NEW YORK STATE DEPARTMENT OF FINANCIAL SERVICES

REPORT ON EXAMINATION

OF THE

NATIONAL INCOME LIFE INSURANCE COMPANY

CONDITION: DECEMBER 31, 2015

DATE OF REPORT: MAY 24, 2017

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EXAMINER: RORY CUMMINGS

TABLE OF CONTENTS

NEW YORK STATE
DEPARTMENT of
FINANCIAL SERVICES

Andrew M. Cuomo
Governor

Linda A. Lacewell
Acting Superintendent

February 25, 2019

Honorable Linda A. Lacewell
Acting Superintendent of Financial Services
New York, New York 10004

Madam:

In accordance with instructions contained in Appointment No. 31504, dated July 6, 2016, and annexed hereto, an examination has been made into the condition and affairs of National Income Life Insurance Company, hereinafter referred to as "the Company," at its home office located at 1020 Seventh North Street, Liverpool, NY 13088. Subsequent to the end of field examination work, but prior to this report, the company relocated to 301 Plainfield Road, Suite 150, Syracuse, NY 13212.

Wherever "Department" appears in this report, it refers to the New York State Department of Financial Services.

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

1. SCOPE OF EXAMINATION

The examination of the Company was a full scope examination as defined in the NAIC *Financial Condition Examiners Handbook, 2016 Edition* (the "Handbook"). The examination covers the three-year period from January 1, 2013, through December 13, 2015. The examination was conducted observing the guidelines and procedures in the Handbook and, where deemed appropriate by the examiner, transactions occurring subsequent to December 31, 2015, but prior to the date of this report (i.e., the completion date of the examination) were also reviewed.

The examination was conducted on a risk focused basis in accordance with the provisions of the Handbook published by the National Association of Insurance Commissioners ("NAIC"). The Handbook guidance provides for the establishment of an examination plan based on the examiner's assessment of risk in the insurer's operations and utilizing that evaluation in formulating the nature and extent of the examination. The examiner planned and performed the examination to evaluate the current financial condition as well as identify prospective risks that may threaten the future solvency of the insurer. The examiner identified key processes, assessed the risks within those processes and evaluated the internal control systems and procedures used to mitigate those risks. The examination also included assessing the principles used and significant estimates made by management, evaluating the overall financial statement presentation, and determining management's compliance with New York statutes and Department guidelines, Statutory Accounting Principles as adopted by the Department, and annual statement instructions.

The examination was coordinated in conjunction with the examination of the insurer's affiliates: Globe Life and Accident Insurance Company ("GLAIC"); Liberty National Life Insurance Company and United American Insurance Company, Nebraska domiciled life insurers; American Income Life Insurance Company ("AILIC"), an Indiana domiciled life insurer; Family Heritage Life Insurance Company of America, an Ohio domiciled life insurer; First United American Life Insurance Company, a New York domiciled insurer. The coordinated examination was led by the Nebraska Department of Insurance with participation from Indiana Department of Insurance, New York State Department of Financial Services, and Ohio Department of Insurance.

Since the lead and participating states are all accredited by the NAIC, all states deemed it appropriate to rely on each other's work.

Information about the Company's organizational structure, business approach and control environment were utilized to develop the examination approach. The Company's risks and management activities were evaluated incorporating the NAIC's nine branded risk categories. These categories are as follows:

- Pricing/Underwriting
- Reserving
- Operational
- Strategic
- Credit
- Market
- Liquidity
- Legal
- Reputational

The Company was audited annually, for the years 2013 through 2015, by the accounting firm of Deloitte & Touche LLP. The Company received an unqualified opinion in all years. Certain audit work papers of the accounting firm were reviewed and relied upon in conjunction with this examination. The Torchmark Corporation ("TMK"), the Company's indirect parent, has an internal audit department and a separate internal control department which was given the task of assessing the internal control structure and compliance with the Sarbanes-Oxley Act of 2002 ("SOX")/Model Audit Rule ("MAR"). Although the Company is not subject to SOX, certain business units are subject to SOX at the TMK level. Where applicable, SOX/MAR workpapers and reports were reviewed and portions were relied upon for this examination.

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.

2. 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, a surplus contribution was made in the amount of $5,000,000 bringing the paid in and contributed surplus to $11,000,000, which is the amount of paid in and contributed surplus as of December 31, 2015.

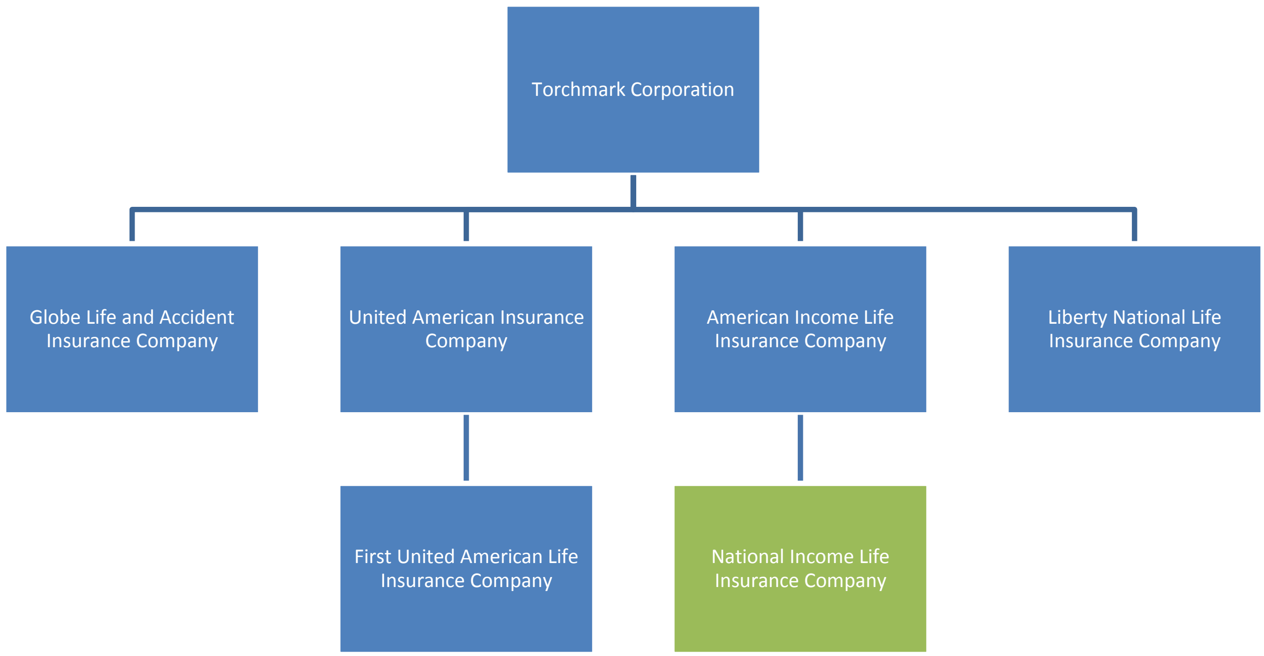
B. Holding Company

The Company is a wholly owned subsidiary of AILIC, an Indiana insurance company. AILIC is in turn a wholly owned subsidiary of TMK, the ultimate parent of the Company. TMK is a publicly traded Delaware investment advisory company.

First United American Life Insurance Company ("FUALIC") is an affiliate company which is also domiciled in the State of New York. The name of FUALIC was changed to Globe Life Insurance Company of New York effective January 1, 2017.

C. Organizational Chart

An organization chart reflecting the relationship between the Company and significant entities in its holding company system as of December 31, 2015, follows:



D. Service Agreements

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

Type of Agreement and Department File Number	Effective Date	Provider of Services	Recipient of Services	Specific Service(s) Covered	Income/ (Expense)* For Each Year of the Examination
Service Agreement File No. 31379A	05/17/2000 Amended 03/01/2001 Amended 06/01/2003 Amended 01/01/2006	AILIC	The Company	Distribution/producer management, marketing support/development and administration, reinsurance and underwriting, policy owner and contract holder services, claims processing and payment, actuarial financial services, information technology, legal and government relations, general services, human resources	2013 $(3,641,259) 2014 $(3,578,053) 2015 $(3,693,516)
Investment Agreement File No.31300	03/24/2003	TMK	The Company	Investment services	2013 $(387,259) 2014 $(462,232) 2015 $(529,159)
Sale and Assignment Agreement File No. 48038	12/31/2012	The Company	TMK	Selling and assignment of qualified debit balances of the Company's insurance agents	2013 $12,226,573 2014 $ 0 2015 $ 0
Sublease Agreement File No. 31377	03/05/2007 Extended 04/29/2012	FUALIC	The Company	Sublease of office space	2013 $(2,009) 2014 $(2,050) 2015 $(2,117)
Service Agreement File No. 31541	05/17/2000 Amended 01/01/2001 Amended 11/01/2013	FUALIC	The Company	Provision by FUALIC of supervisory, managerial, oversight and support services in connection with the Company's business and operations including making available to the Company a senior officer with expertise and experience in managing the operations of a life insurance company	2013 $(4,618) 2014 $(5,152) 2015 $(5,229)
Service Agreement File No.49073	07/01/2014	GLAIC	The Company	Deposit and process renewal premiums paid by the Company's policyholders by check or other non-direct debit forms of payment	2014 $ 0 2015 $(4,737)

*Amount of Income or (Expense) Incurred by the Company

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

E. Management

The Company's by-laws provide that the board of directors shall be comprised of not less than 9 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 $1.5 billion in admitted assets. Directors are elected for a period of one year at the annual meeting of the stockholders held in April of each year. As of December 31, 2015, the board of directors consisted of eight members. Meetings of the board are held quarterly.

The eight board members and their principal business, as of December 31, 2015, were as follows:

Name and Residence	Principal Business Affiliation	Year First Elected
Kevin A. Dattellas* Warners, NY	Chief Financial Officer Solvay Bank	2005
Jerry M. Greenspan* Harrison, NY	Retired RBC Dain Raucher Corp.	2005
Denis M. Hughes* Staten Island, NY	Senior Operating Partner Stonepeak Partners LP	2013
Ben W. Lutek McKinney, TX	Senior Vice President and Chief Actuary National Income Life Insurance Company	2010
James A. Savo Liverpool, NY	Vice President National Income Life Insurance Company	2002
Joel P. Scarborough Frisco, TX	Senior Vice President and Associate General Counsel National Income Life Insurance Company	2012
Roger C. Smith Frisco, TX	Chief Executive Officer National Income Life Insurance Company	2005
Frank M. Svoboda Grapevine, TX	Executive Vice President and Chief Financial Officer Torchmark Corporation	2012

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

In March 2015, Robert Falvo was terminated from the Board of Directors and was replaced by Stephen Greer in March 2016, thereby restoring the number of directors to nine.

The examiner's review of the minutes of the meetings of the board of directors and its committees indicated that meetings were well attended, and that each director attended a majority of meetings.

The following is a listing of the principal officers of the Company as of December 31, 2015:

Name	Title
Roger C. Smith	President
Domenico Bertini	Executive Vice President
Michael S. Henrie	Senior Vice President and Treasurer
Robert B. Mitchell	Senior Vice President and Secretary
Ben W. Lutek	Senior Vice President and Actuary
Dolores L. Skarjune	Senior Vice President
Joel P. Scarborough	Senior Vice President
James A. Savo*	Vice President
John T. Daly	Vice President and Appointed Actuary

*Designated consumer services officer per Section 216.4(c) of 11 NYCRR 216 (Insurance Regulation 64)

3. TERRITORY AND PLAN OF OPERATIONS

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 2015, all life premiums and accident and health premiums were received from New York. Policies are written on a non-participating basis.

A. Statutory and Special Deposits

As of December 31, 2015, the Company had $400,000 (par value) of United States Treasury Notes on deposit with the State of New York, its domiciliary state, for the benefit of all policyholders, claimants and creditors of the Company.

B. Direct Operations

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 low to middle income wage earners through the cooperation of labor unions, credit unions, and other associations in the State of New York.

The Company markets its insurance products through independent contractors. The highest contract is a State General Agent ("SGA"). The SGA recruits and recommends individuals for contracts and determines their levels and hierarchies from a set of available options. The structure can be from four to six levels depending on the hierarchy established by the SGA. "Agents" are the lowest level of contract, and they are personal producers. The contracts above Agents include Supervising Agents, General Agents, Master General Agents, Regional General Agents, and a SGA. Depending on how many individuals are in a structure, each individual reports to the next person in the hierarchy line, with the SGA being at the top. The SGA does not personally produce any business.

During the examination period two state general agents, Durhon Oldham and Jim Bianchi Partnership; and Theodore Pappas, produced 20% or more of the Company's business.

C. Reinsurance

As of December 31, 2015, the Company had no reinsurance treaties in effect.

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 during the period under review:

	December 31, 2012	December 31, 2015	Increase
Admitted assets	$110,936,250	$171,660,318	$60,724,068
Liabilities	$ 80,751,792	$137,540,463	$56,788,671
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)	17,184,458	21,119,855	3,935,397
Total capital and surplus	$ 30,184,458	$ 34,119,855	$ 3,935,397
Total liabilities, capital and surplus	$110,936,250	$171,660,318	$60,724,068

The Company's invested assets as of December 31, 2015, were mainly comprised of bonds (92%).

The majority (98.9%) of the Company's bond portfolio, as of December 31, 2015, was comprised of investment grade obligations.

The increase in admitted assets and liabilities during the examination period was mainly due to the year-over-year increases in bonds and policy reserves, respectively.

The following indicates, for each of the years listed below, the amount of life insurance issued and in force by type (in thousands of dollars):

	Individual Whole Life		Individual Term	
Year	Issued	In Force	Issued	In Force
2013	$571,525	$2,130,082	$353,788	$1,036,594
2014	$636,220	$2,403,825	$289,531	$1,044,263
2015	$714,941	$2,762,423	$284,133	$1,083,442

In 2013, the Company introduced a need-based sales presentation to its agents. The presentation was marketed using a laptop ("laptop presentation"). The laptop presentation emphasized the need to cover final expenses with whole life insurance. When there is a potential for additional needs after death, such as education or mortgage, a term life insurance and accidental death benefit rider would be offered to cover these additional needs. The emphasis on whole life insurance in the laptop presentation resulted in an average increase of 11.5% in issued and 14% increase in in force for individual whole life and a downward trend in issued individual term life insurance during the examination period.

The following has been extracted from the Exhibits of Accident and Health Insurance in the filed annual statements for each of the years under review:

	Ordinary		
	2013	2014	2015
Outstanding, end of previous year	54,981	50,866	50,439
Issued during the year	7,565	4,451	12,225
Other net changes during the year	(11,680)	(4,878)	(7,376)
Outstanding, end of current year	50,866	50,439	55,288

	Group		
	2013	2014	2015
Outstanding, end of previous year	1,126,969	1,173,331	831,192
Issued during the year	88,735	82,988	38,290
Other net changes during the year	(42,373)	(425,127)	(106,605)
Outstanding, end of current year	1,173,331	831,192	762,877

The Company indicated that for calendar year 2014, accidental death and dismemberment ("AD&D") issued policies were inadvertently omitted from Ordinary "Issued during the year" for the Exhibits of Accident and Health Insurance of the annual statement. The correct amount issued for ordinary accident and health insurance in 2014 was 6,982.

The increase in ordinary issued in 2015, compared with 2014, was mainly due to the increase in sales of AD&D policies. AD&D policies issued increased by 150% in 2015 when compared with 2014. AD&D policies issued in 2015 were 6,428 as compared with 2,531 in 2014. The sales increase in AD&D issued policies was due to the referral feature of the laptop presentation. Referrals obtained during the laptop presentation were used primarily to market AD&D policies.

The reduction in group accident and health policies in 2015 was the result of the Company's introduction of policy form SGADD NP NY in 2012 that featured a two-year termination date and a reduction in institutions that marketed the AD&D group product. The new policy form allowed the groups to have their policies terminated at the end of the policy period, rather than have the policies automatically renewed, if the AD&D benefits were not beneficial. The new policy form was introduced with this feature to reduce their reserve liability.

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:

	2013	2014	2015
Ordinary:			
Life insurance	$3,847,401	$4,357,188	$6,570,330
Total ordinary	$3,847,401	$4,357,188	$6,570,330
Accident and health:			
Group	$ (50,382)	$ 323,600	$ 119,499
Other	1,194,063	1,149,892	1,376,314
Total accident and health	$1,143,681	$1,473,492	$1,495,813
Total	$4,991,082	$5,830,680	$8,066,143

The increases in net gains from operations for life insurance resulted from increases in life premiums and investment income. The increases were due to the emphasis on marketing whole life policies via the laptop presentation.

The increase in net gains from operation for group accident and health in 2014, compared with 2013, was due to a change in the Company's policy form in 2012 for its AD&D product. The policy form added a two-year termination feature that resulted in reduction in group AD&D in force policies in 2014, which in turn resulted in a 20% decrease in contract reserves and a reduction in claims paid. In addition, commissions experienced a 25% reduction as a result of the decline in the only group accident product. The group accident policy, which is the only group accident and health product in which commissions are paid, declined because the laptop presentation initially emphasized the AD&D product instead of the accident product. All these factors resulted in a positive net gain from group accident and health in 2014.

The following ratios, applicable to the accident and health business of the Company, have been extracted from Schedule H for each of the indicated years:

	2013	2014	2015
Premiums earned	100.0%	100.0%	100.0%
Incurred losses	48.5%	42.4%	44.4%
Commissions	13.0	9.7	9.8
Expenses	12.0	12.4	10.9
	73.5%	64.5%	65.1%
Underwriting results	26.4%	35.3%	34.9%

The 25% reduction in the commission ratio in 2014 compared with 2013 was due to a reduction in the sales of the group accident only product. The group accident policy, which is the only group A&H product in which commissions are paid, declined because the laptop presentation initially emphasized the AD&D product instead of the accident product.

5. FINANCIAL STATEMENTS

The following statements show the assets, liabilities, capital and surplus as of December 31, 2015, as contained in the Company's 2015 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, 2015 filed annual statement.

A. Independent Accountants

The firm of Deloitte & Touche LLP was retained by the Company to audit the Company's combined statutory basis statements of financial position of the Company as of December 31st of each year in the examination period, and the related statutory-basis statements of operations, capital and surplus, and cash flows for the year then ended.

Deloitte & Touche LLP concluded that the statutory financial statements presented fairly, in all material respects, the financial position of the Company at the respective audit dates. Balances reported in these audited financial statements were reconciled to the corresponding years' annual statements with no discrepancies noted.

B. Net Admitted Assets

Bonds	$135,431,907
Cash, cash equivalents and short term investments	4,526,675
Contract loans	5,262,414
Other invested assets	1,954,582
Investment income due and accrued	1,962,243
Premiums and considerations:	
Uncollected premiums and agents' balances in the course of collection	920,036
Deferred premiums, agents' balances and installments booked but deferred and not yet due	14,746,940
Net deferred tax asset	6,706,000
Receivables from parent, subsidiaries and affiliates	149,521
Total admitted assets	$171,660,318

C. Liabilities, Capital and Surplus

Aggregate reserve for life policies and contracts	$125,107,897
Aggregate reserve for accident and health contracts	6,584,233
Contract claims:	
Life	1,039,061
Accident and health	786,260
Premiums and annuity considerations for life and accident and health contracts received in advance	21,286
Contract liabilities not included elsewhere:	
Interest maintenance reserve	871,780
Commissions to agents due or accrued	15,694
Taxes, licenses and fees due or accrued, excluding federal income taxes	153,823
Current federal and foreign income taxes	486,241
Amounts withheld or retained by company as agent or trustee	25,899
Amounts held for agents' account	298,174
Remittances and items not allocated	137,612
Miscellaneous liabilities:	
Asset valuation reserve	748,075
Payable to parent, subsidiaries and affiliates	1,150,036
Uncashed drafts and checks pending escheatment	114,392
Total liabilities	$137,540,463
Common capital stock	$2,000,000
Gross paid in and contributed surplus	11,000,000
Unassigned funds (surplus)	21,119,855
Surplus	$ 32,119,855
Total capital and surplus	$ 34,119,855
Total liabilities, capital and surplus	$171,660,318

D. Condensed Summary of Operations

	2013	2014	2015
Premiums and considerations	$53,928,746	$58,427,406	$64,889,330
Investment income	4,271,022	5,296,831	6,545,848
Miscellaneous income	1,228	3,925	7,607
Total income	$58,200,996	$63,728,162	$71,442,785
Benefit payments	$8,400,558	$9,639,599	$8,983,099
Increase in reserves	16,707,495	18,029,487	22,020,356
Commissions	16,253,700	15,777,108	17,459,022
General expenses and taxes	7,271,236	8,639,975	7,428,855
Increase in loading on deferred and uncollected premium	175,792	1,088,436	1,212,479
Total deductions	$48,808,781	$53,174,605	$57,103,811
Net gain (loss) from operations	$ 9,392,215	$10,553,557	$14,338,974
Federal and foreign income taxes incurred	4,401,133	4,722,877	6,272,831
Net gain (loss) from operations before net realized capital gains	$ 4,991,082	$ 5,830,680	$ 8,066,143
Net realized capital gains (losses)	0	(22)	0
Net income	$ 4,991,082	$ 5,830,658	$ 8,066,143

The increase in premiums during the examination period resulted from a $1 million increase in first year premiums and a $3.7 million in renewal premiums in 2014 and from a $1.3 million increase in first year premium and a $5.1 million increase in renewal premiums in 2015. The increase in premiums is attributed to the increase in the traditional business in force during the examination period, which resulted from the laptop sales presentations.

The increase in investment income in 2014, compared with 2013, was due to the increase in bond interest and policy loan interest. The increase in investment income in 2015, compared with 2014, was mainly due to the increase in bond interest. The increase in investment income in 2014 and 2015 correlates to the Company’s investment in bond instruments during the examination period.

E. Capital and Surplus Account

	2013	2014	2015
Capital and surplus, December 31, prior year	$30,184,458	$ 35,678,333	$30,141,751
Net income	$ 4,991,082	$ 5,830,658	$ 8,066,143
Change in net deferred income tax	1,380,000	4,831,000	785,000
Change in non-admitted assets and related items	(744,954)	(12,736,748)	3,263,849
Change in asset valuation reserve	(132,253)	(93,660)	(121,712)
Dividends to stockholders	0	(3,367,833)	(8,015,175)
Net change in capital and surplus for the year	$ 5,493,875	$ (5,536,583)	$ 3,978,105
Capital and surplus, December 31, current year	$35,678,333	$ 30,141,751	$34,119,855

The $11.9 million increase in the non-admitted asset and related items in 2014 was mainly due to the sale of agent debit balances to TMK on December 31, 2013.

The Company paid an ordinary dividend of approximately $3.4 million to AILIC in 2014. The Company paid an ordinary and extraordinary dividend of approximately $2.8 million and $5.2 million, respectively, in 2015 to AILIC.

Respectfully submitted,

/s/
Rory Cummings
Associate Insurance Examiner

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

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

/s/
Rory Cummings

Subscribed and sworn to before me

this__________ day of ___________________

APPOINTMENT NO. 31504

NEW YORK STATE

DEPARTMENT OF FINANCIAL SERVICES

I, MARIA T. VULLO, Superintendent of Financial Services of the State of New York, pursuant to the provisions of the Financial Services Law and the Insurance Law, do hereby appoint:

RORY CUMMINGS

as a proper person to examine the affairs of the

NATIONAL INCOME LIFE INSURANCE COMPANY

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

COMPANY

with such other information as he shall deem requisite.

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

this 6th day of July, 2016

MARIA T. VULLO
Superintendent of Financial Services

By: Mark McLeod

MARK MCLEOD
DEPUTY CHIEF - LIFE BUREAU