

CREDIT OPINION

26 February 2021

Update

✓ Rate this Research

RATINGS

New York Life Insurance Company

Domicile	NEW YORK, New York, United States
Long Term Rating	Aaa
Type	Insurance Financial Strength
Outlook	Negative

Please see the [ratings section](#) at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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New York Life Insurance Company

Cigna EB adds diversity to New York Life earnings, further reduces participating whole life share in its business mix

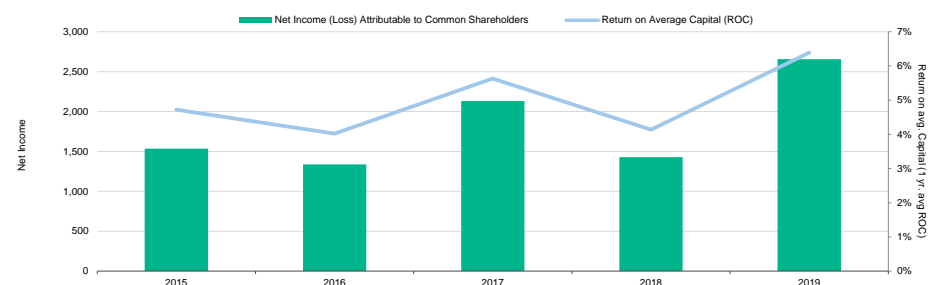
Summary

The Aaa insurance financial strength ratings of [New York Life Insurance Company](#) and its affiliates, [New York Life and Annuity Insurance Corporation](#) and [Life Insurance Company of North America](#) (collectively, New York Life or NYL), are based on the company's intrinsic strengths as the largest US mutual life insurer, with a leading position in the US life insurance market and a large, profitable in-force block of participating whole life insurance (par WL), its strong business diversity and liquidity, now including Cigna's leading employee benefits (EB) business, good distribution, and strong capitalization. The firm's commitment to mutuality, with a long-term focus on policyholders and creditors, is a key rating consideration.

These strengths are mitigated by a higher-risk liability profile than peers, which, while very diversified, including a sizable asset manager, has drifted away from par WL, the most creditworthy product. This trend continues with NYL's acquisition of Cigna's EB business, which broadens the company's already diversified business profile in terms of premiums, earnings and reserves, but further reduces the relative proportion of par WL reserves to other, higher-risk products. Material holdings of higher-risk assets (including below investment-grade bonds and private middle market loans), and an NAIC risk-based capital ratio that is lower than highly-rated mutual peers, also mitigate New York Life's corporate strengths. The lingering effects of the coronavirus-driven environment, unprecedented ultra-low interest rates, and the uneven economic recovery will stress most aspects of life insurers' financials, including those of NYL.

Exhibit 1

Bounce in ROC due to investment gains in 2019; profitability to be pressured in 2021



Net income for 2017 excludes a favorable tax adjustment of \$602 million related to the new US tax law recorded at the end of the year.

Sources: Moody's Investors Service and company filings

Credit strengths

- » Top-tier position in the domestic individual life insurance business; leading position in group life and disability income with the Cigna EB block
- » Large block of individual life insurance containing significant embedded profits
- » Productive and well-established career agency distribution force
- » Well diversified investment portfolio, strong liquidity, and strong capitalization

Credit challenges

- » Shifting liability profile away from par WL toward relatively higher-risk liabilities
- » Material holdings of higher-risk assets, including below investment-grade bonds, middle market loans, alternative investments, as well as real estate-related investments
- » Capital adequacy, as measured by a NAIC RBC, lower than peers
- » Low interest rates, mortality, sales and other direct/indirect pressures from the coronavirus

Outlook

The negative outlook on NYL reflects the incrementally greater risk of its liability profile, given the addition of the Cigna EB liabilities that continue to move further away from its core par whole life insurance focus. The integration of Cigna EB into NYL, as well as excess mortality, rating migration, and investment losses and their impact on NYL's RBC, are some of the things we will be watching in 2021.

Factors that could lead to an upgrade

The following factors could return NYL's ratings to stable:

- » The successful integration of the Cigna EB transaction, with group life and disability income persistency, sales, and earnings as expected
- » Strategic focus on the growth of par WL and risk-sharing products relative to less creditworthy products
- » Asset quality, losses and impairments consistent with Moody's expectations
- » Company action level NAIC RBC ratio above 450% on a consistent basis
- » Adjusted financial leverage of less than 20%; earnings coverage greater than 10x.

Factors that could lead to a downgrade

- » A downgrade of the US government rating
- » Challenges integrating the Cigna EB transaction, contributing to higher-than-expected lapse rates, weakened market positions, and declining group life and/or disability income earnings
- » Further shift away from par WL and risk-sharing products
- » A significant increase in high risk assets, losses and impairments relative to 2019 levels (e.g., GAAP 2019 YE HRA at 92%)

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on www.moody's.com for the most updated credit rating action information and rating history.

Key indicators

New York Life Insurance Company [1][2]

New York Life Insurance Company [1][2]	2019	2018	2017	2016	2015
As Reported (US Dollar Millions)					
Total Assets	371,648	339,144	337,116	317,878	301,657
Total Shareholders' Equity	47,518	36,936	39,297	35,483	33,512
Net Income (Loss) Attributable to Common Shareholders	2,728	1,446	2,761	1,372	1,486
Total Revenue	34,499	28,770	30,328	27,908	26,127
Moody's Adjusted Ratios					
High Risk Assets % Shareholders' Equity	92.2%	108.4%	98.3%	108.0%	113.0%
Goodwill & Intangibles % Shareholders' Equity	18.2%	28.9%	23.4%	26.2%	27.5%
Shareholders' Equity % Total Assets	10.8%	9.0%	9.8%	9.4%	9.4%
Return on Average Capital (ROC)	6.4%	4.1%	5.6%	4.0%	4.7%
Sharpe Ratio of ROC (5 yr.)	491.2%	444.8%	509.2%	485.7%	487.1%
Adjusted Financial Leverage	10.8%	9.2%	10.6%	12.3%	12.2%
Total Leverage	12.2%	10.4%	11.7%	13.5%	13.5%
Earnings Coverage	17.3x	12.0x	18.3x	11.4x	13.6x
Cash Flow Coverage	NA	NA	NA	NA	NA

[1] Information based on US GAAP financial statements as of the fiscal year ended 31 December. [2] Certain items may have been relabeled and/or reclassified for global consistency.
Sources: Moody's Investors Service and company filings

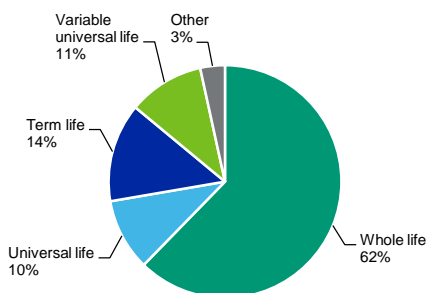
Profile

New York Life Insurance Company and its affiliated entities provide individuals and businesses with life insurance products, annuities, long-term care insurance, pension products, mutual funds, and a variety of investment products and services.

According to the Life Insurance Marketing and Research Association (LIMRA), New York Life was among the largest sellers of life insurance products and fixed annuities in the US in 2019. In addition to NYLIC, the other principal US life affiliates in the group is New York Life Insurance and Annuity Corporation (NYLIAC). Since the close of the Cigna EB transaction, affiliates also includes Life Insurance Company of North America (LICNA, also called "LINA"), the primary subsidiary housing the EB business, as well as smaller New York subsidiary, Cigna Life Insurance Company of New York (not rated). New York Life's primary asset management subsidiary is New York Life Investment Management Holdings, LLC (NYLIM). The company had approximately \$629 billion in assets under management, as of December 31, 2019, including NYLIM's affiliates. Separately, New York Life maintains an insurance operation in Mexico, Seguros Monterrey New York Life.

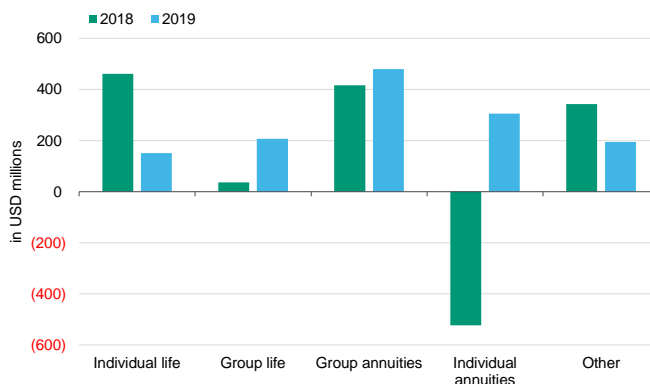
On December 18, 2019, New York Life announced the acquisition of Cigna Corporation's group life and disability insurance business for \$6.3 billion. The acquisition closed on December 31, 2020 making New York Life a top 5 player in the group insurance business.

Exhibit 3
Whole life premiums dominate total life insurance premiums
 2019 Statutory premiums and deposits



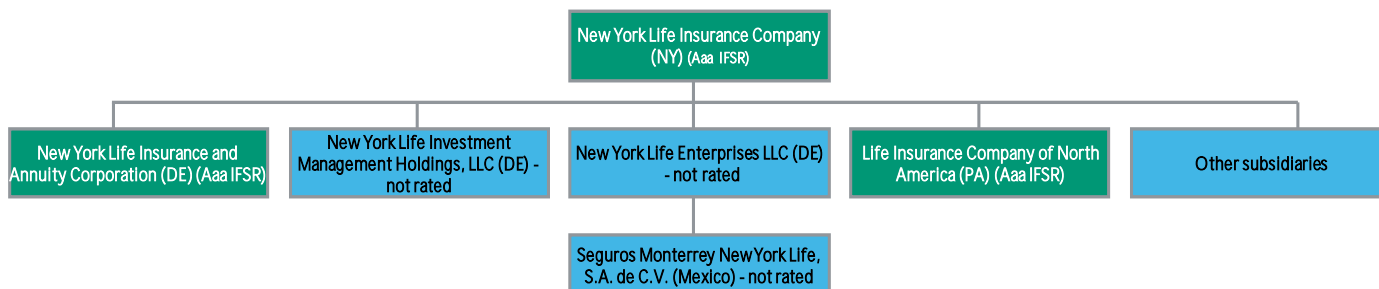
Source: : Moody's Investors Service; SNL Financial LC. Contains copyrighted and trade secret materials distributed under license from SNL, for recipient's internal use only

Exhibit 4
Statutory earnings expected to be pressured in 2021
 Gain from operations by line of business, after policyholder dividends but before taxes



Source: : Moody's Investors Service; SNL Financial LC. Contains copyrighted and trade secret materials distributed under license from SNL, for recipient's internal use only

Exhibit 5
Simplified organizational chart



Green: rated entities. Blue: not rated.
 Source: Company filings; Moody's Investors Service

Detailed credit considerations

Moody's rates New York Life Aaa for insurance financial strength, which is one notch higher than the adjusted scorecard-indicated outcome. The principal differences are: (a) a focus on, and a strong market position in, the participating life insurance business, (b) a governance structure with a strong focus on the best interests of policyholders/creditors, (c) an emphasis on superior customer value with substantial experience-rated policyholder dividends, and a strong capital position that depresses reported profitability metrics.

Insurance financial strength rating

The key factors currently influencing the rating and outlook are:

Market position & brand: Leading positions in a number of markets, now including EB

New York Life has one of the most well-recognized and respected brands in the U.S., and a leading market position in a number of important segments of the industry. According to LIMRA, as of year-end 2019, New York Life was among the largest sellers of life

insurance (#3) in the US, including par WL, a product that allows the company to share both favorable and unfavorable investment and insurance experience with policyholders by adjusting the dividend. It is also the #2 provider of fixed annuities and #1 provider of lifetime income annuities, and offers institutional investment products, including funding agreement-backed notes (FANIPs). The latter, however, are opportunistic rather than core products. New York Life is also the leading direct marketer of life insurance, a top long-term care insurance provider, and the largest underwriter of professional association insurance programs in the U.S. It also has an established asset management operation through NYLIM, and the Cigna EB acquisition will make the company a top 5 player in group life, group disability and other employee benefits. Accordingly, we view the company's market position and brand to be in line with expectations for Aaa insurers and have moved this factor up from the Aa indicated by the scorecard metric. While we expect the coronavirus to continue to pressure sales of all life insurers in 2021, its fallout is unlikely to materially shift New York Life's market position and brand relative to peers.

Distribution: Wide diversity of distribution channels

New York Life benefits from a diverse network of distribution channels including career agents, independent brokers, banks, direct/sponsored distribution (e.g. AARP), and an institutional sales force. While distribution diversity is consistent with an A rating on an unadjusted basis, it is one of the broadest among mutuals. Nevertheless, New York Life's key strength remains its productive, approximately 13,000 member career agency force, which is its primary channel for distributing permanent, cash value life insurance products – the company's core product. The controlled nature of the company's career agency channel contributes to New York Life's strong business retention rates, and its focus on “cultural” market recruitment helps it grow sales from under penetrated ethnic and niche markets (e.g., Latino, Asian, women). The other distribution channels are primarily used to distribute specialized insurance and investment products, such as COLI/BOLI, sponsored life products (AARP and Professional Affinity Organizations), fixed annuities, and investment products, and now, also Cigna's wholesale EB distribution, but these channels afford the company less control over its producers. Relative to other channel sales, career channel sales are shrinking, however, because of the its importance of the career force for par WL sales, we view the company's distribution to be in line with expectations for Aa insurers and have moved this factor up from the A, indicated by the scorecard metric. We expect that low interest rates, unemployment, and an uneven economic recovery will continue to pressure sales of some products in 2021.

Product focus and diversification: Risk profile moving further away from low-risk block of participating whole life

New York Life manufactures and markets a wide range of products for both retail and institutional buyers, and maintains a risk profile consistent with Aa peers. The company's principal product lines include individual life insurance, individual annuities (fixed, immediate, and variable annuities-VAs), long-term care insurance, pensions and institutional investment products business, and asset management through its New York Life Investment Management subsidiary. The overall risk profile of the company's product portfolio, which is well positioned among its competitors, is supported by its large block of participating life insurance (about 27% of total year-end 2019 general and separate account liabilities), one of the lowest risk products sold by U.S. firms. We note that New York Life uses a significant percentage of non-par business earnings – now including the Cigna EB earnings - to supplement its dividend to participating whole life policyholders - a trend that may not be sustainable over time, as par WL reserves grow. This could lead to the need for additional business acquisitions, or lower sales and potentially higher lapses if dividends do not keep pace with those of other mutual peers. The Cigna EB acquisition adds incremental product diversity, but also moves NYL incrementally further away from the risk-sharing ability and steady earnings of par WL products. This, and expected higher coronavirus deaths, put pressure on the Aa adjusted score.

Asset quality: Impairments and rating migrations are likely in the current economic environment

The overall quality of New York Life's investment portfolio is good. On an unadjusted basis, the company's GAAP exposure to high risk assets (HRAs) was about 92% of equity as of December 31, 2019, consistent with Moody's expectations for A-rated companies. On a statutory basis, analytically adjusting for additional below investment-grade middle market bank loans in its Madison Capital subsidiary, the HRA ratio is higher, at about 115%. HRAs include below investment-grade bonds, alternatives, and partnerships, which is at the upper end of the Baa-range score, although many of these are private placements with covenant and/ or collateral protections. On a statutory basis, realized investment losses for the first 9 months of 2020 were \$815 million, which is high, however, because investment results of the portfolio backing the participating business can generally be shared with participating policyholders, we have historically raised the adjusted score on this factor to Aa from A. We do expect the [uneven economic recovery in 2021](#) to continue to pressure New York Life's high risk investments, resulting in higher impairments and losses and bond rating downgrades. In its baseline

forecast, Moody's [projects](#) the global speculative grade default to peak at 7.7% in March 2021, well above the historical average of about 4.1%. This could cause us to lower the score on this factor if asset losses and impairment are beyond NYL's ability to reduce par WL dividends, and our asset loss expectations.

Capital adequacy: RBC ratio is strong, but lower than peers

New York Life's capital-to-total asset ratio of 10.8% in the scorecard suggests a Aa score, but we believe that the NAIC RBC ratio is a better indicator of the company's capital adequacy. The company's consolidated year-end 2019 NAIC RBC ratio was 507% (company action level), a level indicating strong capital, but lower than some mutual peers. The quality of capital is good, since the company does not use captive reinsurers, although the Cigna EB acquisition will likely add significant goodwill and intangibles. We expect rising asset impairments, discussed above, and the addition of the Cigna EB business to pressure 2021 earnings and capital in the current recessionary environment. However, this is partially mitigated by New York Life's ability to lower participating policyholder dividends (\$2 billion paid in 2019 and announced for 2020), if need be, bringing the company in line with Aa-rated issuers on an adjusted basis. New York Life issued \$1.25 billion of surplus notes in April 2020, which, although debt, counts as regulatory surplus, adding funds for uses that included the Cigna EB acquisition. Declines in RBC beyond our expectations that are permanent or long-term in nature would put pressure on the capital adequacy score.

Profitability: GAAP and statutory earnings will experience coronavirus pressures in 2021

NYL's GAAP return on capital (ROC), with a 5-year ROC of 5%, remains below our expectations for a Aaa-rated company (i.e., aligns with an A sub-factor score). However, the low score, pandemic aside, has been due to an emphasis on superior policyholder value, which reduces profitability. Under GAAP accounting, these dividends are considered expenses, and thus depress the company's reported ROC, whereas shareholder dividends do not impact ROC for a stock company. ROC on a similar accounting basis would raise the company's ROC toward the Aa-level, which is the reason we raise the adjusted score to Aa for this factor. Relatively low earnings volatility is consistent with a Aaa score in 2019. We note that NYL's statutory profitability was under pressure during the first 9 months of 2020, with a net loss of \$1.1 billion, given the effects of the coronavirus, including higher mortality (although somewhat offset by reserves), low interest-rate driven reserve increases, and asset losses. We expect these trends to continue in 2021, and also to affect the Cigna group life and disability income businesses, although returning to more normal levels post-pandemic. Profitability weakness beyond our expectations will put pressure on the score for this factor.

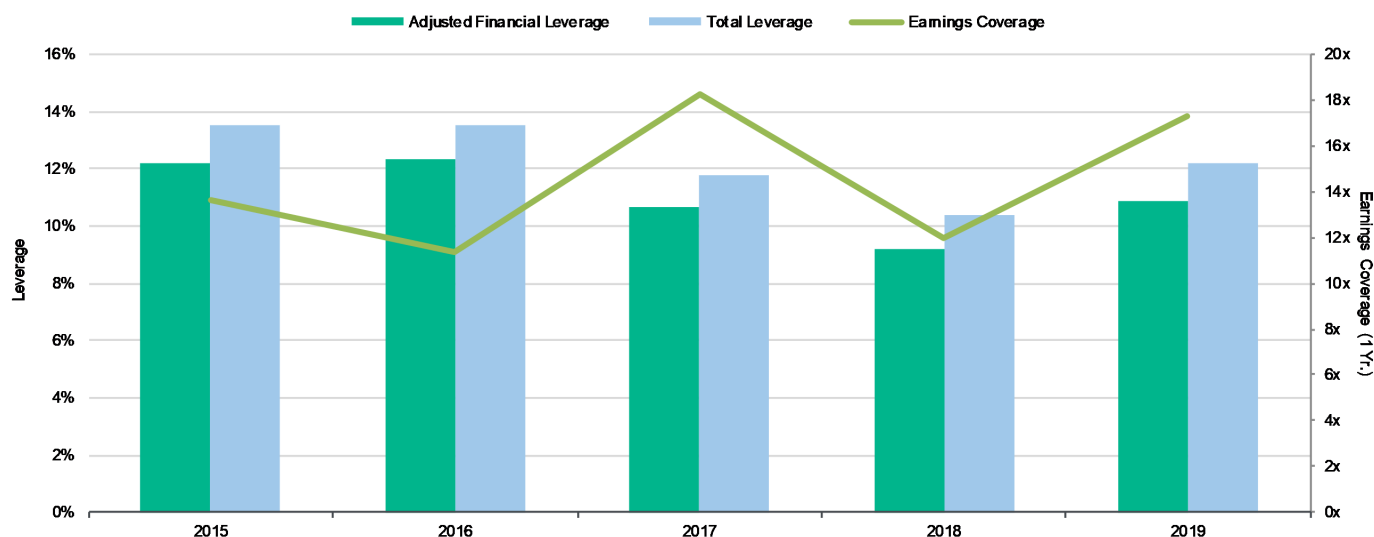
Liquidity and asset/liability management (ALM): Stable liabilities and strong liquidity

New York Life's unadjusted liquidity score is consistent with a Aa rating – the same as the adjusted score for this factor. However, ALM at New York Life is greatly enhanced by the large amount of very stable participating business on the company's books, which, as noted, effectively allows the company to share some of its inherent risks with its participating policyholders, and also benefits the company's liquidity profile. The company's liquidity profile is further bolstered by a relatively liquid general account investment portfolio and approximately \$18 billion in holdings of cash, short term investments, and U.S. Treasury and agency securities at September 30, 2020. We expect the company's liquidity to show similar strength into 2021. The company has a sizable funding agreement-backed note program, which has rollover and liquidity risk, however, it appears well managed, and exposures are well matched, from both a duration and from a cash perspective - the latter as issues approach maturity. Recognizing the stability of the majority of the company's liabilities, as well as the substantial liquidity available in the investment portfolio, we have left the adjusted score on this factor at Aa, the same as the unadjusted score.

Financial flexibility: Financial leverage is moderate, but has risen significantly with recent issuances

We expect New York Life's adjusted financial leverage and total leverage both be to under 15% as of year-end 2020. At year-end 2019, they were 10.8% and 12.2%, respectively - higher than 2018, due to a \$1 billion surplus note issuance in 2019, and roughly 2-2.5 points higher on a proforma basis, including \$1.25 billion of surplus notes issued in April 2020. Although leverage is still consistent with a Aaa-rating, these issuances have moved it to the upper end of the leverage scale. An earnings coverage metric of 14.5x over the past five years is consistent with the metrics expected for Aaa-rated companies, but given our expectations for weak profitability in 2020 and 2021, it, too, will be lower in 2021. As a mutual company, New York Life's lack of ready access to the public equity markets somewhat limits its financial flexibility. As a result, we have lowered this factor score to Aa from the unadjusted score of Aaa.

Exhibit 6

Financial Flexibility: Leverage is moderate but rising; coverage is strong

Sources: Moody's Investors Service and company filings

Liquidity analysis

New York Life's debt consists of four issues of surplus notes, \$989 million, \$991 million, \$983 million and \$1.23 billion, maturing in 2033, 2039, 2069 and 2050, respectively. The latter two, issued in April 2019, and April 2020, respectively, were used to fund the Cigna EB acquisition, as well as for other corporate purposes.

In addition to its own direct debt, New York Life's subsidiary, New York Life Capital Corporation (NYL Capital) issues commercial paper. NYL Capital benefits from explicit support from its parent (albeit only to maintain its tangible net worth at least \$1). Its \$3 billion commercial paper (CP) program is rated Prime-1 (P-1) and the program is available for spread arbitrage opportunities and occasionally used for liquidity management. The average amount of CP outstanding at year-end 2019 was approximately \$499 million. NYL Capital Corp's CP program is backed by a \$1.5 billion five-year bank credit facility which matures in January 2024. The bank facility does not contain a material adverse change (MAC) clause, and the financial covenants in the bank facility are not restrictive and are quite manageable for the company.

Environmental, social and governance considerations**Environmental**

Life insurers typically invest in long-term bonds to match their long-term liabilities and have broadly diversified portfolios that include exposure to sectors affected by environmental risks. However, active portfolio management, including managing credit risks, is a core strength of the industry. Pollution could somewhat affect mortality rates in the long run, but global trends are toward increased environmental regulation and also greater longevity. New York Life's real estate investment strategy includes reducing greenhouse gas emissions and using natural resources where possible. Insurers that underwrite policies only in a limited area (small country or region) could be more affected by natural and man-made disaster risks.

Social

Life Insurers have moderate overall exposure to social risks. These financial institutions are highly regulated and the majority of products are distributed through diverse distribution channels. Given this sector's reliance on handling customer data and privacy, customer relations are important. Human capital risks can be significant, primarily related to the recruitment and retention of key employees. Demographic and societal trends including people living longer and an aging population will affect life insurers in terms of the products that are sold for retirement and estate planning, and the fair pricing of certain life or health risks as insurers manage mortality, longevity, and morbidity risks. Societal trends could also limit the ability of Insurers to share adverse experience through

higher premium rate actions on policyholders of life and long-term care insurance. Digital innovations are disrupting distribution patterns for life insurers ranging from the underwriting process to how life insurance and retirement products are purchased.

Governance

Like all other corporate credits, the credit quality of NYL can be influenced by a wide range of governance-related issues, including aggressive financial or risk policies, inadequate or inexperienced management, complex or opaque organizational structures, weak or corrupt accounting, sales or other policies, and unsuitable board and/or ownership structures. Any weaknesses in any or all of these areas can be exacerbated by regulatory oversight and intervention, which can lead to reputational damage, fines or license suspensions. New York Life strives to promote cultural diversity and encourages recruitment of diverse individuals into its agency force that reflects the different markets the company serves.

Rating methodology and scorecard factors

Exhibit 7

New York Life Insurance Company

Financial Strength Rating Scorecard [1][2]	Aaa	Aa	A	Baa	Ba	B	Caa	ScoreAdj	Score
Business Profile								Aa	Aa
Market Position and Brand (15%)								Aa	Aaa
-Relative Market Share Ratio		X							
Distribution (10%)								A	Aa
-Distribution Control		X							
-Diversity of Distribution			X						
Product Focus and Diversification (10%)								Aa	Aa
-Product Risk	X								
-Life Insurance Product Diversification		X							
Financial Profile								Aa	Aa
Asset Quality (10%)								A	Aa
-High Risk Assets % Shareholders' Equity			92.2%						
-Goodwill & Intangibles % Shareholders' Equity	18.2%								
Capital Adequacy (15%)								Aa	Aa
-Shareholders' Equity % Total Assets		10.8%							
Profitability (15%)								Aa	Aa
-Return on Capital (5 yr. avg.)			5.0%						
-Sharpe Ratio of ROC (5 yr.)	491.2%								
Liquidity and Asset/Liability Management (10%)								Aa	Aa
-Liquid Assets % Liquid Liabilities		X							
Financial Flexibility (15%)								Aaa	Aa
-Adjusted Financial Leverage	10.8%								
-Total Leverage	12.2%								
-Earnings Coverage (5 yr. avg.)	14.5x								
-Cash Flow Coverage (5 yr. avg.)									
Operating Environment								Aaa - A	Aaa - A
Preliminary Standalone Outcome								Aa2	Aa1

[1] Information based on US GAAP financial statements as of fiscal year ended December 31, 2019. [2] The Scorecard rating is an important component of the company's published rating, reflecting the standalone financial strength before other considerations (discussed above) are incorporated into the analysis.

Source: Moody's Investors Service

Ratings

Exhibit 8

Category	Moody's Rating
NEW YORK LIFE INSURANCE COMPANY	
Rating Outlook	NEG
Insurance Financial Strength	Aaa
ST Insurance Financial Strength	P-1
Surplus Notes	Aa2 (hyb)
NEW YORK LIFE INSURANCE & ANNUITY CORPORATION	
Rating Outlook	NEG
Insurance Financial Strength	Aaa
LIFE INSURANCE COMPANY OF NORTH AMERICA	
Rating Outlook	NEG
Insurance Financial Strength	Aaa

Source: Moody's Investors Service

Moody's related publications

Sector Research:

- » [Life Insurance – US: Life insurers can withstand even extreme second wave of coronavirus, December 2020](#)
- » [Life & Health Insurance – US: Profitability weakens driven by low rates, pandemic-driven mortality claims, November 2020](#)
- » [Life Insurance – US: M&A heats up as low rate environment drives change in business strategies, November 2020](#)
- » [Life Insurance – US: Credit deterioration picks up in CMBS holdings but capital is resilient, November 2020](#)
- » [Life Insurance – US: Rating migration could weaken capital should recession be severe, prolonged, November 2020](#)
- » [Life Insurance – US: Voluntary benefits: near-term volatility, but longer-term prospects remain bright, October 2020](#)
- » [Life Insurance – US: Energy, retail, and travel investments to take a capital hit, but fixed income holdings are limited, September 2020](#)
- » [Life Insurance – Global: Life insurers go virtual, tech sorts winners from losers post coronavirus, September 2020](#)
- » [Life Insurance – US: Pandemic weakens life insurers' profitability, lowers sales, August 2020](#)
- » [Life Insurance – US: CLO credit quality weakens; likely minimal losses for most life insurers, August 2020](#)
- » [Insurance – Global: CDS Indicator: Coronavirus-driven negative market sentiment in Q1, rebound in Q2, July 2020](#)
- » [Life Insurance – US: Retail, lodging mortgage loans will weaken capital amid coronavirus-driven downturn, May 2020](#)
- » [Life Insurance - US: Life insurers can tolerate higher coronavirus claims; life reinsurers more exposed, April 2020](#)
- » [Life Insurance - US: Capital levels are strong but vulnerable to coronavirus-driven economic shock, April 2020](#)
- » [Life Insurance - US: Insurance Investments Deep Dive Wrap-Up, February 2020](#)

Industry Outlook:

- » [Life Insurance – US: 2021 outlook negative amid economic uncertainty, persistently low interest rates, November 2020](#)
- » [Life Insurance – Global: 2021 outlook negative as ultralow rates hurt profitability, December 2020](#)

Methodology:

- » [Life Insurers Methodology, November 2019](#)

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