 million and $1,685 million, respectively. These amounts are included with Other Invested Assets on the accompanying Statutory Statements of Financial Position.

The Company executed a promissory note with NYLIFE LLC, dated August 22, 2001, whereby NYLIFE LLC loaned the Company $239 million. The note has a par value of $243 million and an interest rate of 3.3% per annum. Interest on the note is payable quarterly until maturity on August 21, 2011. During 2008 and 2007, the Company made $8 million in coupon interest payments each year. At December 31, 2008 and 2007, the amount due under this note, which is included with Borrowed Money on the accompanying Statutory Statements of Financial Position, totaled $243 million each year and included $1 million of accrued interest for each year.

New York Life Capital Corporation ("NYLCC"), a wholly-owned subsidiary of NYLIFE LLC, has a credit agreement with the Company dated October 1, 1997, as amended on January 1, 2006, whereby NYLCC has agreed to make loans to the Company in an amount up to but, not exceeding $3 billion, from proceeds from the issuance of commercial paper. In connection with borrowings under this agreement during 2008 and 2007, the Company recorded interest expense of $26 million and $25 million, respectively. At December 31, 2008 and 2007, the Company had a loan payable to NYLCC of $463 million and $992 million, respectively, which is included with Borrowed Money on the accompanying Statutory Statements of Financial Position.

Effective July 15, 2008, the Company, NYLI and Max New York Life Insurance Company Limited of India ("Max NYL") entered into a brand licensing and technical services agreement. The Company and NYLI 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 trade marks of the Company in the conduct of Max NYL's operations in India. In consideration for the license and providing various services, Max NYL will pay the Company the sum of $73 million, less any applicable withholding taxes,

over a period of five years. Max NYL's initial payment of $15 million less applicable taxes was paid on the effective date of this agreement. Max NYL paid a quarterly installment of $3 million less applicable taxes on December 18, 2008. The amount of future payments received and income recognized are contingent upon India raising the cap on foreign ownership in the insurance sector from 26% to 49%. The Company recognized $1 million in Other Income in the Statutory Statements of Operations. The remaining amounts received have been deferred and are recorded in Other Liabilities in the Statutory Statements of Financial Position and will be recognized as income when earned.

On April 1, 2000, the Company entered into Investment Advisory and Administrative Services Agreements with New York Life Investment Management LLC to provide investment advisory and administrative services to the Company. At December 31, 2008 and 2007, the total cost to the Company for these services amounted to $115 million and $108 million, respectively. The terms of the settlement require that these amounts be settled in cash within ninety days.

Under various written agreements, the Company has agreed to provide certain of its direct and indirect subsidiaries with certain services and facilities including but not limited to the following: accounting, tax and auditing services, legal services, actuarial services, electronic data processing operations, and communications operations. The Company is reimbursed for the identified costs associated with these services and facilities. Such costs amounting to $829 million and $770 million for the years ended December 31, 2008 and 2007, respectively, were incurred by the Company and billed to its subsidiaries. The terms of the settlement require that these amounts be settled in cash within ninety days.

At December 31, 2008 and 2007, the Company reported a net amount of $282 million and $177 million, respectively, due from subsidiaries and affiliates. The terms of the settlement require that these amounts be settled in cash within ninety days.

As of December 31, 2008, the non-executive (executive in 2007) Chairman of the Board of Directors of the Company was also a director of ESI. ESI is a pharmacy benefit management company that periodically performs services for, or has other transactions with the Company. Such transactions are entered into on terms comparable to those that would be available to unrelated third parties and are not material to the Company's financial condition or results of operations.

The Company has purchased various Corporate Owned Life Insurance policies from NYLIAC for the purpose of informally funding certain benefits for the Company's employees and agents. These policies were issued to the Company on the same basis as policies sold to unrelated customers. For the years ended December 31, 2008 and 2007, the cash surrender value of these policies amounted to $2,363 million and $2,395 million, respectively, and is included with other assets on the accompanying Statutory Statements of Financial Position.

The Company has issued $5,378 million and $5,103 at December 31, 2008 and 2007, respectively of single premium annuities to NYLIAC in connection with NYLIAC's obligation under structured settlement agreements. The Company has guaranteed NYLIAC's obligation to unaffiliated third parties in the event of NYLIAC's insolvency.

The Company is the assumed obligor for certain structured settlement agreements with unaffiliated insurance companies, beneficiaries and other non-affiliated entities. To satisfy its obligations under these agreements, the Company owns single premium annuities issued by NYLIAC. The obligations are based upon the actuarially determined present value of expected future payments. Interest rates used in establishing such obligations range from 5.50% to 8.75%. The Company has directed NYLIAC to make the payments under the annuity contracts directly to the beneficiaries under the structured settlement agreements. At December 31, 2008 and 2007, the carrying value of the annuity contracts and the corresponding obligations amounted to $153 million and $157 million, respectively.

The Company has compensated NYLIAC for policy credits associated with converting the Company's term policies and term riders to universal life policies that are issued by NYLIAC without any additional underwriting. For the years ended December 31, 2008 and 2007, $4 million and $15 million, respectively, was paid to NYLIAC.

The Company was compensated by NYLAZ for policy credits associated with converting NYLAZ's term policies to permanent cash value life insurance policies issued by the Company without any additional underwriting. For the year ended December 31, 2008 the Company received $2 million from NYLAZ.

In the ordinary course of business the Company enters into reinsurance agreements with its subsidiaries and affiliates. Material reinsurance agreements have been disclosed in Note 11 – Reinsurance.

NOTE 7 – SIGNIFICANT SUBSIDIARY

NYLIAC is engaged in the life and annuity businesses. A summary of NYLIAC's statutory basis statement of financial position at December 31, 2008 and 2007 and results of operations for the years then ended are as follows (in millions):

	2008	2007
Assets:		
Bonds	$ 43,687	$ 38,211
Mortgage loans and real estate	5,534	5,118
Separate account assets	14,834	20,558
Other	10,889	8,799
Total assets	$ 74,944	$ 72,686
Liabilities and Surplus:		
Policy reserves	$ 43,497	$ 36,809
Separate account liabilities	14,829	20,552
Other liabilities	13,022	12,675
Capital and surplus	3,596	2,650
Total liabilities and surplus	$ 74,944	$ 72,686
Results of Operations:		
Net gain from operations	$ (129)	$ 348
Net realized capital gain (losses)	(258)	(59)
Net income	$ (387)	$ 289

NOTE 8 - INSURANCE LIABILITIES

Policy Reserves And Deposit Funds Liabilities

Reserves for life insurance policies are maintained principally using the 1941, 1958, 1980 and 2001 Commissioners' Standard Ordinary ("CSO") Mortality Tables under the net level premium method or the Commissioners' Reserve Valuation Method ("CRVM") with valuation interest rates ranging from 2.0% to 6.0%. Reserves for supplementary contracts involving life contingencies and annuities involving current mortality risks are based principally on 1951, 1971, 1983 Group Annuity Mortality ("GAM"), 1960 Mod. a-49, 1971 Individual Annuity Mortality ("IAM"), 1983 Table A, A2000 and the Commissioners' Annuity Reserve Valuation Method ("CARVM") with assumed interest rates ranging from 2.5% to 11.25%. Generally, owners of annuities in payout status are not able to withdraw funds from their

policies at their discretion. Reserves for accident and health policies are valued consistent with interest rate and morbidity tables, where applicable.

The Company has established policy reserves (excluding the effects of reinsurance) on contracts issued January 1, 2001 and later that exceed the minimum amounts determined under Appendix A-820, "Minimum Life and Annuity Reserve Standards" of NAIC SAP by approximately $642 million and $688 million in 2008 and 2007, respectively. The change in direct reserves increased pre-tax net gain for the year ended December 31, 2008 by approximately $46 million and reduced pre-tax net gain by approximately $104 million for the year ended December 31, 2007.

The Company waives deductions of deferred fractional premiums upon death of the insured and returns a portion of the final premium beyond the date of death. No surrender values are promised in excess of the total reserves. Certain substandard policies are valued on tables that are multiples of the standard table. Other substandard policies are valued as equivalent to standard lives on the basis of insurance age. Additional reserves are held on account of anticipated extra mortality for policies subject to extra premiums.

Tabular Interest credited to policy reserves for all other lines of business, except group annuities has been determined by formula as described in the NAIC instructions. For group annuities, Tabular Interest has been determined from the basic data for the calculation of policy reserves. The Tabular less Actual Reserve Released has been determined by formula as described in the NAIC instructions for all lines of business. The Tabular Cost for Individual Life Insurance for 7 Year Term, for certain Survivorship Whole Life policies, and for ancillary coverage has been determined by formula as described in the NAIC instructions. For all other coverages, including the bulk of Individual Life, the Tabular Cost has been determined from the basic data for the calculation of policy reserves. The Tabular Interest on funds not involving life contingencies is generally the interest actually credited to or accrued on such funds.

Accident and health claim reserves and liabilities were $1,223 million and $1,214 million at December 31, 2008 and 2007, respectively. During 2008, $131 million was paid for incurred losses and loss adjustment expenses attributable to insured events of prior years. Reserves remaining for prior years at December 31, 2008 were $983 million as a result of re-estimation of unpaid claims and claim adjustment expenses principally on group medical, disability income, medicare supplement insurance, and long term care lines of insurance. The $100 million favorable prior-year development since December 31, 2007 to December 31, 2008 was generally the result of ongoing analysis of recent loss development trends. Original estimates were increased or decreased, as additional information became known regarding individual claims. The Company had no unfavorable prior year loss development on retrospectively rated policies included in this decrease. However, the business to which it relates is subject to premium adjustments.

The balance in the liability for unpaid accident and health claim adjustment expenses as of December 31, 2008 and 2007 was $14 million and $13 million, respectively. The Company incurred $15 million and paid $14 million of claim adjustment expenses in the current year, of which $4 million of the paid amount was attributable to insured or covered events of prior years. The Company took into account estimated anticipated salvage and subrogation in its determination of the liability for unpaid claims/losses and did not reduce such liability in either 2008 or 2007.

At December 31, 2008 and 2007, the Company had $15,038 million and $11,867 million, respectively, of insurance in force for which the gross premiums are less than the net premiums according to the standard of valuation set by the State of New York.

GICs with life contingencies totaled $3,169 million and $2,784 million with a weighted average interest rate of 5.00% and 4.67% at December 31, 2008 and 2007, respectively. The weighted average remaining maturity was 3 years, 2 months and 2 years, 2 months at December 31, 2008 and 2007, respectively.

Withdrawal prior to maturity is generally subject to 60 days deferral of payment and involves penalties if interest rates increased since contract issuance.

Deposit fund liabilities include GICs without life contingencies (i.e. funding agreements) issued by the Company, including those funding agreements issued to special purpose entities ("SPE") and the Federal Home Loan Bank of New York (the "FHLB of NY"), and totaled $17,252 million and $19,345 million at December 31, 2008 and 2007, respectively. The weighted average interest rate was 3.90% and 4.94% at December 31, 2008 and 2007, respectively. The weighted average remaining maturity was 2 years, 5 months at December 31, 2008 and 2007, respectively. Withdrawal prior to maturity is generally not permitted.

Included with funding agreements are amounts sold to SPEs which purchase the funding agreements with the proceeds of medium term notes having payment terms substantially identical to the funding agreements issued to the SPE. At December 31, 2008 and 2007, the balance under funding agreements sold by the Company to the SPEs was $12,166 million and $12,544 million, respectively.

On February 26, 2008, the Company became a member of the FHLB of NY and held $79 million of common stock of the FHLB of NY at December 31, 2008. 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 issued through the general account and are included in the liability for deposit funds on the balance sheet. When a funding agreement is issued, the Company is then required to post collateral in the form of eligible securities including mortgage-backed type, 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 $1,006 million at December 31, 2008. The fair value of collateral posted was $1,290 million at December 31, 2008. At December 31, 2008, the Company's borrowing capacity with FHLB of NY was $5,121 million of which $1,006 million has been used.

The weighted average interest rate for all GICs was 4.07% and 4.90% at December 31, 2008 and 2007, respectively. The combined weighted average remaining maturity was 2 years, 7 months and 2 years, 6 months at December 31, 2008 and 2007, respectively.

Based on Regulation 126 of New York State insurance law the Company's Individual Life reserves were tested as of December 31, 2007 and the results showed a margin of $2.0 billion to $3.5 billion in excess of the reserve balance required by the New York State Insurance Department. Similar margins are expected in the December 31, 2008 Regulation 126 testing due to the variable nature of New York Life's dividend scales for participating policies. Due to this large margin in reserves the Company requested and was granted permission from the New York State Insurance Department for a valuation interest rate change and a change in the method of calculating certain term insurance reserves resulting in a release of $268 million of Individual Life reserves, effective January 1, 2008. This was recorded as a change in valuation basis on the accompanying Statutory Statements of Changes in surplus.

In 2007 the Company decreased disability active life reserves by $81 million. This was recorded as a change in valuation basis on the accompanying Statutory Statements of Changes in surplus. The disability income block is fully reinsured; therefore an offsetting decrease in reinsurance reserve credit was recorded on the accompanying Statutory Statements of Operations as a decrease in net income. Consequently this transaction had no impact on surplus.

The Company had a $4 million liability at December 31, 2008 ($6 million at December 31, 2007) relating to Guaranteed Separate Accounts and Synthetic GICs valued under New York State Regulation 128, which generally requires that a liability be accrued when the market value of the guaranteed separate accounts is less than the minimum value of contractual liabilities. The Company records the change in

this liability as a component of surplus. Accordingly, $2 million and $10 million of gains were recorded on the accompanying Statutory Statements of Change in Surplus for the years ended December 31, 2008 and 2007, respectively.

The following table reflects the withdrawal characteristics of annuity reserves and deposit fund liabilities (in millions):

	2008		2007	
	Amount	% of Total	Amount	% of Total
Subject to discretionary withdrawal:				
With market value adjustment	$ 8,446	20%	$ 7,009	16%
At market value	2,313	5%	3,609	8%
Total with adjustment or at market value	10,759	25%	10,618	24%
At book value without adjustment	1,933	5%	1,978	4%
Not subject to discretionary withdrawal provisions	29,176	70%	31,506	72%
Total annuity reserves and deposit fund liabilities	$ 41,868	100%	$ 44,102	100%

At December 31, 2008, of the total direct life, accident and health and annuity reserves of $65,313 million and deposit fund liabilities of $19,619 million, the total amounts related to policies and deposits that have surrender privileges were $49,971 million and $1,917 million, respectively. Of these reserves, the amounts payable in cash to policyholders and depositors at December 31, 2008 were $47,348 million and $1,917 million, respectively.

At December 31, 2007, of the total direct life, accident and health and annuity reserves of $62,531 million and deposit fund liabilities of $21,844 million, the total amounts related to policies and deposits that have surrender privileges were $47,207 million and $1,968 million, respectively. Of these reserves, the amounts payable in cash to policyholders and depositors at December 31, 2007 were $44,645 million and $1,968 million, respectively.

NOTE 9 - SEPARATE ACCOUNTS

Guaranteed Separate Accounts

The Company currently maintains guaranteed separate accounts with assets of $3,878 million and $3,716 million at December 31, 2008 and 2007, respectively. Of these amounts, $26 million and $6 million were maintained each year in supplemental separate accounts at December 31, 2008 and 2007, respectively. The Company has market value separate accounts and separate accounts maintained on a book value basis where assets are carried at amortized cost. These assets are invested primarily in investment grade mortgage-backed securities and short-term securities. The supplemental separate account assets are used to fund the excess of the actuarial liability for future guaranteed payments over the market value of the assets for these contracts.

Market value separate accounts funding guaranteed benefits provide either a guarantee tied to an index or a guarantee of principal and interest. For accounts where the guarantee is tied to an index, at contract discontinuance, the contract holder is entitled to the guaranteed amount plus one-half of the excess performance. If the market value of the assets is less than the guaranteed amount, the contract holder is entitled to an immediate payout of market value, or an installment payout of the guaranteed amount. For the market value separate accounts that provide a minimum guaranteed interest rate, at contract discontinuance, the contract holder is entitled to an immediate payout of market value, or an installment payout of the guaranteed amount.

A book value separate account guarantees principal and interest. At contract discontinuance, the contract holder is entitled to the guaranteed amount, if the market value of the assets exceeds the guaranteed amount. If the market value of the assets is less than the guaranteed amount, the contract holder is entitled to an immediate payout of market value, or an installment payout of the guaranteed amount.

Certain guaranteed market value separate accounts are tied to an index, if the return on the contract exceeds the index, the contract holder shares the excess performance equally with the Company. The excess performance is retained in the Separate Accounts, until the contract is terminated, and the Company reflects the amount in surplus. For the years ended December 31, 2008 and 2007, the Company reflected changes of $(2) million and $(6) million, respectively related to undistributed gains and losses on these contracts in Other adjustments, net, on the accompanying Statutory Statements of Changes in Surplus.

Non-Guaranteed Separate Accounts

The Company currently maintains non-guaranteed separate accounts with assets of $1,997 million and $2,895 million at December 31, 2008 and 2007, respectively. These separate accounts primarily include the Company's retirement and pension plans assets and are invested in common stock, long-term bonds, limited partnerships and short-term securities.

Separate accounts funding non-guaranteed benefits provide no guarantee of principal or interest, and payout is at market value at contract discontinuance.

Information regarding separate accounts of the Company for the years ended December 31, 2008 and 2007 is as follows (in millions):

	2008				
	Indexed	Non-indexed Guarantee Less than/Equal to 4%	Non-indexed Guarantee More than 4%	Non-guaranteed Separate Accounts	Total
Premiums and considerations	$ -	$ 1,606	$ -	$ 155	$ 1,761
Reserves:					
For accounts with assets at:					
Market value	$ 217	$ 112	$ -	$ 1,984	$ 2,313
Amortized cost	-	3,577	-	-	3,577
Total reserves	$ 217	$ 3,689	$ -	$ 1,984	$ 5,890
By withdrawal characteristics:					
With market value adjustment	$ -	$ 3,577	$ -	$ -	$ 3,577
At market value	217	112	-	1,984	2,313
Total reserves	$ 217	$ 3,689	$ -	$ 1,984	$ 5,890

	2007				
	Indexed	Non-indexed Guarantee Less than/Equal to 4%	Non-indexed Guarantee More than 4%	Non-guaranteed Separate Accounts	Total
Premiums and considerations	$ -	$ 1,416	$ -	$ 161	$ 1,577
Reserves:					
For accounts with assets at:					
Market value	$ 666	$ 83	$ -	$ 2,860	$ 3,609
Amortized cost	-	2,945	-	-	2,945
Total reserves	$ 666	$ 3,028	$ -	$ 2,860	$ 6,554
By withdrawal characteristics:					
With market value adjustment	$ -	$ 2,945	$ -	$ -	$ 2,945
At market value	666	83	-	2,860	3,609
Total reserves	$ 666	$ 3,028	$ -	$ 2,860	$ 6,554

The following is a reconciliation of net transfers to or (from) the Company to the separate accounts (in millions):

	2008	2007
Transfers as reported in the Separate Accounts Statement:		
Transfers to Separate Accounts	$ 1,761	$ 1,577
Transfers from Separate Accounts	(1,818)	(1,360)
Reinsurance Assumed	41	13
Net transfers to (from) the Separate Accounts	$ (16)	$ 230

NOTE 10 - INCOME TAXES

Significant components of the current federal income tax (benefit) expense incurred for the years ended December 31, 2008 and 2007 were as follows (in millions):

	2008	2007
Current income tax expense:		
Current year U.S. income tax	$ 50	$ 114
Current year foreign income tax	5	2
Current income tax incurred	55	116
Capital (losses) gains tax incurred	(318)	153
Total current income tax (benefit) expense incurred	$ (263)	$ 269

The components of the net deferred tax asset are as follows (in millions):

	December 31, 2008	December 31, 2007
Gross deferred tax assets (DTAs)	$ 1,987	$ 2,238
Gross deferred tax liabilities (DTLs)	(273)	(906)
Net deferred tax asset	1,714	1,332
Net deferred tax assets non-admitted	1,115	768
Net admitted deferred tax asset	$ 599	$ 564
Increase (Decrease) in net deferred taxes nonadmitted	$ 347	$ 47

Net deferred tax assets are nonadmitted primarily because they are not expected to be realized within one year of the balance sheet date. The admitted portion of the net deferred tax asset is included in Other Assets on the accompanying Statutory Statements of Financial Position.

The tax effects of temporary differences that give rise to deferred tax assets and deferred tax liabilities are as follows (in millions):

	December 31, 2008	December 31, 2007	Increase/ (Decrease)
DTAs resulting from book/tax differences in:			
Policy reserves	$ 138	$ 707	$ (569)
Deferred acquisition costs	496	470	26
Employee and agent benefits	491	501	(10)
Nonadmitted assets	114	106	8
Dividend provision	348	400	(52)
Investments	381	36	345
Other	19	18	1
Gross deferred tax asset	1,987	2,238	(251)
DTLs resulting from book/tax differences in:			
Investments	273	906	(633)
Gross deferred tax liability	$ 273	$ 906	(633)
Net deferred tax asset	$ 1,714	$ 1,332	382
Deferred tax on unrealized gains (losses)			(458)
Change in deferred income tax			$ (76)

The Company's income tax (benefit) expense for the years ended December 31, 2008 and 2007 differs from the amount obtained by applying the statutory rate of 35% to net gain from operations after dividends to policyholders and before federal income taxes for the following reasons (in millions):

	2008	2007
Net gain from operations after dividends to policyholders and before federal income taxes @ 35%	$ 171	$ 243
Net realized capital (losses) gains at 35%	(512)	156
Tax exempt income	33	(45)
Tax credits (net of withholding)	(46)	(46)
Amortization of IMR	(8)	(20)
Dividends from subsidiaries	-	(4)
Contiguous country branch income	(5)	(4)
Change in reserve on account of change in valuation basis	94	28
Prior year audit liability and settlement	5	16
Nonadmitted assets	68	4
Stock contribution to Foundation	-	(1)
Accruals in surplus	8	9
Other	5	5
Income tax (benefit) expense incurred and change in net deferred tax asset during period	$ (187)	$ 341
Federal income taxes reported in the Summary of Operations	$ 55	$ 116
Capital (losses) gains tax incurred	(318)	153
Change in net deferred income taxes	76	72
Total statutory income tax (benefit) expense	$ (187)	$ 341

The Company's federal income tax returns are routinely audited by the Internal Revenue Service ("IRS") and provisions are made in the financial statements in anticipation of the results of these audits. The IRS has completed audits through 2001 and is currently auditing tax years 2002 through 2004. There were no material effects on the Company's Statutory Statements of Operations as a result of these audits. The Company believes that its recorded income tax liabilities are adequate for all open years.

The Company has no net operating loss carryforwards. There were no income taxes incurred in 2008 that could be recouped in the event of future net losses. The total income taxes incurred in prior years that will be available for recoupment in the event of future net losses are $247 million and $311 million related to December 31, 2007 and 2006, respectively.

A reconciliation of the beginning and ending amount of unrecognized tax benefits at December 31, 2008, is as follows:

	2008 (in millions)	2007 (in millions)
Balance at January 1, 2008	$ 35	$ 25
Additions for tax positions of prior years	-	2
Reductions for tax positions of prior years	-	-
Additions for tax positions of current year	-	8
Reductions for tax positions of current year	-	-
Settlements with tax authorities	-	-
Lapses of applicable statue of limitations	-	-
Balance at December 31, 2008	$ 35	$ 35

The Company does not anticipate any significant changes to its unrecognized tax benefits within the next 12 months. The total amount of unrecognized benefits that, if recognized, would affect the effective tax rate is $(2) million. The Company classifies interest and penalties related to tax uncertainties as income tax expense. Total interest and penalty, which is included in the federal income tax expense in the accompanying Statutory Statements of Operations aggregated $9 million and $10 million for the years ended December 31, 2008 and 2007, respectively. The Company had accrued $52 million and $43 million of liabilities for tax-related interest, which is reported in the accompanying Statutory Statements of Financial Position (included in other liabilities) at December 31, 2008 and 2007, respectively.

As discussed in Note 2 - Significant Accounting Policies-Federal Income Taxes, the Company's federal income tax return is consolidated with NYLIAC, NYLAZ, NYLIFE LLC, NYLI and New York Life Investments.

At December 31, 2008 the Company recorded a current income tax receivable of $395 million and at December 31, 2007 the Company recorded a current income tax payable of $56 million. Current income tax receivables and payables are included in Other Assets and Other Liabilities, respectively, in the accompanying Statutory Statements of Financial Position.

At December 31, 2008 the Company had no protective tax deposits on deposit with the Internal Revenue Service under Section 6603 of the Internal Revenue Service Code.

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 ("YRT") basis for all products except on its participating whole life products. Up until late 2004, the Company typically retained 10% of each risk on its individual 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, with the quota share ranging from 10% up to 60% and a minimum size policy ceded of $1 million. 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. Generally, the Company does not have any individual life or group reinsurance agreements that do not transfer risk or contain risk limiting features.

Life insurance reinsured was 16% of total life insurance inforce at December 31, 2008 and 2007. The reserve reductions taken for life insurance reinsured at December 31, 2008 and 2007 were $302 million and $286 million, respectively.

At December 31, 2008, the Company assumed 90% of a block of inforce life insurance business from its indirect subsidiary, Hong Kong Worldwide ("Hong Kong"). A total reserve of $79 million consisting of whole life products was assumed under a coinsurance with funds withheld treaty. Under the Funds Withheld treaty, Hong Kong will maintain $71 million in assets for funds withheld in relation to the reserves and the Company will maintain $8 million in deficiency reserves. At the inception of the treaty, the Company incurred a $14 million ceding commission to Hong Kong.

In December 2004, the Company assumed 90% of a block of inforce life insurance business from its wholly-owned subsidiary, NYLIAC. A total reserve of $5,656 million consisting of Universal Life, Variable Universal Life, Target Life and Asset Preserver products was assumed using a combination of coinsurance with funds withheld for the fixed portion maintained in the General Account and modified coinsurance ("MODCO") for policies in the Separate Accounts. Under both the MODCO and Funds Withheld treaties, NYLIAC will retain the assets held in relation to the reserves. A $25 million ceding commission was paid by the Company at the inception of the treaty. An experience refund will be paid to NYLIAC at the end of each accounting period for 100% of profits in excess of $5 million. Experience refunds paid in 2008 and 2007 were $109 million and $116 million, respectively.

On January 19, 2000, the Company entered into a modified coinsurance reinsurance agreement with Paul Revere Life Insurance Company ("Paul Revere") whereby Paul Revere reinsures 100% of the Company's individual disability income business with an effective date of January 1, 2000. The Company received consideration of $88 million, resulting in a deferred gain of $54 million after taxes that is amortized into net gain over a twenty-year period. During 2008 and 2007, $3 million was amortized each year into net gain leaving $28 million at December 31, 2008 to be amortized in future years.

The Company has reinsurance agreements with NYLARC. NYLARC is a life insurance company wholly owned by NYLARC Holding Company, Inc., whose shareholders consist of the Company's top agents who meet certain criteria and who may also be agents of NYLIAC or NYLAZ. NYLARC reinsures a portion of certain life insurance products sold by its shareholders. NYLARC's purpose is to retain high production agents, and increase the volume and quality of the business that they submit to the Company, NYLIAC and NYLAZ.

The Company had reinsured certain policies with unauthorized companies that prevent it from recognizing full reinsurance credit. Since these reinsurers are not recognized in the State of New York, and the receivable owed to the Company is not secured by cash, securities or other permissible collateral, the Company established a liability equal to the net credit received. At December 31, 2008 and 2007, less than $1 million was held as a liability to offset the net reinsurance credit. The change in the liability is reflected as a direct adjustment to surplus and totaled less than $1 million for both years ended December 31, 2008 and 2007.

NOTE 12 – SURPLUS

Surplus Notes

On May 5, 2003, the Company issued Surplus Notes ("Notes") with a principal balance of $1 billion, bearing interest at 5.875%, and a maturity date of May 15, 2033. Proceeds from the issuance of the Notes were $990 million, net of discount. The Notes were issued pursuant to Rule 144A under the Securities Act of 1933, as amended, and are administered by Citibank as registrar/paying agent. Interest on these Notes is scheduled to be paid semiannually on May 15 and November 15 of each year. Cumulative interest paid through December 31, 2008 totaled $324 million.

As part of the Notes offering, the New York State Insurance Department required the Company to establish a special reserve in the amount of 10% of the face amount of the Notes, or $100 million. This reserve (reported in Other Liabilities on the accompanying Statutory Statements of Financial Position)

was required for the payment of post closing amounts, including any amounts the Company may have to pay as a result of its agreement to indemnify the underwriters for certain potential claims arising out of the issuance of the Notes. To date, there have been no claims. The reserve can be reduced in equal increments of 1/9 of the initial reserve amount, or $11 million May 15, 2006, May 15, 2007 and May 15, 2008, and be completely eliminated after six years on May 15, 2009, if no claims arise. Accordingly, the reserve was reduced by $11 million in both 2008 and 2007 and was reflected in the accompanying Statutory Statements of Change in Surplus.

The Notes are unsecured and subordinated to all present and future indebtedness, policy claims and other creditor claims of the Company. Under New York Insurance Law, the Notes are not part of the legal liabilities of the Company. The Notes do not repay principal prior to maturity. Each payment of interest or principal may be made only with the prior approval of the Superintendent and only out of surplus funds, which the Superintendent determines to be available for such payments under New York Insurance Law. Provided that approval is granted by the Superintendent, the 5.875% Notes may be redeemed at the option of the Company at any time at the "make-whole" redemption price equal to the greater of the principal amount of the Notes to be redeemed, or the sum of the present values of the remaining scheduled interest and principal payments, excluding accrued interest as of the date on which the Notes are to be redeemed, discounted to a semi-annual basis at the adjusted treasury rate plus 20 basis points, plus in each case, the accrued interest on notes to be redeemed to the redemption date.

At December 31, 2008, there were no affiliates that held more than 10% of the Notes and there were no affiliates that held any portion of the Notes at December 31, 2007. At December 31, 2008, State Street Bank & Trust Co, Bank of New York Mellon and JP Morgan Chase Bank (Citibank, Bank of New York Mellon (formerly Bank of New York) and JP Morgan Chase Bank at December 31, 2007), were each the holder of record at The Depository Trust Company of more than 10% of the outstanding amount of the Notes, with each holding Notes, at least in part, for the accounts of their respective clients.

Other Surplus Adjustments

Other increases or (decreases) in the Statutory Statements of Changes in Surplus includes the effects of the following (in millions):

	2008	2007
Regulation 128 reserve – Note 8	$ 2	$ 11
Ceding commission – Note 11	(3)	(3)
Additional minimum liability – Note 13	13	12
Separate account surplus – Note 9	(2)	(6)
Reinsurance in unauthorized companies – Note 11	-	-
Total	$ 10	$ 14

Cumulative unrealized gains, gross of deferred taxes, recognized in unassigned surplus were $14 million and $1,088 million, respectively, as of December 31, 2008 and 2007.

Nonadmitted Assets

Under statutory accounting rules, a nonadmitted asset is defined as an asset having economic value other than that which can be used to fulfill policyholder obligations, or those assets that are unavailable due to encumbrances or other third party interests. These assets are not recognized on the Statutory Statements of Financial Position, and are, therefore, considered nonadmitted. The changes between years in nonadmitted assets are charged or credited directly to surplus.

The following table shows the major categories of assets that are nonadmitted at December 31, 2008 and 2007, respectively (in millions):

	2008	2007	Increase (Decrease)
Overfunded pension asset	$ 683	$ 766	$ (83)
Net deferred tax asset	1,115	768	347
Furniture, equipment and EDP	199	220	(21)
Invested assets	135	266	(131)
Other	125	84	41
Total	$ 2,257	$ 2,104	$ 153

For the year-ended 2007 and prior, certain assets recognized by NAIC SAP were not considered assets under the laws and regulations of New York State and were nonadmitted. On July 21, 2008 the laws and regulations were amended and all statutory impediments to full adoption of NAIC SAP by New York State were removed (See Note 1 - Change in Accounting Principles). In the chart above, $51 million of the $2,104 million at December 31, 2007 were nonadmitted under New York State laws and regulations.

NOTE 13 - BENEFIT PLANS

Defined Benefit Plans

The Company maintains the New York Life Insurance Company Pension Plan (the "Pension Plan"). The Pension Plan is a qualified defined benefit pension plan covering substantially all eligible full-time and part-time employees of the Company 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 age (age 65), 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. For benefits accrued on or after January 1, 2004, the accrual percentage of final average salary used to determine benefits was amended from 1.65% to 1.45%. The Company also maintains the New York Life Excess Benefit Plan, which is a nonqualified, 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 Company also maintains the NYLIC Retirement Plan ("Retirement Plan"). The Retirement Plan is a qualified defined benefit pension plan covering substantially all eligible agents under contract with the Company or its domestic life insurance subsidiaries on or after January 1, 1982, the effective date of the Plan. Employees are not eligible for benefits under the Retirement Plan.

Retirement Plan participants are entitled to annual pension benefits beginning at normal retirement date, which is the later of the last day of the month in which age 65 is attained 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 nonqualified, 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 were amended in accordance with IRC Section 409A.

The Pension Plan and the Retirement Plan are funded solely by Company contributions. The Company'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 no greater than the maximum amount deductible for federal income tax purposes. NYLIC was not required to make any pension plan contributions in 2008 to satisfy the minimum required contribution rule under ERISA. However, in 2008, in accordance with the terms of the settlement agreement for the class action lawsuit, Mehling et al v. New York Life Insurance Company et al, a portion of the settlement proceeds in the amount of $2 million was contributed to the Pension Plan and $1 million was contributed to the Retirement Plan. The Company made no contributions to the Pension Plan or Retirement Plan in 2008 and 2007.

The assets of the Pension Plan and Retirement Plan are maintained in separate trusts issued to 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 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.

The Company is the issuer of the GA and SA Contracts and New York Life Investments is the investment manager of the pooled separate accounts under the SA Contract and affiliates of New York Life Investments 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

The Company has established separate irrevocable grantor trusts covering certain of the Company's separate nonqualified arrangements for agents and employees to help protect nonqualified payments thereunder in the event of a change in control of the Company. The grantor trusts are not subject to ERISA.

Other Postretirement Benefits

The Company'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 coverages. 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.

The Company'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 or third prior), age, level of benefits and location of residence.

Agents who retired under the NYLIC Retirement Plan prior to January 1, 1993 and agents who retired under the NYLIC Retirement Plan 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 (other than certain prescription drug coverage) and dental coverage.

The Company 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 (other than certain prescription drug coverage), dental coverage and life premiums for eligible retired individuals and their eligible dependents is paid by a combination of the VEBA Trusts' assets and contributions by the eligible retired individuals. The remaining balance of these costs is paid by the Company.

It has been the Company's practice to prefund postretirement benefits to the extent allowable for federal income tax purposes. Prefunding 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. Prefunding contributions to the Retired Employee VEBA Trust totaling $5 million and $1 million were made in 2008 and 2007, respectively. For the years ended December 31, 2008 and 2007, there was a $2 million contribution to the Retired Agent VEBA Trust in 2008 and no contribution in 2007.

The assets of each VEBA Trust are invested in the mutual funds issued by MainStay Funds, Inc., in Trust Owned Life Insurance ("TOLI") and in government securities. New York Life Investments is the investment advisor of the MainStay Funds, Inc. These TOLI policies are Corporate Sponsored Universal Life ("CSUL") and Corporate Sponsored Variable Universal Life ("CSVUL") issued by NYLIAC. CSVUL policy premiums are invested in mutual funds of variable products managed by New York Life Investments.

The Company shares the cost of certain postretirement life and health benefits for retired employees and agents including their eligible dependents with its subsidiaries. The expenses for these plans are allocated to each subsidiary in accordance with an intercompany cost sharing arrangement. The liabilities for these plans are included with the liabilities for the corresponding plan of the Company.

The tables below 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):

	Pension Plan Benefits		Other Postretirement Plan Benefits	
	2008	2007	2008	2007
Change in benefit obligation:				
Benefit obligation at beginning of year	$ 4,050	$ 4,094	$ 1,013	$ 992
Service cost	106	112	37	39
Interest cost	253	230	63	55
Contributions by plan participants	-	-	4	3
Actuarial (gains)/losses	(648)	(200)	(177)	(25)
Benefits paid	(197)	(184)	(45)	(52)
Plan amendments	11	(2)	3	(3)
Medicare Part D Reimbursements	-	-	-	4
Benefit obligation at end of year[1]	$ 3,575	$ 4,050	$ 898	$ 1,013
Change in plan assets:				
Fair value of plan assets at beginning of year	$ 3,811	$ 3,567	$ 485	$ 435
Actual return on plan assets	(304)	414	(61)	50
Contributions by employer	21	14	38	48
Contributions by plan participants	-	-	4	3
Benefits paid	(197)	(184)	(45)	(51)
Fair value of plan assets at end of year[1]	$ 3,331	$ 3,811	$ 421	$ 485
Funded Status:				
Funded status	$ (244)	$ (239)	$ (477)	$ (529)
Unamortized prior service cost	42	38	1	1
Unrecognized net (gain)/loss	524	626	155	248
Remaining net obligation at transition	-	-	31	39
Contributions by employer	5	7	12	12
Intangible asset[2]	(1)	(1)	-	-
Accumulated charge to surplus	(11)	(24)	-	-
Prepaid (accrued) benefit cost	$ 315	$ 407 [2]	$ (278)	$ (229)
Accumulated Benefit obligation for all defined pension plans at December 31[1]	$ 3,308	$ 3,670		
Benefit obligation for non-vested participants[3]			$ 316	$ 197

[1] For both 2008 and 2007, a September 30th measurement date was used.

[2] Prepaid (accrued) benefit cost and the intangible asset are nonadmitted assets and are, therefore, not included in total assets on the Statutory Statements of Financial Position.

[3] The benefit obligation for non-vested participants shown above is not accrued in the accompanying financial statements for Other Postretirement plan benefits of the Company consistent with statutory guidance and is presented for informational purposes only.

The Company's accumulated postretirement benefit obligation ("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 introduces 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 is as follows (in millions):

	Years Ended December 31,	
	2008	**2007**
Cumulative reduction in benefit obligation:		
Beginning of year	$ 101	$ 122
Eligibility cost	4	5
Interest cost	6	7
Net actuarial loss	(31)	(29)
Prescription drug subsidy	(3)	(4)
End of year	$ 77	$ 101
Reduction in net periodic benefit cost:		
Eligibility cost	$ 4	$ 5
Interest cost	6	7
Amortization of net actuarial loss	3	5
Total reduction in net periodic benefit cost	$ 13	$ 17

During 2008 and 2007, the Company received $6 million for each year in Medicare Part D subsidy payments.

An additional minimum liability adjustment is required when the accumulated benefit obligation exceeds plan assets or accrued pension liabilities. Increases or decreases in the additional minimum pension liability, less allowable intangible assets, net of tax benefit, are reported as adjustments to surplus. At December 31, 2008, the Company reflected an additional net minimum liability ("AML") of $11 million ($24 million in 2007) for the New York Life Excess Benefit Plan and $(1) million for the NYLIC Excess Benefit Plan ($(1) million in 2007). The change in the AML during 2008 and 2007 increased surplus by $13 million and $12 million in 2008 and 2007, respectively.

In September 2006, the FASB issued FAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Post Retirement Plans – an amendment of FASB Statement No. 87, 88, 106 and FAS No. 132(R)" ("FAS 158"). This statement requires an employer to prospectively recognize the overfunded or underfunded status of its defined benefit pension and postretirement plans as an asset or liability in its statement of financial position and to recognize changes in that funded status in the year in which the changes occur through comprehensive income. As of December 31, 2008, the NAIC had not opined on FAS 158. As a result, no impact of this statement is reflected in the statutory financial statements at December 31, 2008.

The components of net periodic benefit costs were as follows (in millions):

	Pension Plan Benefits		Other Postretirement Plan Benefits	
	2008	2007	2008	2007
Components of net periodic benefit cost:				
Service cost	$ 106	$ 112	$ 36	$ 39
Interest cost	253	230	63	55
Expected return on plan assets	(285)	(268)	(34)	(31)
Amortization of net asset at transition	-	-	8	8
Amortization of (gains)/losses	43	76	11	14
Amortization of prior service cost/(credit)	7	8	-	-
Net periodic benefit cost	$ 124	$ 158	$ 84 *	$ 85 *

* Includes postretirement costs billed to subsidiaries of $34 million and $37 million for each of the years ended December 31, 2008 and 2007, respectively.

Weighted-average assumptions used to determine benefit obligations at:

	Pension Plan Benefits		Other Postretirement Plan Benefits	
	2008	2007	2008	2007
Weighted-average assumptions used to determine benefit obligations*:				
Discount rate	7.80%	6.40%	7.80%	6.40%
Rate of compensation increase:				
Employees	3.93%/5.00% **	5.40%	3.93%/5.00% **	5.40%
Agents	5.20%	5.60%	N/A	N/A

*For both 2008 and 2007, a September 30th measurement date was used.
** Rate of compensation for 2009 through 2011 is 3.93% and 5.00% beginning 2012.

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

	Pension Plan Benefits		Other Postretirement Plan Benefits	
	2008	2007	2008	2007
Weighted-average assumption used to determine net periodic benefit cost:				
Discount rate	6.40%	5.75%	6.40%	5.75%
Expected return on plan assets	8.25%	8.25%	7.25%/7.75% ***	7.25%/7.75% ***
Rate of compensation increase:				
Employees	5.40%	5.40%	5.40%	5.40%
Agents	5.60%	5.60%	N/A	N/A

***Expected 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 or better by Moody's Investor Service, Inc. or a rating AA or better by Standard & Poor's. 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.

The expected 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 today's economic and financial market conditions.

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, 2008, these assumed future sales rates of increase are the same for both medical and prescription drug plans as well as for participants under and over 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 2008 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 9.5% for 2009 for all participants. For the year-end 2008 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 2007 obligations, the annual rate of increase in the per capita cost of covered health care medical benefits was assumed to be 7% for medical benefits and 11% for prescription drug benefits for 2008 for all participants. For the year-end 2007 measurement, the rate was assumed to decline gradually to 5% by 2010 for medical benefits and to 5% by 2014 for 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 plan. A one percentage point increase or decrease in assumed health care cost trend rates would have the following effects (in millions):

	2008 One Percent Increase	**2008 One Percent Decrease**
Effect on total of service and interest cost components	$ 12	$ (9)
Effect on accumulated postretirement obligations	83	(69)

The weighted-average asset allocation for the Employee and Agent Defined Benefit Pension Plans at September 30, 2008 and 2007, and target allocations by asset category are as follows:

	Target Allocation	**Percentage Of Plan Assets**	
	2008 & 2007	**December 31, 2008**	**December 31, 2007**
Fixed Income	40%	41%	36%
Equity Securities	60%	59%	64%
Total	100%	100%	100%

Equity securities, including common stock, amount to $1,977 million (59% of total assets of the plans) and $2,437 million (64% of total assets of the plans) at September 30, 2008 and 2007, respectively.

The Company's weighted-average asset allocation for the other postretirement benefit plan at September 30, 2008 and 2007, and target allocations by asset category under the VEBA Trusts are as follows:

	Target Allocation Percentage		Percentage of VEBA Trust Assets			
	2008 & 2007		December 31, 2008		December 31, 2007	
	Health	Life	Health	Life	Health	Life
Fixed Income	30%	30%	46%	33%	37%	27%
Equity Securities	70%	70%	54%	67%	63%	73%
Total	100%	100%	100%	100%	100%	100%

Equity securities, including common stock, amount to $233 million (58% of total VEBA Trust Life and Health assets) and $310 million (66% of total VEBA Trust Life and Health assets) at September 30, 2008 and 2007, respectively.

The Investment Committees ("The Committees") of the Employee and Agent Defined Benefit Pension Plans and other postretirement plans have established a broad investment strategy targeting an asset allocation of 60% equity and 40% fixed income. 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 allocation versus the targets and make adjustments as appropriate. The Committees review the investment performance of the General Account Contract for each Plan and the separate accounts under each Plan's Separate Account Contract on a regular basis.

Plan Amendments

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 benefit form for married participants (and their surviving spouses) will be a 75% joint and survivor annuity. This clarifies the procedures and the statute of limitations will apply to any claim for rights under the Pension Plan. Effective January 1, 2009, the Company's Excess Benefit Plan will operate in this manner as well.

Effective January 1, 2008, the Pension Plan and the Retirement Plan were amended to provide an optional 75% joint and survivor annuity for married participants pursuant to changes enacted under the Pension Protection Act of 2006.

Effective January 1, 2008, the Pension Plan was amended to (1) change the eligibility requirements for early retirement benefits from at least age 55 with 10 or more participation periods to the earlier of (i) at least age 55 with 15 or more participation periods or (ii) at least age 60 with 10 or more participation periods; and (2) change the reduction factors applicable to early retirement benefits accrued on and after January 1, 2008 from 3.6% per year to 5% per year for each year that a participant commences payment prior to age 65 (or age 62 if the participant has completed at least 30 participation periods). The early retirement eligibility and reduction rules in effect prior to January 1, 2008 continue to apply to employees who, (i) as of December 31, 2007, were either at least 45 or at least age 40 with 15 or more years of service; or (ii) as of December 31, 2003, were at least age 50 or had 26 or more years of service.

In addition, effective January 1, 2008 the Company implemented changes to the retiree medical programs for Agents and Employees. The changes included replacing the current benefit options with account based options for retired agents and modifying the eligibility for retiree medical benefits and the level of Company-provided subsidy for certain employees.

Effective January 1, 2008, the Agents' current medical options were replaced with a Health Maintenance Organization ("HMO") with a Health Reimbursement Account ("HRA"), HMO only, Health Savings Account ("HSA") with a Preferred Provider Organization ("PPO") and PPO with HRA. These changes were reflected in the 2007 year-end disclosures.

Cash Flows

The expected benefit payments for the Company's pension and postretirement plans for the years indicated are as follows (in millions):

	Pension Benefits	Other Post Retirement Benefits	Estimated Federal Subsidy
2009	$ 219	$ 67	$ (4)
2010	232	72	(5)
2011	244	77	(5)
2012	257	83	(6)
2013	271	88	(6)
2014-2017/2018	1,549	649	(45)
Total	$ 2,772	$ 1,036	$ (71)

The Company does not expect to make any contributions to its qualified agent and employee defined plans during 2009. The Company expects to pay approximately $21 million of benefits to the non-qualified agent and employee defined benefit plans during 2009. In addition, the Company expects to contribute approximately $9 million to its postretirement benefit plans during 2009.

Post Employment 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.

At December 31, 2008 and 2007, the Company accrued a $19 million and $21 million obligation, respectively, related to the funding of these benefits. The net periodic benefit cost associated with these programs in 2008 and 2007 was $7 million and $6 million, respectively.

Defined Contribution Plans

The Company maintains the Employee Progress-Sharing Investment Plan ("EPSI") which is a qualified defined contribution plan covering substantially all salaried United States full-time and part-time employees (individuals eligible under the Company's Agents' Progress-Sharing Investment Plan ("APSI") are not eligible under EPSI). Under EPSI, participants may contribute (1) 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 highly compensated threshold of $100,000 based on 2007 total pay and up to 15% for employees whose total annual compensation is below the highly compensated threshold), and (2) 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 EPSI. EPSI also provides for additional pre-tax 401(k) "catch-up" contributions for participants age 50 and over ($5,000 for each of 2008 and 2007).

The Company annually determines the level of the Company's matching contributions to EPSI. In 2008 and 2007, the Company made matching contributions based on a specific percentage, 100% of participants' contribution up to 3% of base salary and eligible incentive pay. For 2008 and 2007, the Company's matching contributions to EPSI totaled $22 million and $20 million, respectively. The Company also maintains the Excess EPSI Plan for certain eligible participants, which is a nonqualified unfunded arrangement that credits participant contributions and matching contributions in respect of compensation in excess of the amount that may be taken into account under EPSI because of applicable IRS limits.

The Company also maintains the Agents' Progress-Sharing Investment Plan which is a 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 2008 plan year up to 7% for agents whose total annual compensation exceeds the highly compensated threshold of $100,000 based on 2007 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 provides for additional pre-tax 401(k) "catch-up" contributions for participants age 50 and over ($5,000 for each of 2008 and 2007).

The Company annually determines the level of the Company's contributions to APSI. Contributions are based on the participants' 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 2008 and 2007, the Company's contributions to APSI totaled $4 million and $3 million, respectively. The Company also maintains the Excess APSI Plan, which is a nonqualified, 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.

NOTE 14 - COMMITMENTS AND CONTINGENCIES

Support and Credit Agreements

The Company has a revolving loan agreement dated April 16, 2001, as amended, with MCF to provide funding to MCF in an amount up to $3,200 million. The amount loaned cannot exceed 3% of the Company's admitted assets of December 31 of the prior year. See Note 6 – Related Party Transactions for details regarding loans extended to MCF under this agreement.

The Company has a support agreement dated September 28, 1995, with its wholly owned affiliate NYLCC to maintain NYLCC's tangible net worth in the amount of at least $1. NYLCC serves as a conduit to the credit markets for the Company and its affiliates, and is authorized to issue commercial paper in an aggregate principal amount not to exceed $3 billion.

At December 31, 2008 the Company issued a Limited Guaranty for the benefit of NYL-HK Capital Planning, LLC a Delaware LLC wholly-owned by NYLI. Pursuant to this Limited Guaranty, the Company guaranteed the performance of the LLC under two capital planning swap agreements between the LLC and another NYLI subsidiary. The amount payable under the Limited Guaranty is capped at $25 million.

On August 11, 2004, the Company entered into a Credit Agreement with NYLAZ, whereby NYLAZ is able to borrow up to $10 million from the Company for short-term liquidity needs. During 2008, the credit facility was not used, no interest was paid and there was no outstanding balance due.

The Company has a Credit Agreement with NYLIAC, dated September 30, 1993, as amended, whereby NYLIAC may borrow from the Company up to $490 million. During 2008, the credit facility was not used, no interest was paid and there was no outstanding balance due.

In addition, the Company has a Credit Agreement with NYLIAC, dated April 1, 1999, as amended, in which the Company may borrow from NYLIAC up to $490 million. During 2008, the credit facility was not used, no interest was paid and there was no outstanding balance due.

The Company, in the ordinary course of its business, enters into numerous arrangements with its affiliates. In addition, in the ordinary course of its business, the Company may enter into guarantees and/or keepwells between itself and its affiliates.

On August 16, 2001, NYLIFE LLC entered into an agreement with Credit Suisse ("CS"), referred to as Shared Appreciation Income Linked Securities ("SAILS"). Under the agreement, NYLIFE LLC has entered into a forward sale of certain of its shares of ESI. NYLIFE LLC may deliver up to 18 million shares of ESI common stock on August 22, 2011 or settle the transaction in cash, instead of delivering shares. According to the terms of the agreement, NYLIFE LLC receives a minimum value of $13.51 per share and 100% of the appreciation in the shares up to $17.57 per share. CS will receive approximately 77% of the appreciation of ESI stock in excess of $17.57 per share. During 2007, NYLIFE LLC entered into another agreement (the "Overlay Agreement") which modifies the risk and opportunity allocated under SAILS, limiting the risk of loss by protecting a portion of the unrealized retained value in the SAILS transaction from potential decline in the ESI stock price. The terms of the Overlay Agreement allow NYLIFE LLC to protect 2,800,000 shares from any decline in the stock price from $49.05 to $17.57. In exchange for limiting its downside risk, NYLIFE LLC has agreed to provide 100% of the appreciation in ESI stock price in excess of $70.38. The Company's investment in NYLIFE LLC reflects the obligations to CS associated with the terms of the agreements, which the Company has guaranteed. The price per share and number of shares in the foregoing paragraph have been adjusted for all stock splits, the most recent being effective June 25, 2007.

In 2003, following the entering into of the SAILS II agreement with CS, the Company agreed to lend CS up to 22,000,000 shares (split-adjusted) of ESI common stock. As of December 31, 2007, CS had borrowed 21,882,000 shares with a market value of $1,597 million. This transaction was generally collateralized with the right of offset against the Company's liabilities to CS, and to the extent the right of offset did not provide sufficient collateral, CS provided additional collateral, which could have consisted of U.S. Government Securities, letters of credit or cash. At December 31, 2007, the carrying amount of the lent shares was $1,549 million. On April 28, 2008, this agreement was terminated upon maturity and settlement of the SAILS II agreement.

At December 31, 2008 and 2007, contractual commitments to extend credit under commercial and residential mortgage loan agreements totaled $88 million and $249 million, respectively, at both fixed and variable rates of interest. These commitments are diversified by property type and geographic location.

At December 31, 2008, the Company had outstanding contractual obligations to acquire additional private placement securities amounting to $11 million. The Company had no outstanding contractual obligations regarding private placement securities at December 31, 2007.

Unfunded commitments on limited partnerships and limited liability corporations, excluding MCF, amounted to $2,827 million and $2,582 million at December 31, 2008 and 2007, respectively. Unfunded commitments on LIHTC amounted to $119 million and $171 million at December 31, 2008 and 2007, respectively.

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 and/or other operations, including actions involving retail sales practices. The Company is also a defendant in a suit regarding employee and agent benefits where a portion of the case, specifically the breach of fiduciary claims, has been certified as a class action by agreement of the parties. The remainder of the claims in that suit has not been certified. 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 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.

Lease Commitments

A summary of the approximate future minimum rental payments required under operating leases that have initial or remaining non-cancelable lease terms for the next five years and thereafter is as follows (in millions):

Year	Real Property	Equipment	Total
2009	$ 88	$ 15	$ 103
2010	83	8	91
2011	63	4	67
2012	55	1	56
2013	39	-	39
Thereafter	49	-	49
Total	$ 377	$ 28	$ 405

The Company is a party to an affiliated group air transportation services agreement entered into with NYLIFE LLC in November 2004. Under the terms of the agreement the Company, in conjunction with certain specified affiliates, leases an aircraft from NYLIFE LLC. Costs associated with the lease are determined on a fully allocated basis and allotted to the parties based on usage. The Company's share of expenses associated with the lease of the aircraft was $6 million and $5 million in 2008 and 2007, respectively. The agreement expires in November 2009, with automatic one-year renewals, unless terminated earlier.

The aircraft is to be used by members of senior management and directors for business travel, as approved by the CEO. Personal use of the aircraft is limited to the current CEO of the Company, and the terms of such personal use, including reimbursement, have been approved by the Board of Directors of the Company based upon the recommendation of an independent committee of the Board.

Rent expense of all other leases for the years ended December 31, 2008 and 2007 amounted to $129 million each; of which, $64 million was billed to subsidiaries in accordance with an intercompany cost sharing arrangement for both years ended December 31, 2008 and 2007.

The Company, as lessee, has various lease agreements for real property (including leases of office space) and lease agreements for data processing and other equipment. Real property leases have typical renewal periods of five years. Under the real property leases, the Company does not have the option to purchase the lease property except in the case of the Company's lease of the New York Life Investments headquarters building. Under real property leases, the lessee has the option to purchase equipment. The leases on equipment do not contain any escalation clauses, but the majority of real property leases have escalation clauses that require the Company to pay expense increases over a specified amount. Real property leases typically have a variety of restrictions imposed on the lessee, which are generally customary in the marketplace and are not of a financial nature. Equipment leases do not have any restrictions.

The total amount of minimum rentals to be received in the future under noncancelable subleases, at December 31, 2008, is $1 million.

In connection with the sale of one of its Home Office properties in 1995, the Company has entered into an agreement to lease back a portion of the building through 2010, with total future lease obligations of $21 million as of December 31, 2008.

Borrowed Money

At December 31, 2008 and 2007, the carrying value of borrowed money reported in the Statutory Statements of Financial Position was $775 million and $2,894 million, respectively. Borrowed money, generally carried at the unpaid principal balance and any interest payable, consisted of the following at December 31, 2008 and 2007 (in millions):

	2008	2007
Loan payable to New York Life Capital corporation, various maturities, latest being January 23, 2009 (weighted average interest rate of 1.20% and 4.32% for 2008 and 2007, respectively) See Note 6 - Related Party Transactions	$ 463	$ 992
Loan payable to Credit Suisse Shared Appreciation Income Linked Securities II, due April 28, 2008 (implicit rate of 2.27% on principal and appreciation above $16.63 per share on underlying ESI shares)	-	1,543
Loan payable to NYLIFE, LLC, due August 22, 2011 (coupon rate of 3.3%). See Note 6 - Related Party Transactions	243	243
Loan payable to NYLI, expires March 31, 2009 (coupon rate of 5.44% less management fee of 5.5 basis points) - See Note 6 - Related Party Transactions	47	107
Repurchase agreements (average coupon rate of 5.00% and 0% for 2008 and 2007, respectively), See Repurchase Agreements	13	-
Note payable to Aeolus Wind Power II, LLC, due July 31, 2016 (fixed interest rate of 5.5%) - See description below	9	9
Total borrowed money	$ 775	$ 2,894

On November 1, 2006, the Company issued a promissory note in the amount of $10 million at a fixed interest rate of 5.5% per annum in connection with the purchase of a membership interest in Aeolus Wind Power II LLC. The note calls for the Company to make quarterly payments of principal and interest with the first installment being due on January 31, 2007 and the final installment being due on July 31, 2016. The note may not be prepaid in whole or in part and there are no collateral requirements. The carrying value of the note was $9 million at both December 31, 2008 and 2007, including interest accrued.

On April 28, 2003, the Company entered into an agreement with CS, referred to as SAILS II. Under this agreement, the Company may deliver up to 22 million shares of ESI common stock on or before April 28, 2008 or settle the transaction in cash instead of delivering shares. In accordance with the agreement, the Company settled its obligation and 100% of the appreciation in excess of $16.63 per share due to CS by delivering 21,082,600 shares (96% of the 22 million contracted shares) to CS.

Loaned Securities and Repurchase Agreements

The Company has entered into securities lending agreements whereby certain general account investment securities are loaned to third parties for the purpose of enhancing income on certain securities held. If the securities being loaned are issued by domestic issuers, 102% of their fair value is required. If the securities being loaded are foreign denominated, the requirement is 105% of their fair value. At December 31, 2008 and 2007, the aggregate fair value of these loaned securities was $2,016 million and $3,940 million, respectively.

At December 31, 2008 and 2007, the Company recorded cash collateral received under these agreements of $2,105 million and $4,052 million, respectively, and established a corresponding liability for the same amount. The reinvested collateral is reported in bonds, common stock, cash equivalents and short-term investments and bonds, cash equivalents and short-term investments in the Statutory Statements of Financial Position at December 31, 2008 and December 2007, respectively. These collateral assets all had open terms. Additionally, at December 31, 2008 and 2007, the total fair value of all collateral positions was $2,250 million and $3,971 million, respectively.

The Company also holds collateral in the form of securities having a market value of $0 million and $57 million at December 31, 2008 and 2007, respectively, which is not included on the accompanying Statutory Statements of Financial Position.

The Company has also entered into securities lending arrangements for separate account investment securities, utilizing similar procedures and collateral requirements as those for general account loaned securities. At December 31, 2008 and 2007, there were no separate account securities lending arrangements.

At December 31, 2008, the Company had agreements to purchase and resell securities totaling $415 million at an average coupon rate of 0.02%. At December 31, 2007, the Company had agreements to purchase and resell securities agreements totaling $1,605 million at an average coupon rate of 4.19%. The Company generally requires collateral of at least 95% of the fair value of the securities throughout the term of the contract.

At December 31, 2008, the Company had agreements to sell and repurchase securities totaling $13 million at an average coupon rate of 5.00%. At December 31, 2007, the Company did not have any agreements to sell and repurchase securities. These agreements are used for the purpose of enhancing income on the securities portfolio.

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 has 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 $16 million, which have been accrued in Other Liabilities on the accompanying Statutory Statements of Financial Position.

NOTE 15 – PROPERTY AND EQUIPMENT

Property and equipment are stated at cost less accumulated depreciation. Under statutory accounting practices, the Company nonadmits all fixed assets and nonoperating software. Depreciation is determined using the straight-line method over the estimated useful lives of the assets, generally no more than five years.

Below is a chart highlighting the major classes of property and equipment at December 31, 2008 and 2007 (in millions):

	2008		
	Carrying Amount	**Accumulated Depreciation**	**Depreciation**
Software	$ 285	$ 151	$ 25
PC equipment	49	34	4
Website development	68	40	6
Subtotal EDP	$ 402	$ 225	$ 35
Office furniture	$ 47	$ 23	$ 5
Telecommunications	37	23	3
Leasehold improvements	55	24	4
Other	6	4	1
Subtotal Furniture	$ 145	$ 74	$ 13
Total	$ 547	$ 299	$ 48

	2007		
	Carrying Amount	**Accumulated Depreciation**	**Depreciation**
Software	$ 219	$ 106	$ 20
PC equipment	42	27	4
Website development	54	30	5
Subtotal EDP	$ 315	$ 163	$ 29
Office furniture	$ 139	$ 115	$ 4
Telecommunications	36	20	4
Leasehold improvements	87	59	3
Subtotal Furniture	$ 262	$ 194	$ 11

NOTE 16 – WRITTEN PREMIUMS

Deferred and uncollected life insurance premiums at December 31, 2008 and 2007 were as follows (in millions):

	2008		2007	
	Gross	Net of Loading	Gross	Net of Loading
Ordinary new business	$ 115	$ 52	$ 108	$ 53
Ordinary renewal	1,070	1,038	1,042	993
Group Life	427	340	384	307
Total	$ 1,612	$ 1,430	$ 1,534	$ 1,353

Based upon Company experience, the amount of premiums that may become uncollectible and result in a potential loss is not material to the Company's financial position. For the years ended December 31, 2008 and 2007, respectively, the Company nonadmitted $3 million and $2 million of premiums that were over 90 days past due.

Direct premiums written by third party administrators ("TPA") during 2008 and 2007 totaled $591 million and $582 million, respectively. Direct premiums written in 2008 TPAs were as follows (millions):

TPA Name	Address	Fed ID #	Exclusive contract? (Y/N)	Types of business written	Underwriting Authority, Claims Payment	Direct Written Premiums
Health Plan Services	3501 Frontage Rd. , Tampa, FL 33607	59-1407300	N	Group Life & A&H	Full, N	$ 157
Marsh Affinity	12421 Meredith Drive, Urbandale, IA 50398	52-0963964	N	Group Life & A&H	Full, Y	156
USI Colburn Insurance Services	One International Plaza 4th Floor, Philadelphia, PA 19113	25-0909496	N	Group Life	None, N	37
Affinity Insurance Services Inc	159 E. County Line Rd., Hatboro, PA 19040	36-3642411	N	Group Life & A&H	Full, Y	32
Sun Life Financial Inc.	225 King St. West 12th Floor, Toronto, ON M5V 3C5	10-5071005	N	Group Life	None, N	32
Pearl Carroll & Associates, LLC	12 Cornell Rd. , Latham, NY 12110	20-2563026	N	Group Life & A&H	None, Y	29
Assoc. Group Ins. Administrators	1155 Eugenia Pl. , Carpenteria, CA 93013-2062	95-2409500	N	Group Life & A&H	Full, Y	26
NEBCO (National Employee Benefits Companies, Inc.)	16 International Way, Warwick, RI 2886	05-0461576	N	Group Life & A&H	Full, N	25
Gilsbar, Inc.	2100 Covington Centre , Covington, LA 70433	72-0519951	N	Group Life & A&H	Full, Y	15
AAFP Insurance Services, Inc.	11400 Tomahawk Creek Pkwy. Suite 430, Leawood, KS 66211-2672	43-1226253	N	Group Life & A&H	Limited *, N	15
All others below $15 million						67
Total						$ 591

* Approval up to a specified dollar amount.

NOTE 17 – FAIR VALUE OF FINANCIAL INSTRUMENTS

The following table presents the carrying amounts and estimated fair values of the Company's financial instruments at December 31, 2008 and 2007 (in millions). The fair value of an asset is the amount at which that asset could be bought or sold in a current transaction between willing parties, that is, other than in a forced or liquidation sale. The fair value of a liability is the amount at which that liability could be incurred or settled in a current transaction between willing parties, that is, other than in a forced or liquidation sale.

	2008		2007	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Assets:				
Bonds	$ 65,391	$ 61,053	$ 66,668	$ 68,175
Mortgage loans	9,758	9,121	9,081	9,225
Common and preferred stocks	6,518	6,486	8,811	8,817
Limited partnerships and other investments	6,917	6,994	7,700	7,965
Cash, cash equivalents and short-term investments	2,300	2,300	4,608	4,608
Derivatives	846	1,192	975	863
Separate account assets	5,875	5,455	6,611	6,600
Liabilities:				
Deposit Fund Contracts:				
Funding Agreements	$ 17,252	$ 16,843	$ 19,345	$ 19,199
Annuities Certain	451	452	531	576
Other	1,921	1,921	1,968	1,968
Derivatives	1,151	1,217	201	196
Borrowed money	775	775	2,894	2,895
Separate account liabilities - derivatives	5	5	2	2

Bonds

The fair value of bonds is determined by considering one of three primary sources. 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 pricing service generally uses a discounted cash-flow model or market approach to determine fair value. Typical inputs used by these pricing services include, but are not limited to; benchmark yields, reported trades, issuer spreads, bids, offers, benchmark securities, estimated cash flows and prepayment speeds.

Independent pricing vendors do not cover private placement securities. These securities are priced by an internally developed model based upon assigned comparable public issues adjusted for liquidity, maturity and rating. The Company assigns a credit rating based upon internal analysis.

Prices from pricing services and broker quotes are validated on an ongoing basis to ensure the adequacy and reliability of the fair value measurement. The Company performs both quantitative and qualitative analysis of the prices including, initial and ongoing review of third party pricing methodologies, back testing of recent trades, and a thorough review of pricing trends and statistics.

Mortgage Loans

The estimated fair value of mortgage loans is determined by discounting the projected cash flows for each property 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.

Common and preferred stocks

The fair value of unaffiliated equities securities is determined by considering one of three primary sources. 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.

Prices from pricing services and broker quotes are validated on an ongoing basis to ensure the adequacy and reliability of the fair value measurement. The Company performs both quantitative and qualitative analysis of the prices including, initial and ongoing review of third party pricing methodologies, back testing of recent trades, and a thorough review of pricing trends and statistics.

The estimated fair value of affiliated common stock is equal to the carrying value since these entities are not publicly traded and a reliable value cannot be determined.

Limited Partnerships and Other Investments

The estimated fair value of limited partnerships and limited liability companies is presumed to be equal to the underlying net equity of the investee since the underlying investments held by the partnerships are generally at fair value. Estimated fair value includes the underlying GAAP equity of limited partnerships that have been excluded from the carrying value since they are unaudited.

Included in other investments are loans receivable from MCF. The 2008 estimated fair value for the loans receivable is based on discounting future cash flows at a rate for comparable loans for revolving loan agreements and internal models, excluding accrued interest, for the promissory notes (see Note 6 - Related Party Transactions, for details on the loans). In 2007, the estimated fair value of the loan receivable approximated carrying value.

The estimated fair value of the remaining investments within other investments is presumed to be equal to the carrying value.

Cash, Cash Equivalents and Short-Term Investments

Due to the short-term maturities, the carrying value of short-term investments, cash and cash equivalents is presumed to approximate fair value.

Derivatives

The fair value of derivative instruments is generally calculated using pricing valuation models, which utilize observable market data. The remaining derivatives are either exchange-traded or were priced by broker quotations. Over-the-counter ("OTC") derivatives are privately negotiated financial contracts and are fair valued using market-based inputs to models. Where models are used, 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 models require a variety of inputs, including contractual terms, market prices, yield curves, credit curves, and measures of volatility. Also, certain OTC derivatives are currently valued using broker quotations.

Separate Account Assets

Assets within the separate account are primarily invested in common stocks, preferred stocks and bonds. The fair value of investments in the separate accounts is calculated using the same procedures as are used for common stocks, preferred stocks and bonds in the general account.

The separate account also invests in limited partnerships (LP). The fair value of such partnerships is determined by reference to the LP's net asset value (NAV).

Deposit Fund Contracts

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 all other deposit funds, dividend accumulations and supplemental contracts, estimated fair value is equal to account value.

Borrowed Money

Borrowed money consists of intercompany borrowings, repurchase agreements and other financing arrangements. The carrying value approximates estimated fair value.

Separate Account Liabilities - Derivatives

For separate account derivative instruments, fair value is determined using the same procedures as the general account disclosed above.

NOTE 18 – FAS 157 FAIR VALUE LEVELS

Included in various investment related line items in the financial statements are certain financial instruments carried at fair value. Other financial instruments are periodically measured at fair value, such as when impaired, or, for certain bonds and preferred stocks when carried at the lower of cost or market.

The Company's financial assets and liabilities carried at fair value have been classified, for disclosure purposes, based on a hierarchy defined by FAS No. 157, Fair Value Measurements. FAS 157 establishes a three level fair value hierarchy that distinguishes between the inputs to valuation techniques (not the valuation techniques themselves) used to estimate fair value, considering the relative reliability of the input. The Company is including the disclosures required under FAS 157.

Since FAS 157 only applies to items that are carried at fair value on either a recurring or nonrecurring basis, the items in the tables below are a subset of the amounts reported in Note 17.

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. This would include active exchange-traded equity and derivative securities and open-ended mutual funds with a daily net asset value ("NAV"), and no restrictions.

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. Fair value for bonds in this category are priced principally by independent pricing services or by internal models using observable inputs. Fair values for derivatives in this category are priced by internal models using observable 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. Examples include certain private equity investments.

Inputs used to measure the fair value of an asset or liability may fall into different levels of the fair value hierarchy. The Company determines the level in which the fair value falls based upon the lowest level input that is significant to the determination of fair value. For most assets or liabilities that are classified into level 3, both observable and unobservable inputs are used in the determination of fair value.

The following table represents the balances of assets and liabilities measured at fair value on a recurring basis as of December 31, 2008 (in millions):

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Common Stocks	$ 1,042	$ -	$ 84	$ 1,126
Other invested assets (derivatives)	-	249	-	249
Separate account assets	1,357	900	13	2,270
Total assets accounted for at fair value on a recurring basis	$ 2,399	$ 1,149	$ 97	$ 3,645
Other liabilities (derivatives)	$ -	$ 499	$ -	$ 499
Separate accounts liabilities	1	4	-	5
Total liabilities accounted for at fair value on a recurring basis	$ 1	$ 503	$ -	$ 504

Common Stocks

Prices from a third party pricing vendor based on unadjusted quotes in an active market are classified as level 1 within the fair value hierarchy. An active market is defined as a market in which transactions occur with sufficient frequency and volume to provide pricing information on an ongoing basis. Also, open-ended mutual funds with a daily net asset value ("NAV") are level 1.

Common stocks that are not traded on an exchange are generally valued by an internal model and are classified as level 3.

Derivative Instruments (Other Invested Assets and Other Liabilities)

Derivative Instruments reported on the Statutory Statements of Financial Position at fair value are reported in aggregate write-ins for invested assets or liabilities. Derivatives that hedge investments in bonds (and other assets or liabilities carried at cost or amortized cost) are carried at amortized cost with no recognition of changes in fair value of the derivative. The fair value of these derivatives is excluded from the above tables.

Derivative instruments classified as level 1 in the fair value hierarchy include certain option contracts that are traded on an active exchange.

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. Such instruments are classified within level 2 of the fair value hierarchy.

OTC derivatives that are currently valued using broker quotations are classified within level 3 of the fair value hierarchy.

Separate Account Assets

Level 1 consists of investments in exchange traded common stock and open-ended mutual funds. Level 2 consists of bonds priced principally by independent pricing services or by internal models using observable inputs and limited partnership investments priced using a net asset value ("NAV") with contribution and withdrawal restrictions that are deemed to have a de minimis effect on the fair value. Level 3 consists of bonds priced principally using a broker quote or based upon internal valuations that contain significant unobservable inputs.

Separate Account Liabilities

Separate account liabilities include amounts for derivatives and the leveling is based upon the criteria described under Derivative Instruments (Other Invested Assets and Liabilities).

The table below presents a reconciliation of level 3 assets and liabilities for the year ended December 31, 2008 (in millions):

	Common Stock	Other Invested Assets (Derivatives)	Separate Account Assets	Other Liabilities (Derivatives)
Fair value, beginning of year	$ 9	$ -	$ 5	$ -
Total gains or (losses), realized and unrealized, included in:				
Earnings:				
Net investment income	-	-	8	-
Net investment gains and (losses)	(4)	-	-	-
Surplus:	-	-	-	-
Purchases, sales, issuances and settlements	79	-	(2)	-
Transfers into (out of) level 3 (1)	-	-	2	-
Fair value, end of year	$ 84	$ -	$ 13	$ -

(1) Transfers into or out of level 3 are reported at the value as of the beginning of the year in which the transfer occurred.

The table below includes the changes in unrealized gains (losses) for the year ended December 31, 2008 by category for level 3 assets and liabilities still held at December 31, 2008 (in millions):

	Common Stock	Other invested assets (derivatives)	Separate Account Assets	Other liabilities (derivatives)
Earnings:				
Net investment income	$ -	$ -	$ 8	$ -
Net investment gains and (losses)	(4)	-	-	-
Surplus	-	-	-	-
Total change in unrealized gain (loss)	$ (4)	$ -	$ 8	$ -

Non-recurring Fair Value Measurements

Certain financial assets are measured at fair value on a non-recurring basis, such as certain bonds and preferred stocks valued at the lower of cost or fair value, or investments that are impaired during the reporting period and recorded at fair value on the balance sheet at December 31, 2008. This also includes similar investments in the book value separate accounts. Refer to Note 4 Investment Income and Capital Gains and Losses for a discussion of other than temporary impairments. The following table represents the balances of assets and liabilities measured at fair value on a nonrecurring basis as of December 31, 2008 (in millions):

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Assets:				
Bonds	$ -	$ 144	$ 48	$ 192
Separate Accounts Assets	-	20	1	21
Preferred Stocks	-	28	3	31
Limited Partnership	-	-	73	73
Total Asssets	$ -	$ 192	$ 125	$ 317

The determination of the level is based upon the same criteria described above for recurring fair value measurements.