



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

CONDITION:

DECEMBER 31, 2006

DATE OF REPORT:

MARCH 14, 2008

STATE OF NEW YORK INSURANCE DEPARTMENT

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AS OF

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EXAMINER:

PHARES CATON

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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

March 14, 2008

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

Sir:

In accordance with instructions contained in Appointment No. 22640, dated May 15, 2007 and annexed hereto, an examination has been made into the condition and affairs of Presidential Life Insurance Company, hereinafter referred to as "the Company," at its home office located at 69 Lydecker Street, Nyack, NY 10960.

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 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)

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 comment 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

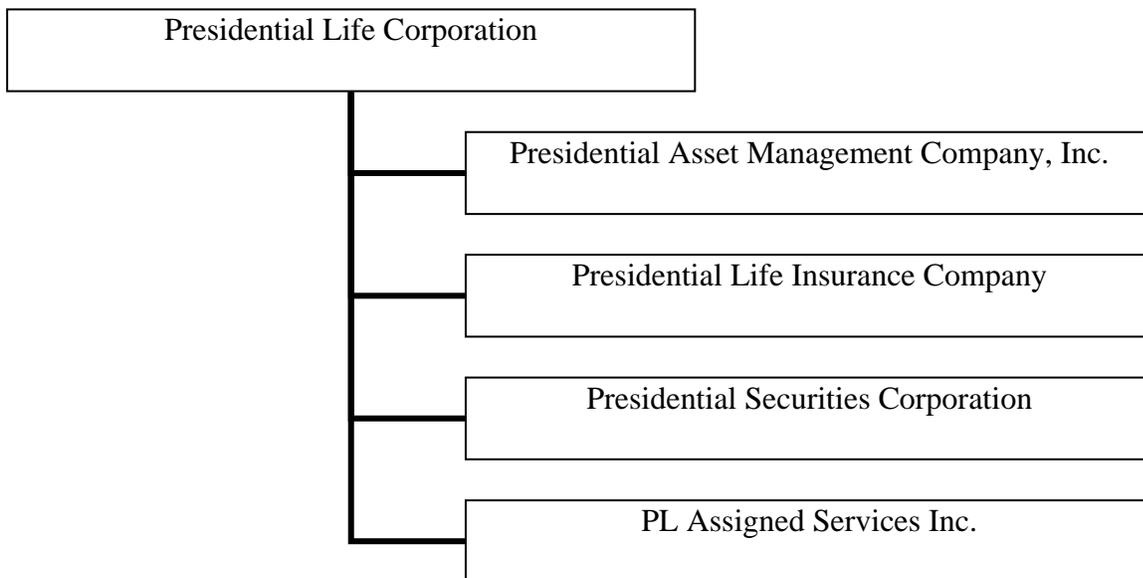
A. History

The Company was incorporated as a stock life insurance company under the laws of New York on May 17, 1965, and was licensed and commenced business on October 20, 1966. Initial resources of \$2,850,000, consisting of common capital stock of \$950,000 and paid in and contributed surplus of \$1,900,000, were provided through the sale of 475,000 shares of common stock (with a par value of \$2 each) for \$6 per share. Prior to 1997, the Company increased the par value of its common stock five times. During 2002, the Company's parent contributed \$11,292,828 in the form of common stock to the Company's paid in and contributed surplus. As of December 31, 2006, the Company reported common capital stock of \$2,500,875, consisting of 475,000 shares at \$5.265 per share, and gross paid in and contributed surplus of \$45,641,953.

B. Holding Company

The Company is a wholly owned subsidiary of Presidential Life Corporation ("PLC"), a Delaware corporation.

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 2 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(s) of Service(s)	Specific Service(s) Covered	Income/ (Expense)* For Each Year of the Examination
Master Service Agreement 0024857	7/1/97	The Company	PLC	Investment Management	\$18,000 each year
Master Service Agreement 0018818	1/1/91	The Company	PL Assigned Services Inc.	Management and accounting	\$ 2,000 each year

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

C. Management

The Company's by-laws provide that the board of directors shall be comprised of not less than 13 and not more than 19 directors. Directors are elected for a period of one year at the annual meeting of the stockholders held in April or May of each year, as the board of directors shall designate. As of December 31, 2006, the board of directors consisted of 15 members. Meetings of the board are held quarterly.

The 15 board members and their principal business affiliation, as of December 31, 2006, were as follows:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>	<u>Year First Elected</u>
Mark Abrams Irvington, NY	Executive Vice President and Chief Investment Officer Presidential Life Insurance Company	2003
Donald Barnes Nyack, NY	President Presidential Life Insurance Company	1997
Donna Brazile* Washington, DC	Managing Director Brazile & Associates, LLC	2003
David Freed* Upper Montclair, NJ	President and Chief Executive Officer Nyack Hospital	2003
Melvin Gold* Verona, NJ	Retired	1990
Alexis Herman* McLean, VA	President and Chief Executive Officer New Ventures, Inc.	2001
Jerome Johnson* Monsey, NY	Attorney	1973
William Thomas Knight* Easton, MD	Retired	1993
Herbert Kurz Piermont, NY	Chairman of the Board Presidential Life Insurance Company	1966
George McGovern* Mitchell, SD	Retired	1984
Stanley Rubin* Monmouth Beach, NJ	Retired	1999
Jerrold Scher Suffern, NY	Senior Vice President and Chief Actuary Presidential Life Insurance Company	1992
Irving Schwartz, MD* New York, NY	Retired	1986
Charles Snyder Blauvelt, NY	Chief Financial Officer and Treasurer Presidential Life Insurance Company	2004
Douglas Sosnik* Washington, DC	Senior Vice President NBA	2004

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

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, 2006:

<u>Name</u>	<u>Title</u>
Donald Barnes	President
Mark Abrams	Executive Vice President and Chief Investment Officer
Charles Snyder	Chief Financial Officer and Treasurer
Jerrold Scher	Senior Vice President and Chief Actuary
Kathleen Dash*	Secretary

* 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 licensed to transact business in all states except New Hampshire, and the District of Columbia. Policies are written on a non-participating basis.

The following tables show the percentage of direct premiums received, by state, and by major lines of business for the year 2006:

<u>Life Insurance Premiums</u>		<u>Annuity Considerations</u>	
New York	31.4%	New York	57.4%
California	7.8	Florida	8.6
New Jersey	6.8	Pennsylvania	3.8
Florida	<u>6.2</u>	Texas	<u>2.9</u>
Subtotal	52.2%	Subtotal	72.7%
All others	<u>47.8</u>	All others	<u>27.3</u>
Total	<u>100.0%</u>	Total	<u>100.0%</u>

<u>Accident and Health Insurance Premiums</u>		<u>Deposit Type Funds</u>	
New York	65.0%	Florida	20.0%
All others	<u>35.0</u>	New York	<u>16.4</u>
Total	<u>100.0%</u>	Subtotal	36.4%
		All others	<u>63.6</u>
		Total	<u>100.0%</u>

The Company currently offers individual annuities, as well as graded benefit life, disability and medical stop-loss insurance. As of March 2004, the Company exited the traditional life and universal life markets.

The Company's agency operations are conducted on a general agency basis.

E. Reinsurance

As of December 31, 2006, the Company had reinsurance treaties in effect with 17 companies, of which 14 were authorized or accredited. The Company's universal and ordinary life insurance policies are ceded on a coinsurance, modified-coinsurance and yearly renewable term basis. Reinsurance is provided on an automatic and facultative basis.

The maximum retention limit for individual life contracts is \$100,000. The total face amount of life insurance ceded as of December 31, 2006, was \$755,515,582, which represents 30.9% of the total face amount of life insurance in force. Reserve credit taken for reinsurance ceded to unauthorized companies, totaling \$1,912,502, was supported by letters of credit.

The total face amount of life insurance assumed as of December 31, 2006, was \$1,185,426,161, which represents Servicemen's Group Life Insurance ("SEGLI").

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, <u>2003</u>	December 31, <u>2006</u>	Increase (Decrease)
Admitted assets	<u>\$4,123,147,563</u>	<u>\$4,277,307,476</u>	<u>\$154,159,913</u>
Liabilities	<u>\$3,913,344,063</u>	<u>\$3,947,203,464</u>	<u>\$ 33,859,401</u>
Common capital stock	\$ 2,500,875	\$ 2,500,875	\$ 0
Gross paid in and contributed surplus	45,641,953	45,641,953	0
Variable Annuity Contingency Reserve	62,140	51,019	(11,121)
Unassigned funds (surplus)	<u>161,598,532</u>	<u>281,910,165</u>	<u>120,311,633</u>
Total capital and surplus	<u>\$ 209,803,500</u>	<u>\$ 330,104,012</u>	<u>\$120,300,512</u>
Total liabilities, capital and surplus	<u>\$4,123,147,563</u>	<u>\$4,277,307,476</u>	<u>\$154,159,913</u>

The Company's invested assets as of December 31, 2006, exclusive of separate accounts, were mainly comprised of bonds (69.8%), stocks (3.7%), cash and short-term investments (19.3%) and other invested assets (6.4%).

The majority (94.3%) of the Company's 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	\$ 5,998,633	\$ 5,009,813	\$ 5,985,309
Individual annuities	64,382,383	83,107,054	76,364,934
Supplementary contracts	<u>1,764,194</u>	<u>1,324,844</u>	<u>629,433</u>
Total ordinary	<u>\$72,145,210</u>	<u>\$89,441,711</u>	<u>\$82,979,676</u>
Group:			
Life	\$ 18,229	\$ 26,545	\$ (76,382)
Annuities	<u>2,153,012</u>	<u>867,970</u>	<u>502,670</u>
Total group	<u>\$ 2,171,241</u>	<u>\$ 894,515</u>	<u>\$ 426,288</u>
Accident and health:			
Group	\$ 96,137	\$ 72,434	\$ 566,225
Other	<u>2,259</u>	<u>1,776</u>	<u>1,167</u>
Total accident and health	<u>\$ 98,396</u>	<u>\$ 74,210</u>	<u>\$ 567,392</u>
Total	<u>\$74,414,847</u>	<u>\$90,410,436</u>	<u>\$83,973,356</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	\$2,920,099,319
Stocks:	
Preferred stocks	129,149,918
Common stocks	27,407,088
Real estate:	
Properties occupied by the company	379,599
Cash, cash equivalents and short term investments	806,582,771
Contract loans	17,964,941
Other invested assets	267,973,616
Receivable for securities	5,375,273
Aggregate write-ins for invested assets:	
Payor swaptions	9,784,117
Investment income due and accrued	44,675,166
Premiums and considerations:	
Uncollected premiums and agents' balances in the course of collection	1,023,634
Deferred premiums, agents' balances and installments booked but deferred and not yet due	2,583,781
Reinsurance:	
Amounts recoverable from reinsurers	125,435
Other amounts receivable under reinsurance contracts	169,181
Net deferred tax asset	41,806,832
Electronic data processing equipment and software	198,596
From Separate Accounts, Segregated Accounts and Protected Cell Accounts	<u>2,008,209</u>
 Total admitted assets	 <u>\$4,277,307,476</u>

Liabilities, Capital and Surplus

Aggregate reserve for life policies and contracts	\$3,530,827,268
Aggregate reserve for accident and health contracts	901,715
Liability for deposit-type contracts	269,466,920
Contract claims:	
Life	8,014,874
Accident and health	501,454
Premiums and annuity considerations for life and accident and health contracts received in advance	78,513
Contract liabilities not included elsewhere:	
Other amounts payable on reinsurance	93
Interest maintenance reserve	66,936,602
Commissions to agents due or accrued	211,461
General expenses due or accrued	1,145,820
Taxes, licenses and fees due or accrued, excluding federal income taxes	183,713
Current federal and foreign income taxes	(4,745,228)
Unearned investment income	76,329
Amounts withheld or retained by company as agent or trustee	772,756
Amounts held for agents' account	41,312
Remittances and items not allocated	5,521,632
Miscellaneous liabilities:	
Asset valuation reserve	50,158,562
Payable for securities	13,775,821
Aggregate write-ins for liabilities:	
Interest on policy and contract claims	530,697
Reserve for unrepresented checks	697,968
Variable annuity mortality and GMDB reserve	96,973
From separate accounts statement	<u>2,008,209</u>
 Total liabilities	 <u>\$3,947,203,464</u>
 Common capital stock	 \$ 2,500,875
Gross paid in and contributed surplus	45,641,953
Aggregate write-ins for special surplus funds:	
Variable annuity contingency reserve	51,019
Unassigned funds (surplus)	<u>281,910,165</u>
Surplus	\$ <u>327,603,137</u>
Total capital and surplus	\$ <u>330,104,012</u>
 Total liabilities, capital and surplus	 <u>\$4,277,307,476</u>

B. CONDENSED SUMMARY OF OPERATIONS

	<u>2004</u>	<u>2005</u>	<u>2006</u>
Premiums and considerations	\$240,870,593	\$147,283,972	\$173,111,635
Investment income	377,409,834	336,597,613	302,210,533
Commissions and reserve adjustments on reinsurance ceded	(1,344,169)	1,784,148	1,597,040
Miscellaneous income	<u>78,790</u>	<u>103,373</u>	<u>86,642</u>
 Total income	 <u>\$617,015,048</u>	 <u>\$485,769,106</u>	 <u>\$477,005,850</u>
Benefit payments	\$267,612,467	\$306,996,624	\$642,155,068
Increase in reserves	221,474,893	46,680,426	(275,733,179)
Commissions	9,903,000	7,337,473	8,308,210
General expenses and taxes	20,786,251	17,736,110	19,063,004
Increase in loading on deferred and uncollected premium	274,388	408,857	357,726
Net transfers to (from) Separate Accounts	(794,274)	(54,869)	(85,185)
Miscellaneous deductions	<u>2,190</u>	<u>1,917</u>	<u>1,990</u>
 Total deductions	 <u>\$519,258,915</u>	 <u>\$379,106,538</u>	 <u>\$394,067,634</u>
Net gain (loss)	\$ 97,756,133	\$106,662,568	\$ 82,938,216
Federal and foreign income taxes incurred	<u>23,341,284</u>	<u>16,252,136</u>	<u>(1,035,139)</u>
Net gain (loss) from operations before net realized capital gains	\$ 74,414,849	\$ 90,410,432	\$ 83,973,355
Net realized capital gains (losses)	<u>(117,979,388)</u>	<u>11,552,367</u>	<u>(8,997,534)</u>
 Net income	 <u>\$(43,564,539)</u>	 <u>\$101,962,799</u>	 <u>\$ 74,975,821</u>

In the fourth quarter of 2006, one of the products sold by the Company came off surrender charges and many of the annuitants surrendered their contracts; this was the reason for the increase in benefit payments. Inversely, the Company reduced the reserve requirement for the surrendered contacts.

The Company recognized a net realized capital loss in 2004 when it discovered, during a review in 2004, that it had purchased principal protected notes between the years 1999 and 2001 from issuers in which the Company held a majority interest. Accounting rules required that the Company consolidate such issuers. The net effect of this consolidation was an increase in the net realized capital loss of approximately \$122 million.

C. CAPITAL AND SURPLUS ACCOUNT

	<u>2004</u>	<u>2005</u>	<u>2006</u>
Capital and surplus, December 31, prior year	\$ <u>209,803,500</u>	\$ <u>215,390,824</u>	\$ <u>291,337,902</u>
Net income	\$ (43,564,539)	\$101,962,799	\$ 74,975,821
Change in net unrealized capital gains (losses)	20,290,937	31,453,943	(4,952,389)
Change in net deferred income tax	27,208,645	(41,038,490)	39,092,812
Change in non-admitted assets and related items	(22,641)	(7,472)	(45,090)
Change in liability for reinsurance in unauthorized companies	(1,038)	1,038	
Change in reserve valuation basis	0	(18,212,423)	(47,086,755)
Change in asset valuation reserve	1,675,960	1,787,683	(3,218,289)
Dividends to stockholders	<u>0</u>	<u>0</u>	<u>20,000,000</u>
Net change in capital and surplus for the year	\$ <u>5,587,324</u>	\$ <u>75,947,078</u>	\$ <u>38,766,110</u>
Capital and surplus, December 31, current year	\$ <u>215,390,824</u>	\$ <u>291,337,902</u>	\$ <u>330,104,012</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 comment 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	<p>The Company violated Section 1411(a) of the New York Insurance Law by not obtaining board authorization for its investment transactions.</p> <p>The review of the minutes of the board of director meetings revealed that board authorization is now received for investment transactions.</p>
B	<p>The examiner recommends that the investment monitoring function, whereby the Company monitors investment activity and verifies that investments conform with the Company's investment guidelines, currently performed by the investment committee, be performed independent of those making the investments for the Company.</p> <p>The investment monitoring function is now being performed by the President and Treasurer, whom are both independent of the investment function.</p>
C	<p>The examiner recommends that going forward the Company comply with the NAIC Annual Statement Instructions and SSAP No. 26 of the Accounting Practices and Procedures Manual by providing information on call features of bonds.</p> <p>The Company is providing the required information on call features of bonds.</p>
D	<p>The Company has restructured \$800 million in assets and has set up an additional \$60 million in reserves.</p> <p>No further action was required by the Company regarding this comment.</p>
E	<p>The examiner recommends that the Company continue its restructuring of assets as agreed upon with the Department.</p> <p>The Company has restructured its assets in order to better meet its needs.</p>

<u>Item</u>	<u>Description</u>
F	<p>The Company violated Section 2112(d) of the New York Insurance Law by failing to notify the Superintendent of the facts relative to the termination of the certificate of appointment of 23 agents.</p> <p>The Company has taken steps to correct this issue so that it would not happen again in the future. Terminations made during the examination period were reported to the superintendent.</p>
G	<p>The Company violated Section 51.6(b)(3) of Department Regulation No. 60 for not ascertaining that certain Disclosure Statements were accurate.</p> <p>The Company revised their Department Regulation No. 60 procedures. The current examination found that Disclosure Statements are being completed properly.</p>

APPOINTMENT NO. 22640

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:

PHARES CATON

as a proper person to examine into the affairs of the

PRESIDENTIAL 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 15th day of May, 2007

ERIC R. DINALLO
Superintendent of Insurance



Superintendent

