STATE OF NEW YORK INSURANCE DEPARTMENT

REPORT ON EXAMINATION

OF THE

NATIONAL INCOME LIFE INSURANCE COMPANY

CONDITION: DECEMBER 31, 2005

DATE OF REPORT: AUGUST 18, 2006

STATE OF NEW YORK INSURANCE DEPARTMENT

REPORT ON EXAMINATION

OF THE

NATIONAL INCOME LIFE INSURANCE COMPANY

AS OF

DECEMBER 31, 2005

DATE OF REPORT:	AUGUST 18, 2006
EXAMINER:	VINCENT TARGIA

TABLE OF CONTENTS

STATE OF NEW YORK
INSURANCE DEPARTMENT
25 BEAVER STREET
NEW YORK, NEW YORK 10004

George E. Pataki
Governor

Howard Mills
Superintendent

August 18, 2006

Honorable Howard Mills
Superintendent of Insurance
Albany, New York 12257

Sir:

In accordance with instructions contained in Appointment No. 22438, dated December 6, 2005 and annexed hereto, an examination has been made into the condition and affairs of The National Income Life Insurance Company, hereinafter referred to as “the Company,” at its home office located at 1020 Seventh North Street, Liverpool, New York 13088.

Wherever “Department” appears in this report, it refers to the State of New York Insurance Department.

The report indicating the results of this examination is respectfully submitted.

1. EXECUTIVE SUMMARY

The examiner's review of a sample of transactions did not reveal any differences which materially affected the Company's financial condition as presented in its financial statements contained in the December 31, 2005 filed annual statement. (See item 5 of this report)

The examiner's review of the Company's market conduct activities did not reveal significant instances which deviated from the New York Insurance Law, Department regulations and circular letters and the operating rules of the Company. (See item 6 of this report)

The Company violated Section 308(a) of the New York Insurance Law by failing to file a copy of its tax allocation agreement with the Department in accordance with Department Circular Letter No. 33 (1979). A similar violation appeared in the prior report on examination. (See item 3B of this report)

The Company violated Section 325(a) of the New York Insurance Law by failing to maintain the minutes of the meetings of its audit and evaluation committee, the annual meeting of its shareholders and various meetings of the board of directors for the years under examination at its principal office in this state. (See item 3C of this report)

2. SCOPE OF EXAMINATION

The prior examination was conducted as of December 31, 2002. This examination covers the period from January 1, 2003 through December 31, 2005. As necessary, the examiner reviewed transactions occurring subsequent to December 31, 2005 but prior to the date of this report (i.e., the completion date of the examination).

The examination comprised a verification of assets and liabilities as of December 31, 2005 to determine whether the Company's 2005 filed annual statement fairly presents its financial condition. The examiner reviewed the Company's income and disbursements necessary to accomplish such verification and utilized the National Association of Insurance Commissioners' Examiners Handbook or such other examination procedures, as deemed appropriate, in such review and in the review or audit of the following matters:

Company history
Management and control
Corporate records
Fidelity bond and other insurance
Officers' and employees' welfare and pension plans
Territory and plan of operation
Market conduct activities
Growth of Company
Business in force by states
Mortality and loss experience
Reinsurance
Accounts and records
Financial statements

The examiner reviewed the corrective actions taken by the Company with respect to the violations contained in the prior report on examination. The results of the examiner's review are contained in item 9 of this report.

This report on examination is confined to financial statements and comments on those matters which involve departure from laws, regulations or rules, or which require explanation or description.

3. DESCRIPTION OF COMPANY

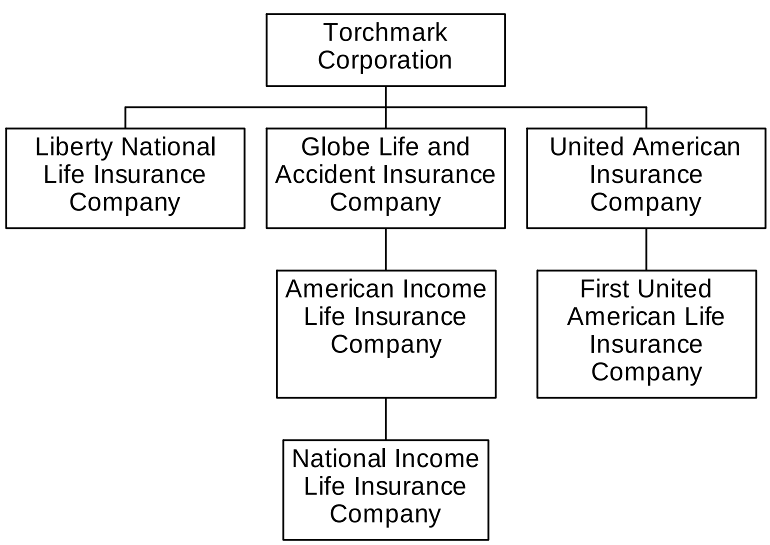
A. History

The Company was incorporated as a stock life insurance company under the laws of New York on May 14, 1996, was licensed on October 16, 2000 and commenced business on November 16, 2000. Initial resources of $8,000,000, consisting of common capital stock of $2,000,000 and paid in and contributed surplus of $6,000,000, were provided through the sale of 100 shares of common stock (with a par value of $20,000 each) for $80,000 per share. On April 5, 2002, an additional capital contribution was made in the amount of $5,000,000 bringing its paid in and contributed surplus to $11,000,000 as of December 31, 2002.

B. Holding Company

The Company is a wholly owned subsidiary of American Income Life Insurance Company ("AILIC"), a Texas insurance company. AILIC is in turn a wholly owned subsidiary of Globe Life and Accident Insurance Company ("GLAIC"), a Texas insurance company. The ultimate parent of the Company is Torchmark Corporation ("TMK"), a Delaware investment advisory company.

An organization chart reflecting the relationship between the Company and significant entities in its holding company system as of December 31, 2005 follows:



The Company had five service agreements in effect with affiliates during the examination period.

Type of Agreement and Department File Number	Effective Date	Provider(s) of Service(s)	Recipient of Service(s)	Specific Service(s) Covered	Expense For Each Year of the Examination
Administrative (File #31379)	5/17/2000	AILIC	The Company	Distribution/producer management, reinsurance and underwriting, claims processing and payment, actuarial and financial, information technology and human resources	2005 - ($1,060,809) 2004 - ($997,951) 2003 -($678,543)
Administrative (File #31541)	5/17/2000	First United American Life Insurance Company ("FUA")	The Company	Administrative general support services in connection with the Company's business and operations, supervisory, oversight support and managerial services by making a senior officer available with expertise and experience in managing the operations of a life insurance company	2005 ($3,988) 2004 ($2,915) 2003 ($9,627)
Investment (File #31300)	12/1/2003	TMK	The Company	Investment advisory services	2005 - ($54,752) 2004 - ($42,810) 2003 - ($95,125)
Sublease (File #31377)	5/1/2002	FUA	The Company	Sublease of office space	2005 - ($1,947) 2004 - ($1,460) 2003 - ($5,116)
Temporary Advances (File #30284)	8/27/02	AILIC	The Company	To allow for the temporary advance of funds in order to meet cash flow needs	2005 - ($200) 2004 - $0 2003 - $0

The Company participates in a federal tax allocation agreement with its parent and affiliates.

Section 308(a) of the New York Insurance Law states, in part:

"The superintendent may also address to any ... authorized insurer or its officers any inquiry in relation to its transactions or condition or any matter connected

> therewith. Every corporation or person so addressed shall reply in writing to such inquiry promptly ...”

Department Circular Letter No. 33 (1979) advises, in part:

> “... Any domestic insurer which currently does not participate in a consolidated tax return shall file a copy of its tax allocation agreement with this Department within 30 days of electing to do so...”

The Company has a consolidated federal tax allocation agreement in effect with its ultimate parent, TMK. The Company failed to submit its consolidated federal tax allocation agreement to the Department.

The Company violated Section 308(a) of the New York Insurance Law by failing to file a copy of its tax allocation agreement with the Department in accordance with Department Circular Letter No. 33 (1979). A similar violation appeared in the prior report on examination.

C. Management

The Company’s by-laws provide that the board of directors shall be comprised of not less than nine and not more than 21 directors. The number of directors, however, shall be increased to not less than 13 within one year following the end of the calendar year in which the Company exceeds $500 million in admitted assets. Directors are elected for a period of one year at the annual meeting of the shareholders held in April of each year. As of December 31, 2005, the board of directors consisted of ten members. Meetings of the board are held immediately following the annual meeting of the shareholders and at such intervals and on such dates as the board designates. All meetings of the board of directors were held by means of unanimous written consent.

The ten board members and their principal business affiliation, as of December 31, 2005, were as follows:

Name and Residence	Principal Business Affiliation	Year First Elected
Tony G. Brill Frisco, TX	Executive Vice President and Chief Administrative Officer National Income Life Insurance Company Executive Vice President, Torchmark Corporation	1999
Gary L. Coleman Plano, TX	Executive Vice President and Chief Financial Officer Torchmark Corporation	1999
Terence P. Cummings* Montclair, NJ	Attorney at Law Ohrenstein & Brown, LLP	2002
Kevin A. Dattellas* Warner, NY	Chief Financial Officer Solvay Bank	2005
Jerry M. Greenspan* Harrison, NY	Retired	2005
Larry M. Hutchison Duncanville, TX	Executive Vice President, General Counsel, and Secretary National Income Life Insurance Company Executive Vice President and General Counsel Torchmark Corporation	1999
Rosemary J. Montgomery Parker, TX	Executive Vice President and Chief Actuary National Income Life Insurance Company	2005
Bernard Rapoport* Waco, TX	Marketing Consultant Bernard Rapoport Investments	1999
James A. Savo Liverpool, NY	Vice President National Income Life Insurance Company	2002
Roger C. Smith Waco, TX	President and Chief Executive Officer National Income Life Insurance Company	2005

* Not affiliated with the Company or any other company in the holding company system

Section 325(a) of the New York Insurance Law states, in part:

> "Every domestic insurer . . . shall . . . keep and maintain at its principal office in this state … the minutes of any meetings of its shareholders, policyholders, board of directors and committees thereof ..."

The Company did not maintain the minutes of the meetings of its audit and evaluation committee or the annual meeting of its shareholders for any of the years under examination at its principal office in this state. Similarly, the Company did not maintain all of the minutes of the various meetings of the board of directors for the years 2003 and 2005 at its principal office in this state.

The Company violated Section 325(a) of the New York Insurance Law by failing to maintain the minutes of the meetings of its audit and evaluation committee, the annual meeting of its shareholders and various meetings of the board of directors for the years under examination at its principal office in this state.

The examiner's review of the minutes of the meetings of the board of directors and its committees indicated that all meetings were held by unanimous written consent. Regular scheduling of board meetings is necessary to promote open discussion and better communication among directors, especially non-management directors that might otherwise have no regular forum for such discussions and communications. It is difficult to see how open discussion and better communication can be facilitated by holding all board meetings by unanimous written consent. The examiner recommends that the Company's Board of Directors meet in person at a minimum of once every calendar year and more frequently as necessary to promote open discussion and better communication among directors.

The following is a listing of the principal officers of the Company as of December 31, 2005:

Name	Title
Roger C. Smith	President and Chief Executive Officer
Danny H. Almond	Executive Vice President and Treasurer
Larry M. Hutchison	Executive Vice President, General Counsel and Secretary
Tony G. Brill	Executive Vice President and Chief Administrative Officer
Gayle E. Emmert	Vice President and Actuary
Diana Crosby*	Senior Vice President, Administration

* Designated consumer services officer per Section 216.4(c) of Department Regulation No. 64

D. Territory and Plan of Operation

The Company is authorized to write life insurance, annuities and accident and health insurance as defined in paragraphs 1, 2 and 3 of Section 1113(a) of the New York Insurance Law.

The Company is only licensed to write business in New York. In 2005, all life premiums and accident and health premiums were received from New York. Policies are written on a non-participating basis.

During the examination period, the Company primarily sold life insurance and accident and health products. The life insurance line included ordinary and term life insurance. The accident and health line included individual and group accident policies. The Company's emphasis is on selling basic individual life coverage and fixed-benefit accident and health insurance to moderate income wage earners, through the cooperation of labor unions, credit unions, and other associations in the state of New York.

The Company's agency operations are conducted on a general agency basis. The structure of its sales force is a 4 level system whereby an agent is contracted under a general agent, who reports to a managing general agent, who reports to a state general agent. The state general agent is responsible for marketing the Company's products, contracting managing general agents, general agents, and agents to work under his/her state general agent structure. However, the state general agent does not personally produce any business.

During 2005, one state general agent received override commissions totaling in excess of $2 million which represents approximately 33% of total commissions paid by the Company. This agent is one of two state general agents that contract with the Company and is responsible for the upstate region of New York State.

E. Reinsurance

As of December 31, 2005, the Company had no reinsurance treaties in effect for new business.

4. SIGNIFICANT OPERATING RESULTS

Indicated below is significant information concerning the operations of the Company during the period under examination as extracted from its filed annual statements. Failure of items to add to the totals shown in any table in this report is due to rounding.

The following table indicates the Company's financial growth (decline) during the period under review:

	December 31, 2002	December 31, 2005	Increase (Decrease)
Admitted assets	$11,650,512	$21,559,877	$ 9,909,365
Liabilities	$ 1,651,934	$13,566,569	$11,914,635
Common capital stock	$ 2,000,000	$ 2,000,000	$ 0
Gross paid in and contributed surplus	11,000,000	11,000,000	0
Unassigned funds (surplus)	(3,001,422)	(5,006,692)	(2,005,270)
Total capital and surplus	$ 9,998,578	$ 7,993,308	$(2,005,270)
Total liabilities, capital and surplus	$11,650,512	$21,559,877	$ 9,909,365

The growth in assets from 2002 through 2005 is primarily attributable to net cash generated from new business issued and renewal premium growth. The increase in liabilities during that same period is primarily attributed to an increase in reserves and policy liabilities associated with the growth in new business.

The Company's invested assets as of December 31, 2005, were mainly comprised of bonds (92.3%), and cash and short-term investments (7.6%).

The majority (99.3%) of the Company's bond portfolio, as of December 31, 2005, was comprised of investment grade obligations.

The ordinary lapse ratio for each of the examination years was 39.5% in 2003, 36.7% in 2004 and 29.9% in 2005. The focus of the Company's marketing organization is on lower income markets, which have historically experienced higher lapse rates than higher income markets. The highest lapse rates are in the first policy year; so as the business matures, a greater percentage of the business will be in renewal years which will result in a decrease in the Company's lapse ratio.

The following is the net gain (loss) from operations by line of business after federal income taxes but before realized capital gains (losses) reported for each of the years under examination in the Company's filed annual statements:

	2003	2004	2005
Ordinary:			
Life insurance	$ 760,566	$ 254,870	$ 175,145
Supplementary contracts	2,951	342	0
Total ordinary	$ 763,517	$ 255,212	$ 175,145
Accident and health:			
Group	$(180,766)	$ (457,925)	$ (18,679)
Other	(219,271)	(881,996)	(53,354)
Total accident and health	$(400,037)	$(1,339,921)	$ (72,033)
Total	$ 363,480	$(1,084,709)	$103,112

The consistent losses in the accident and health lines of business were primarily due to reimbursements made to public relation representatives to obtain group endorsements and/or group coverage. The significant loss in 2004 was a result of increased marketing activity that resulted in higher expenses.

The consistent loss in the other accident and health line of business was primarily due to adverse claims experience associated with the Company's individual accident policy that paid a fixed amount for emergency room visits despite the cost to the insured. As a result, the Company discontinued the sale of the policy when it received approval from the Department for a new individual accident policy that eliminated the fixed payment amount in December 2004. With the fixed payment amount eliminated from its accident policy the Company's claim experience improved dramatically in 2005 resulting in a significant reduction in losses in the other accident and health line of business.

5. FINANCIAL STATEMENTS

The following statements show the assets, liabilities, capital and surplus as of December 31, 2005, as contained in the Company's 2005 filed annual statement, a condensed summary of operations and a reconciliation of the capital and surplus account for each of the years under review. The examiner's review of a sample of transactions did not reveal any differences which materially affected the Company's financial condition as presented in its financial statements contained in the December 31, 2005 filed annual statement.

A. ASSETS, LIABILITIES, CAPITAL AND SURPLUS AS OF DECEMBER 31, 2005

Admitted Assets

Bonds	$15,272,659
Cash, cash equivalents and short term investments	1,251,186
Contract loans	31,613
Investment income due and accrued	203,585
Premiums and considerations:	
Uncollected premiums and agents' balances in the course of collection	291,862
Deferred premiums, agents' balances and installments booked but deferred and not yet due	3,961,972
Net deferred tax asset	547,000
Total admitted assets	$21,559,877

Liabilities, Capital and Surplus

Aggregate reserve for life policies and contracts	$11,005,014
Aggregate reserve for accident and health contracts	462,626
Contract claims:	
Life	611,762
Accident and health	595,273
Premiums and annuity considerations for life and accident and health contracts received in advance	4,194
Contract liabilities not included elsewhere:	
Interest maintenance reserve	19,357
Commissions to agents due or accrued	16,082
Taxes, licenses and fees due or accrued, excluding federal income taxes	(1,282)
Current federal and foreign income taxes	213,864
Amounts withheld or retained by company as agent or trustee	10,066
Amounts held for agents' account	79,876
Remittances and items not allocated	63,212
Miscellaneous liabilities:	
Asset valuation reserve	50,118
Payable to parent, subsidiaries and affiliates	407,366
Uncashed drafts and checks pending escheatment	29,041
Total liabilities	$13,566,569
Common capital stock	$ 2,000,000
Gross paid in and contributed surplus	11,000,000
Unassigned funds (surplus)	(5,006,692)
Total capital, surplus and other funds	$ 7,993,308
Total liabilities, capital and surplus	$21,559,877

B. CONDENSED SUMMARY OF OPERATIONS

	2003	2004	2005
Premiums and considerations	$10,824,569	$15,490,519	$18,251,367
Investment income	501,680	584,002	714,198
Miscellaneous income	2,161	4,245	4,437
Total income	$11,328,410	$16,078,766	$18,970,002
Benefit payments	$ 1,751,113	$ 3,341,836	$ 3,750,791
Increase in reserves	1,981,006	3,604,850	4,897,199
Commissions	5,126,253	7,224,179	7,175,339
General expenses and taxes	1,523,099	2,644,072	1,971,585
Increase in loading on deferred and uncollected premium	1,470,510	428,675	(70,275)
Total deductions	$11,851,981	$17,243,612	$17,724,659
Net gain (loss)	$ (523,571)	$(1,164,846)	$ 1,245,343
Federal and foreign income taxes incurred	(887,051)	(80,137)	1,142,231
Net gain (loss) from operations before net realized capital gains	$ 363,480	$(1,084,709)	$ 103,112
Net realized capital gains (losses)	0	0	(6)
Net income	$ 363,480	$(1,084,709)	$ 103,106

The net losses in 2004 were primarily driven by net losses in the Company's accident and health lines of business.

C. CAPITAL AND SURPLUS ACCOUNT

	2003	2004	2005
Capital and surplus, December 31, prior year	$ 9,998,578	$ 8,078,421	$7,192,880
Net income	$ 363,480	$(1,084,709)	$ 103,106
Change in net deferred income tax	704,000	255,000	651,000
Change in non-admitted assets and related items	(2,977,289)	(44,195)	61,985
Change in asset valuation reserve	(10,348)	(11,637)	(15,663)
Net change in capital and surplus for the year	$(1,920,157)	$ (885,541)	$ 800,428
Capital and surplus, December 31, current year	$ 8,078,421	$ 7,192,880	$7,993,308

6. MARKET CONDUCT ACTIVITIES

The examiner reviewed various elements of the Company's market conduct activities affecting policyholders, claimants, and beneficiaries to determine compliance with applicable statutes and regulations and the operating rules of the Company.

A. Advertising and Sales Activities

The examiner reviewed a sample of the Company's advertising files and the sales activities of the agency force including trade practices, solicitation and the replacement of insurance policies.

Based upon the sample reviewed, no significant findings were noted.

B. Underwriting and Policy Forms

The examiner reviewed a sample of new underwriting files, both issued and declined, and the applicable policy forms.

Based upon the sample reviewed, no significant findings were noted.

C. Treatment of Policyholders

The examiner reviewed a sample of various types of claims, surrenders, changes and lapses. The examiner also reviewed the various controls involved, checked the accuracy of the computations and traced the accounting data to the books of account.

Based upon the sample reviewed, no significant findings were noted.

7. BUISNESS CONTINUITY PLAN

A review of the Business Continuity Plan provided by the Company indicated that the Company is reliant upon the business continuity plan of its parent, AILIC. This appears reasonable as the Company is reliant upon its parent for its information technology and a number of back office functions as provided for in administrative service agreements.

However, the AILIC Business Continuity Plan does not encompass any procedures that cover the potential loss of activities of the Company at its home office in New York State in the event of an emergency.

It is recommended that the Company incorporate as part of its business continuity plan procedures that cover the potential loss of the activities of the New York home office in the event of an emergency or disaster.

8. PRIOR REPORT SUMMARY AND CONCLUSIONS

Following are the violations contained in the prior report on examination and the subsequent actions taken by the Company in response to each citation:

Item	Description
A	The Company violated Section 1505(d)(3) of the New York Insurance Law by failing to notify the Superintendent in writing of its intention to sublease office space from an affiliate at least 30 days prior thereto. The Company submitted and received approval from the Department for a sublease agreement with its affiliate First United American Life Insurance Company.
B	The Company violated Section 308(a) of the New York Insurance Law by failing to file a copy of its tax allocation agreement with the Department in accordance with Department Circular Letter No. 33 (1979). The Company failed to take corrective action in response to this prior report violation. (See item 3A of this report)
C	The Company violated Section 4228(e)(6) of the New York Insurance Law by awarding to five agents a ring that exceeded the $250 limit imposed therein. The Company instituted procedures to ensure that awards to agents do not exceed the limitations imposed by Section 4228(e)(6) of the New York Insurance Law. The examination did not reveal any instances where an agent received awards that exceeded the limitations imposed.

9. SUMMARY AND CONCLUSIONS

Following are the violations and recommendation contained in this report:

Item	Description	Page No(s).
A	The Company violated Section 308(a) of the New York Insurance Law by failing to file a copy of its tax allocation agreement with the Department in accordance with Department Circular Letter No. 33 (1979). A similar violation appeared in the prior report on examination.	5-6
B	The Company violated Section 325(a) of the New York Insurance Law by failing to maintain the minutes of the meetings of its audit and evaluation committee, the annual meeting of its shareholders and various meetings of the board of directors for the years under examination at its principal office in this state.	8
C	The examiner recommends that the Company's Board of Directors meet in person at a minimum of once every calendar year and more frequently as necessary to promote open discussion and better communication among directors.	8
D	It is recommended that the Company incorporate as part of its Business Continuity Plan procedures that cover the potential loss of the activities of the New York home office in the event of an emergency or disaster.	17

Respectfully submitted,

/s/

Vincent Targia
Associate Insurance Examiner

STATE OF NEW YORK)
)SS:
COUNTY OF NEW YORK)

Vincent Targia, being duly sworn, deposes and says that the foregoing report, subscribed by him, is true to the best of his knowledge and belief.

/s/

Vincent Targia

Subscribed and sworn to before me

this__________ day of ____________________

APPOINTMENT NO. 22438

STATE OF NEW YORK

INSURANCE DEPARTMENT

I, HOWARD MILLS , Superintendent of Insurance of the State of New York,

pursuant to the provisions of the Insurance Law, do hereby appoint:

VINCENT TARGIA

as a proper person to examine into the affairs of the

NATIONAL INCOME LIFE INSURANCE COMPANY

and to make a report to me in writing of the condition of the said

COMPANY

with such other information as he shall deem requisite.

In Witness Whereof, I have hereunto subscribed by name
and affixed the official Seal of the Department
at the City of New York

this 6th day of December, 2005

HOWARD MILLS
Superintendent of Insurance