



STATE OF NEW YORK INSURANCE DEPARTMENT
REPORT ON EXAMINATION
OF THE
USAA LIFE INSURANCE COMPANY OF NEW YORK

CONDITION:

DECEMBER 31, 2006

DATE OF REPORT:

OCTOBER 19, 2007

STATE OF NEW YORK INSURANCE DEPARTMENT
REPORT ON EXAMINATION
OF THE
USAA LIFE INSURANCE COMPANY OF NEW YORK
AS OF
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EXAMINER:

EDMUND TAGOE

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

Eliot Spitzer
Governor

Eric R. Dinallo
Superintendent

October 19, 2007

Honorable Eric R. Dinallo
Superintendent of Insurance
Albany, New York 12257

Sir:

In accordance with instructions contained in Appointment No. 22638, dated May 15, 2007 and annexed hereto, an examination has been made into the condition and affairs of USAA Life Insurance Company of New York, hereinafter referred to as "the Company," at its home office located at 529 Main Street, Highland Falls, New York 10928.

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, 2006 filed annual statement. (See item 5 of this report)

The Company violated Section 127.3(b) of Department Regulation No. 102 by taking reserve credits under treaties that were not executed within 90 days from the execution date of the letter of intent. (See item 3E of this report)

2. SCOPE OF EXAMINATION

The prior examination was conducted as of December 31, 2003. This examination covers the period from January 1, 2004 through December 31, 2006. As necessary, the examiner reviewed transactions occurring subsequent to December 31, 2006 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, 2006 to determine whether the Company's 2006 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
- 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, recommendations and comments contained in the prior report on examination. The results of the examiner's review are contained in item 7 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

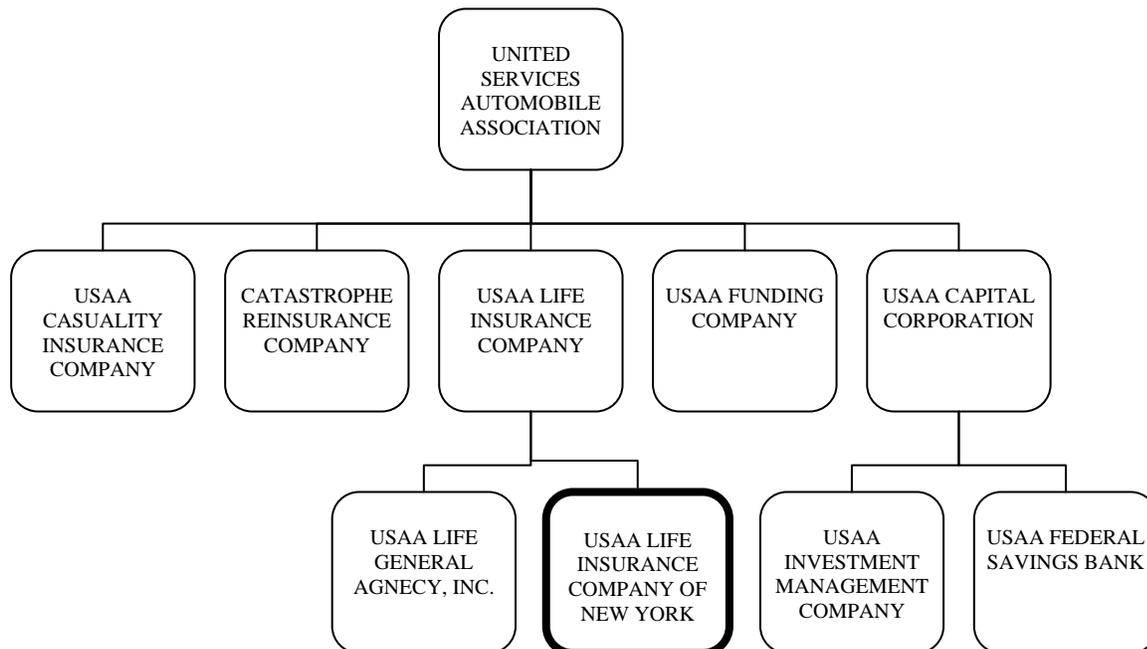
A. History

The Company was incorporated as a stock life insurance company under the laws of New York on October 1, 1997, and was licensed and commenced business on November 14, 1997. Initial resources of \$6,661,425, consisting of common capital stock of \$2,000,000 and paid in and contributed surplus of \$4,661,425, were provided through the sale of 20,000 shares of common stock (with a par value of \$100 each) for \$333.07 per share. As of December 31, 2006, the Company reported total common capital stock and paid in and contributed surplus in the amounts of \$2,000,000 and \$21,482,647, respectively.

B. Holding Company

The Company is a wholly owned subsidiary of USAA Life Insurance Company (“USAA Life”), a Texas insurance company. USAA Life is in turn a wholly owned subsidiary of United Services Automobile Association (“USAA”), a Texas reciprocal inter-insurance exchange.

An organization chart reflecting the relationship between the Company and significant entities in its holding company system as of December 31, 2006 follows:



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

Type of Agreement and Dept. File No.	Effective Date	Provider(s) of Service(s)	Recipient(s) of Service(s)	Specific Service(s) Covered	Income/ (Expense)* For Each Year of the Examination	
Financial Management and Advisory Agreement	11/14/97	USAA Investment Management Company (IMCO)	The Company	Investment management and advisory services	2004	\$ (129,645)
					2005	\$ (139,810)
					2006	\$ (131,134)
Administrative Services Agreement #33399	09/01/05	USAA and USAA Life	The Company	Policyholder Services; Accounting, Data Processing, Tax and Auditing; Underwriting and Policy Issues; Claims; Sales; Marketing and Promotional Services; Functional Support Services; Reinsurance Services	2004	\$ 0
					2005	\$(1,269,590)- USAA \$(1,331,142)- USAA Life
					2006	\$(2,962,771)- USAA \$(2,805,153)- USAA Life
Administrative Services Agreement #30818	11/14/97 Amended 05/01/02 Replaced by agreement # 33399	USAA Life	The Company	Policyholder accounting, data processing, tax, auditing, underwriting, policy issue, claims, sales, marketing and promotional services, functional support services	2004	\$(2,755,630)
					2005	\$ 0
					2006	\$ 0
Administrative Services Agreement #30056	05/01/02 Replaced by agreement # 33399	USAA	The Company	Procurement of reinsurance	2004	\$ 0

* Amount of income or (Expense) incurred by the Company.

On September 21, 2005, the Department approved an Administrative Services Agreement among the Company, USAA and USAA Life (Department file number 33399). The agreement consolidated and replaced two prior agreements between the Company, USAA, and USAA Life (Department file numbers 30056 and 30818 respectively). Those two prior agreements terminated as of September 1, 2005 which was the effective date of the new agreement.

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 18 directors. Directors are elected for a period of one year at the annual meeting of the stockholders held in September of each year. As of December 31, 2006, the board of directors consisted of nine members. Meetings of the board are held in April and September of each year.

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>	<u>Year First Elected</u>
Dawn L. Cooper Boerne, TX	Senior Vice President and Consumer Services Officer USAA Life Insurance Company of New York	2006
Russell A. Evenson San Antonio, TX	Senior Vice President and Chief Actuary USAA Life Insurance Company of New York.	2001
Joseph R. Holland* New City, New York	Commissioner of Social Services Rockland County, New York	1998
Kristi A. Matus San Antonio, TX	President and Chief Executive Officer USAA Life Insurance Company of New York.	2004
William P. Maloney* New York, NY	Retired Partner Maloney & Porcelli Law Firm	1997
Jeffrey G. Nordstrom San Antonio, TX	Assistant Vice President USAA Life Insurance Company of New York	2005
Rosemary H. Puente San Antonio, TX	Senior Vice President USAA Life Insurance Company of New York	2005
Ronald C. Tocci* New Rochelle, NY	Commissioner of Veteran Affairs New York State Department of Labor	1997

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>	<u>Year First Elected</u>
Darryl C. Towns* Brooklyn, NY	New York State Assemblyman	2006

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

In January 2007, Kristi A. Matus and Dawn L. Cooper resigned from the board and were replaced by Michael R. Baublitz and Brandon D. Carter, respectively.

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.

A review of the Audit, Nominating and Evaluation Committee minutes for the examination period revealed that some of the non-independent directors were present during the Committee's meetings. There was no indication in the Committee minutes that the Committee met in executive session to review senior officers' salaries and recommendation as to officers, evaluation of performance of principal officers, recommendation as to directors and recommendation as to independent auditor.

The examiner recommends that non-independent persons recuse themselves from the Committee's deliberations or actions. In addition, the Committee minutes should reflect the portion of the meetings that such non-independent persons are present, and clearly identify when such persons withdraw from the meetings.

The following is a listing of the principal officers of the Company as of December 31, 2006:

<u>Name</u>	<u>Title</u>
Kristi A. Matus	President and Chief Executive Officer
Deborah L. Beachner	Assistant Vice President
Lynda C. Cabell	Senior Vice President and Controller
Amy D. Cannefax	Vice President
Dawn L. Cooper*	Senior Vice President and Consumer Services Officer
Russell A. Evenson	Senior Vice President and Chief Actuary
Mark S. Howard	Senior Vice President
Edwin T. McQuiston	Senior Vice President and Treasurer
William J. Nabholz III	Vice President and Secretary
Jeffrey G. Nordstrom	Assistant Vice President
Allen R. Pierce	Vice President
Rosemary H. Puente	Senior Vice President
Layne C. Roetzel	Assistant Vice President and Anti-Money Laundering/Privacy/Compliance Officer

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

In January 2007, Russell A. Evenson replaced Kristi A. Matus as President and Chairman of the board. Also in January of 2007, Michael R. Baublitz, Brandon D. Carter, and Shawn T. Loftus were appointed officers. Brandon D. Carter replaced Dawn L. Cooper as the designated consumer services officer.

In February 2007, William Smith was appointed an officer and replaced Edwin T. McQuiston as Treasurer.

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 transact business in New York. In 2006, 87.5% of life premiums, 97.9% of annuity considerations and 100% of all deposit funds were received from New York. Policies are written on a participating and non-participating basis.

During the examination period, the Company mainly sold individual life insurance (whole, term and universal) and fixed annuities. The Company's target market is the military,

spouses and dependents ages 21 to 60. The Company's products and services are available to the general public. However, it does not actively solicit sales to the general public.

The Company's sales operations are conducted on a direct response basis.

E. Reinsurance

As of December 31, 2006, the Company had reinsurance treaties in effect with ten companies, all of which were authorized or accredited. The Company's whole life, universal life and term life policies are ceded on a coinsurance and yearly renewable term basis. Reinsurance is provided on an automatic and facultative basis.

The maximum retention limit for individual life insurance is \$200,000. The total face amount of life insurance ceded as of December 31, 2006, was \$3,704,389,169, which represents 69.9% of the total face amount of life insurance in force.

Section 127.3(b) of Department Regulation No. 102 states:

"No credit shall be granted from reinsurance ceded under a letter of intent unless a reinsurance agreement or an amendment to a reinsurance agreement is executed within 90 days from the execution date of the letter of intent."

The examiner's review of the Company's reinsurance treaties effective during the examination period revealed that the Company had reinsurance ceded under letters of intent with Generali USA Life Reinsurance Company ("Generali") and Scottish Re (U.S.), Inc. ("Scottish"). Both letters of intent were effective January 1, 2006. To date the Company has not obtained executed treaties with either Generali or Scottish. Reserve credit of approximately \$500,000 was taken under these treaties in 2006, although the treaties were not executed.

The Company violated Section 127.3(b) of Department Regulation No. 102 by taking reserve credits under treaties that were not executed within 90 days from the execution date of the letter of intent.

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, <u>2003</u>	December 31, <u>2006</u>	Increase (Decrease)
Admitted assets	<u>\$255,969,371</u>	<u>\$306,801,643</u>	<u>\$50,832,272</u>
Liabilities	<u>\$220,608,962</u>	<u>\$263,387,642</u>	<u>\$42,778,680</u>
Common capital stock	\$ 2,000,000	\$ 2,000,000	\$ 0
Gross paid in and contributed surplus	21,482,647	21,482,647	0
Unassigned funds (surplus)	<u>11,877,763</u>	<u>19,931,355</u>	<u>8,053,592</u>
Total capital and surplus	<u>\$ 35,360,409</u>	<u>\$ 43,414,001</u>	<u>\$ 8,053,592</u>
Total liabilities, capital and surplus	<u>\$255,969,371</u>	<u>\$306,801,643</u>	<u>\$50,832,272</u>

The Company's investment portfolio was primarily comprised of bonds (92.9%), preferred stocks (3.9%), cash and short-term investments (2.0%), and policy loans (1.2%). The majority (99.5%) of the Company's \$281,830,861 bond portfolio, as of December 31, 2006, was comprised of investment grade obligations.

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:

	<u>2004</u>	<u>2005</u>	<u>2006</u>
Ordinary:			
Life insurance	\$2,621,916	\$3,568,795	\$1,514,715
Individual annuities	1,741,406	1,789,677	1,529,506
Supplementary contracts	<u>52,991</u>	<u>105,602</u>	<u>(36,585)</u>
Total ordinary	<u>\$4,416,313</u>	<u>\$5,464,074</u>	<u>\$3,007,636</u>
Total	<u>\$4,416,313</u>	<u>\$5,464,074</u>	<u>\$3,007,636</u>

5. FINANCIAL STATEMENTS

The following statements show the assets, liabilities, capital and surplus as of December 31, 2006, as contained in the Company's 2006 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, 2006 filed annual statement.

A. ASSETS, LIABILITIES, CAPITAL AND SURPLUS AS OF DECEMBER 31, 2006

Admitted Assets

Bonds	\$277,973,382
Stocks	
Preferred stocks	11,814,323
Cash, cash equivalents and short term investments	5,901,339
Contract loans	3,560,415
Investment income due and accrued	3,903,511
Premiums and considerations:	
Uncollected premiums and agents' balances in the course of collection	316,430
Deferred premiums, agents' balances and installments booked but deferred and not yet due	2,355,328
Reinsurance:	
Amounts recoverable from reinsurers	50,000
Other amounts receivable under reinsurance contracts	229,343
Net deferred tax asset	<u>697,574</u>
 Total admitted assets	 <u>\$306,801,643</u>

Liabilities, Capital and Surplus

Aggregate reserve for life policies and contracts	\$248,265,514
Liability for deposit-type contracts	4,899,617
Contract claims:	
Life	1,715,556
Policyholders' dividends and coupons due and unpaid	49,138
Dividends apportioned for payment	1,460,651
Premiums and annuity considerations for life and accident and health contracts received in advance	72,477
Contract liabilities not included elsewhere:	
Surrender values on cancelled contracts	3,180
Interest maintenance reserve	732,289
General expenses due or accrued	12,500
Current federal and foreign income taxes	1,267,930
Unearned investment income	95,408
Amounts withheld or retained by company as agent or trustee	36,790
Remittances and items not allocated	220,805
Miscellaneous liabilities:	
Asset valuation reserve	1,706,936
Payable to parent, subsidiaries and affiliates	840,257
Payable for securities	2,008,124
Accrued interest payable on policy funds	<u>468</u>
 Total liabilities	 <u>\$263,387,642</u>
 Common capital stock	 \$ 2,000,000
Gross paid in and contributed surplus	21,482,647
Unassigned funds (surplus)	<u>19,931,355</u>
 Total capital and surplus	 \$ <u>43,414,001</u>
 Total liabilities, capital and surplus	 <u>\$306,801,643</u>

B. CONDENSED SUMMARY OF OPERATIONS

	<u>2004</u>	<u>2005</u>	<u>2006</u>
Premiums and considerations	\$23,693,555	\$21,907,053	\$24,053,794
Investment income	14,842,485	15,953,754	16,790,131
Commissions and reserve adjustments on reinsurance ceded	1,624,231	1,857,380	2,341,318
Miscellaneous income	<u>359</u>	<u>(200)</u>	<u>(1,154)</u>
Total income	<u>\$40,160,630</u>	<u>\$39,717,987</u>	<u>\$43,184,090</u>
Benefit payments	\$ 9,857,726	\$11,528,541	\$21,618,697
Increase in reserves	18,915,680	15,079,340	9,023,828
General expenses and taxes	3,397,649	3,107,766	6,301,229
Increase in loading on deferred and uncollected premium	(140,019)	35,307	1,801
Miscellaneous deductions	<u>0</u>	<u>25,000</u>	<u>0</u>
Total deductions	<u>\$32,031,037</u>	<u>\$29,775,955</u>	<u>\$36,945,555</u>
Net gain (loss)	\$ 8,129,593	\$ 9,942,032	\$ 6,238,535
Dividends	1,398,701	1,430,730	1,479,430
Federal and foreign income taxes incurred	<u>2,314,579</u>	<u>3,047,228</u>	<u>1,751,469</u>
Net gain (loss) from operations before net realized capital gains	\$ 4,416,313	\$ 5,464,074	\$ 3,007,636
Net realized capital gains (losses)	<u>(32,191)</u>	<u>(75,161)</u>	<u>(49,780)</u>
Net income	<u>\$ 4,384,122</u>	<u>\$ 5,388,913</u>	<u>\$ 2,957,856</u>

C. CAPITAL AND SURPLUS ACCOUNT

	<u>2004</u>	<u>2005</u>	<u>2006</u>
Capital and surplus, December 31, prior year	<u>\$35,360,409</u>	<u>\$40,872,007</u>	<u>\$46,372,861</u>
Net income	\$ 4,384,122	\$ 5,388,913	\$ 2,957,856
Change in net unrealized capital gains (losses)	91,870	0	0
Change in net deferred income tax	114,255	209,931	622,105
Change in non-admitted assets and related items	(63,482)	98,201	(824,436)
Change in reserve valuation basis	0	0	(1,137,868)
Change in asset valuation reserve	984,832	(196,191)	(176,516)
Dividends to stockholders	<u>0</u>	<u>0</u>	<u>(4,400,000)</u>
Net change in capital and surplus for the year	<u>\$ 5,511,598</u>	<u>\$ 5,500,854</u>	<u>\$ (2,958,860)</u>
Capital and surplus, December 31, current year	<u>\$40,872,007</u>	<u>\$46,372,861</u>	<u>\$43,414,001</u>

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. PRIOR REPORT SUMMARY AND CONCLUSIONS

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

<u>Item</u>	<u>Description</u>
A	The examiner recommends that the Company withdraw the service agreement with USAA.
B	<p>The Company violated Section 1505(d)(3) of the New York Insurance Law by receiving services on a regular basis from an affiliate without having a filed service agreement with the Superintendent.</p> <p>On September 21, 2005, the Department approved an Administrative Services Agreement among the Company, USAA and USAA Life. The agreement consolidated and replaced two prior agreements between the Company, USAA, and USAA Life including the agreement referenced in Item A.</p>
C	<p>The Company violated Section 3201(b)(1) of the New York Insurance Law by using a policy form that was not approved by the Department.</p> <p>The referenced form was approved by the Department on September 9, 2004.</p>
D	<p>In the future, the Company will obtain board approval whenever it changes its dividend computational methodology.</p> <p>A review of the board of directors' minutes indicates that the Company has been obtaining board approval for each change to its dividend computational methodology.</p>
E	<p>The Company will revise its dividend formula to take into account experience at the age and duration levels for the 2005 dividend scale.</p> <p>The Company revised its 2005 scale to take into account experience at the age and duration levels for the open block of business at that time.</p>

8. SUMMARY AND CONCLUSIONS

Following are the violation and recommendation contained in this report:

<u>Item</u>	<u>Description</u>	<u>Page No(s).</u>
A	The examiner recommends that non-independent persons recuse themselves from the Audit, Nominating and Evaluation Committee's deliberations or actions. In addition, the Committee minutes should reflect the portion of the meetings that such non-independent persons are present, and clearly identify when such persons withdraw from the meetings.	7
B	The Company violated Section 127.3(b) of Department Regulation No. 102 by taking reserve credits under treaties that were not executed within 90 days from the execution date of the letter of intent.	9

APPOINTMENT NO. 22638

STATE OF NEW YORK
INSURANCE DEPARTMENT

I, **ERIC R. DINALLO**, Superintendent of Insurance of the State of New York,
pursuant to the provisions of the Insurance Law, do hereby appoint:

EDMUND TAGOE

as a proper person to examine into the affairs of the

USAA LIFE INSURANCE COMPANY OF NEW YORK

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 15th day of May, 2007



ERIC R. DINALLO
Superintendent of Insurance


Superintendent