REPORT ON EXAMINATION

OF

AMERICAN FAMILY LIFE ASSURANCE COMPANY OF NEW YORK

AS OF

DECEMBER 31, 2008

DATE OF REPORT	**JUNE 17, 2010**
EXAMINER	**ELSAID ELBIALLY, CFE**

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

David A. Paterson
Governor

James J. Wrynn
Superintendent

Honorable James J. Wrynn
Superintendent of Insurance
Albany, New York 12257

June 17, 2010

Sir:

Pursuant to the provisions of the New York Insurance Law, and acting in accordance with the instructions contained in Appointment Number 30351 dated September 21, 2009, attached hereto, I have made an examination into the condition and affairs of American Family Life Assurance Company of New York, a for-profit stock company licensed pursuant to the provisions of Article 42 of the New York Insurance Law, as of December 31, 2008, and respectfully submit the following report thereon.

The examination was conducted at the home office of American Family Life Assurance Company of New York located at 22 Corporate Woods Boulevard, Albany, New York.

Wherever the designations "the Company" or "Aflac-NY" appear herein, without qualification, they should be understood to indicate the American Family Life Assurance Company of New York.

Wherever the designation "the Department" appears herein, without qualification, it should be understood to indicate the New York State Insurance Department.

1. SCOPE OF THE EXAMINATION

The previous examination was conducted as of December 31, 2004. This examination covers the four-year period from January 1, 2005, through December 31, 2008. Transactions occurring subsequent to this period were reviewed where deemed appropriate by the examiner.

The examination comprised a verification of assets and liabilities as of December 31, 2008, in accordance with Statutory Accounting Principles (SAP), as adopted by the Department, a review of income and disbursements to the extent deemed necessary to accomplish such verification, and utilized, to the extent considered appropriate, work performed by the Company's independent certified public accountants. A review or audit was also made of the following items as called for in the *Examiners Handbook of the National Association of Insurance Commissioners* (NAIC):

History of the Company
Management and controls
Corporate records
Fidelity bonds and other insurance
Officers' and employers' welfare and pension plans
Territory and plan of operation
Growth of the Company
Mortality and loss experience
Reinsurance
Accounts and records
Financial statements
Market conduct activities

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

A review was also made to ascertain what action was taken by the Company with regard to comments and recommendations made in the prior report on examination.

2. DESCRIPTION OF THE COMPANY

The Company was incorporated under the laws of New York State on March 31, 1964. It was licensed and commenced business on December 31, 1964, as the American Health and Life Insurance Company of New York, a wholly-owned subsidiary of American Health and Life Insurance Company, which in turn was owned by Commercial Credit Company. The Company was licensed to write life insurance, annuities, and accident and health business.

On April 2, 1984, American Health and Life Insurance Company of New York was acquired and became a wholly-owned subsidiary of American Family Life Assurance Company of Columbus (Aflac-Columbus). On December 11, 1984, the Company's name was changed to American Family Life Assurance Company of New York.

As of December 31, 2008, the Company reported paid-in capital in the amount of $2,000,000, represented by 10,000 common shares (par value $200) issued to its Parent, and a surplus of $57,334,804.

A. Management and Controls

Pursuant to the Company's charter and by-laws, management of the Company is to be vested in a board of directors of not less than nine, nor more than seventeen members. The number of directors is determined annually by the vote of a majority of the entire board.

As of December 31, 2008, the Company's board of directors consisted of the following twelve members:

Name and Residence	Principal Business Affiliation
Daniel P. Amos Columbus, Georgia	Chairman & CEO, Aflac, Inc.
Paul S. Amos, II Columbus, Georgia	President & COO of US Operations, Aflac- Columbus
Mark A. Charrette Cohoes, New York	Second VP of Sales Support, American Family Life Assurance Company of New York
Kriss Cloninger, III Columbus, Georgia	President, CFO, & Treasurer, Aflac, Inc.
Elizabeth J. Hudson Montclair, New Jersey	Executive Vice President of Communications, National Geographic Society
Kenneth S. Janke, Sr. Bloomfield Hills, Michigan	Chairman Emeritus, National Association of Investors Corporation
Douglas W. Johnson Atlanta, Georgia	Retired, Ernst & Young, LLP
Bradley S. Jones Niskayuna, New York	Vice President & Director of North Territory, Aflac- Columbus
Ernest Stephen Purdom Columbus, Georgia	Retired, Aflac, Inc.
Ralph A. Rogers, Jr. Columbus, Georgia	Senior Vice President, Treasurer Aflac- New York

Name and Residence	Principal Business Affiliation
Debra A. Walker Waterford, New York	Manager of Human Resources, Aflac – New York
Robert L. Wright Alexandria, Virginia	Chairman, FE Holdings, LLC

The minutes of all meetings of the board of directors and committees thereof held during the examination period were reviewed. During the examination period, board meetings were generally well attended; with all directors attending at least one-half of the meetings they were eligible to attend.

The principal officers of the Company as of December 31, 2008, were as follows:

Name	Title
Daniel Paul Amos	Chairman
Paul Shelby Amos, II	President
Kriss Cloninger, III	Executive Vice President & Chief Financial Officer
Joey Meredith Loudermilk	Executive Vice President & Secretary
Ralph Arnold Rogers, Jr.	Senior Vice President & Treasurer
Daniel Frederick Skelley	Vice President & Actuary

B. 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 the following six states:

Connecticut	New York	North Dakota
Massachusetts	New Jersey	Vermont

The Company did not write any business in Vermont or North Dakota during the four-year period covered by this examination.

The Company writes supplemental health insurance products, which are designed to complement existing comprehensive health insurance coverage. Much of the life insurance and all of the annuities that were in-force as of December 31, 2008, were issued prior to 1984. The traditional life insurance product was sold until 1993, after which it was not actively marketed. In 2007, the Company began marketing a new term life insurance product.

The Company sells its products through independent general agents and brokers.

During the examination period, the Company marketed the following supplemental accident and health insurance products:

Accident	Long-Term Care
Dental	Short-Term Disability
Home Health Care *	Specified Disease/Cancer
Hospital Confinement Indemnity	Vision **
Hospital Intensive Care *	

* Product is no longer offered and is a runoff on the books.
** Product introduced to the market in November 2008.

The Company's total premium income during the examination period was $660,157,749, broken down by line of business as follows:

Annuities	$ 14,050	Less than .1%
Life	3,340,220	00.5%
Accident & Health	656,803,479	99.5%

The total accident and health line of business premium income for each year covered by the examination was as follows:

2005	$ 135,061,564
2006	155,995,899
2007	174,343,714
2008	191,402,302
Total	$ 656,803,479

During the examination period, all of the Company's life and annuity insurance business was written in New York State. The Company's accident and health insurance business was written in four states as follows:

New York	$ 579,091,557	88.17%
New Jersey	57,672,465	8.78%
Connecticut	15,860,304	2.41%
Massachusetts	4,179,153	0.64%
Total	$ 656,803,479	100.00%

The following shows the Company's premiums written and net income from operations for the four-year examination period:

Year	Net Income	Premiums Written	Growth of Premiums Between Years
2005	$ 2,695,344	$ 135,259,497	13.6%
2006	8,422,185	156,175,718	15.5%
2007	11,861,984	174,660,995	11.8%
2008	11,592,552	194,061,538	11.1%

The majority of the premiums written in 2006, 2007 and 2008 were attributable to the accident and health line of business. The increase in 2008 was primarily due to increased sales of Aflac-NY hospital indemnity and the new term life products, which the Company began marketing in 2007.

Premium income (in millions) and the growth by product line for the years ended December 31, 2006, 2007 and 2008 are shown below:

Product Line	Change Between Years	2008	Change Between Years	2007	2006
Accident/Short-Term Disability	11.9%	$103.8	13.3%	$ 92.8	$ 81.9
Specified Disease	10.2%	71.3	11.8%	64.7	57.9
Fixed Benefit Dental	-6.4%	8.8	5.7%	9.4	8.9
Hospital Indemnity	3.7%	5.6	14.9%	5.4	4.7
Life & Annuity Business	800.0%	2.7	50.0%	.3	.2
Other Accident & Health	-14.3%	1.8	-19.2%	2.1	2.6
Total Premium Income	11.1%	$194.0	11.8%	$ 174.7	$ 156.2

C. Reinsurance

The Company did not assume any reinsurance business and during the examination period it maintained one ceded reinsurance treaty, in effect with an authorized reinsurer as of December 31, 2008.

On July 1, 2008, the Company entered into an automatic reinsurance agreement with Swiss Re Life & Health America, Inc. (SRLHA). SRLHA agreed to reinsure 100% of the in-force business classified by the Company as accidental death benefits (ADB) and/or group accidental death, injury and/or dismemberment (AD&D) issued or administered as supplementary benefits of individual life contracts of insurance or riders.

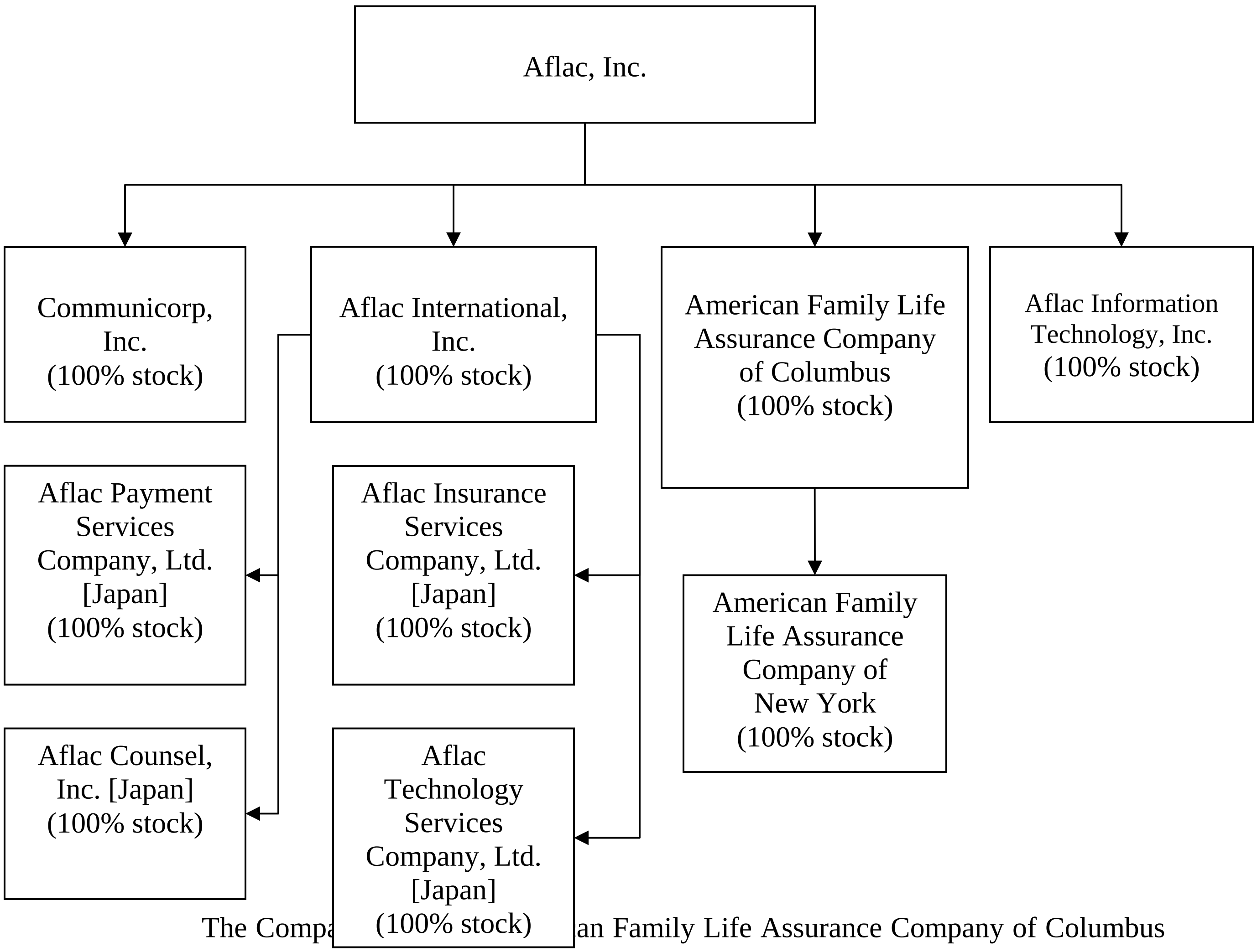
The maximum reinsurance amount is $500,000 per insured individual, all policies combined. The Company maintained $0 retention relative to the ADB and AD&D ceded business.

Also, the reinsurance agreement with SRLHA provides for 100% of $100,000 coverage, in excess for $100,000 of the business classified as group common carrier benefits. The maximum reinsured amount is $100,000 per insured individual.

The reinsurance agreement contained all the required standard clauses, including the insolvency clause required by Section 1308(A)(3) of the New York Insurance Law.

D. Holding Company System

The following chart depicts the Company's relationship to affiliates within its holding company system. The percentages included in the chart indicate percentage of ownership.



The Compa an Family Life Assurance Company of Columbus (Aflac-Columbus) signed a Commitment Agreement to the Department as part of its plan of operation, when it purchased (its wholly-owned subsidiary), Aflac-NY in 1984. The commitment made on behalf of the Company provides that Aflac-Columbus will not indirectly or through the medium of another entity do that which is prohibited by statute or duly authorized by regulation or administrative ruling of the New York Insurance Department.

The Company, as of December 31, 2008, maintained the following agreements with its Parent, Aflac-Columbus:

A) Shared Facilities Agreement - whereby various expenses for personnel, property and services that are so shared are allocated between the Company and the Parent in a fair and equitable manner and in conformity with New York Insurance Department Regulations.

B) Administrative Service Agreement - wherein computer services are provided to the Company by its Parent, including leasing of computer time, running regularly scheduled processing cycles to support general insurance functions, technical support, software support and normal/reasonable programming services.

C) Sales and Marketing Agreement - wherein the Company provides certain services on behalf of its Parent and certain affiliates. The services provided are consultation in connection with the development of a sale and marketing plan of Aflac-Columbus's life and health insurance products and the recruitment and training of an agency force.

D) Consolidated Tax Allocation Agreement - with its immediate Parent, Aflac-Columbus, and ultimate parent, Aflac, Inc.

All of the above agreements and amendments thereof were approved by the New York Insurance Department. In addition, the Company notified the Department of its business relationship with its affiliate Communicorp, Inc. (Communicorp). Communicorp provides the Company with design and printing services related to its policy and advertising materials. Also, the Company purchases its promotional incentive items from Communicorp.

E. Significant Operating Ratios

The underwriting ratios presented below are on an earned-incurred basis and encompass the four-year period covered by this examination:

	Amounts	Ratios
Claims	$ 412,545,223	62.5%
Commissions on premiums	136,196,723	20.6%
General administrative expenses	81,836,370	12.4%
Net underwriting gain	29,579,432	4.5%
Premium earned	$ 660,157,748	100.0%

F. Allocation of Expenses

The Company and its Parent, Aflac-Columbus, entered into various cost sharing agreements, such as the shared facilities, administrative service and sales & marketing agreements noted in the previous section of this report. The Company reimburses its Parent for payments made on the Company's behalf.

The examiner's detailed review of the Parent's allocation of expenses by cost centers revealed that the expenses allocated to the Company under the shared facilities agreement, for some cost centers, were based on a dated time study that the Company had not updated. Therefore, there is concern that the allocation amounts may no longer be valid.

It is recommended that the Company update its time studies by using more recent data in order to have an accurate allocation of expenses among affiliates.

G. Accounts and Records

During the course of the examination, it was noted that the Company's treatment of the following item was not in accordance with statutory accounting principles or annual statement instructions.

During the examination period, the Company started a policy whereby it would forgive premiums in arrears for policyholders, who previously maintained Aflac-NY insurance through previous employers, that wished to continue coverage with Aflac-NY on a direct billing basis. The Company absorbed the cost of coverage (the premiums in arrears) for a period up to 11 months. The coverage continued without lapses and claims were paid.

Most of the Company's policies are individual policies and premiums are collected via payroll deduction, so, if a policyholder paid for coverage via payroll deduction and his/her premiums were in arrears for up to 11 months and such policyholder agreed to change from payroll deduction to direct billing, the Company forgave the premium in arrears and continued providing coverage as if the premium in arrears was paid.

The Company recorded the results of the above procedure on its financial statements via a journal ledger entry, debiting administrative expenses and crediting premium income, as if the premium was actually paid. In 2008, the Company forgave a total of $1,**135**,516 of premiums that were in arrears and booked such premium amounts as offsetting administrative expenses and premium income.

This procedure was implemented to help conserve business and allow the policyholder to continue their coverage. The maximum period of transfer from payroll deduction to direct-pay is eleven months although the average period of time for policies forgiven was approximately three months.

The Company's aforementioned policy resulted in the overstatement of both administrative expenses and premiums written. The Company should have treated these transactions as extensions of credit, regardless of whether the policy was terminated, or the coverage continued without lapse. In both cases, claims were paid, but premiums are not received.

The NAIC Annual Statement (Health) Instructions define written premiums as follows:

> *"Written premium is defined as the contractually determined amount charged by the reporting entity to the policyholder for the effective period of the contract based on the expectation of risk, policy benefits, and expenses associated with the coverage provided by the terms of the insurance contract. For health contracts without fixed contract periods, premiums written will be equal to the amount collected during the reporting period plus uncollected premiums at the end of the period less uncollected premiums at the beginning of the period."*

Inasmuch as the Company is aware that the forgiven premiums are not expected to be collected, it is recommended that the Company refrain from including such forgiven premiums and related amounts within its reported premiums written and its administrative expenses.

3. FINANCIAL STATEMENTS

A. Balance Sheet

The following shows the assets, liabilities and capital and surplus as determined by this examination and reported by the Company as of December 31, 2008:

	Examination	Company
Assets		
Bonds	$ 226,127,200	$ 226,127,200
Cash and short-term investments	7,271,520	7,271,520
Contract loans	166,476	166,476
Other invested assets	4,095,948	4,095,948
Investment income due and accrued	3,823,620	3,823,620
Uncollected premiums	19,935,179	19,935,179
Deferred premiums	40,229	40,229
Net deferred tax asset	5,064,702	5,064,702
Total assets	$ 266,524,874	$ 266,524,874
Liabilities		
Aggregate reserve for life contracts	$ 7,181,192	$ 7,181,192
Aggregate reserve for accident and health contracts	120,544,114	120,544,114
Liability for deposit-type contracts	10,812	10,812
Contract claims:		
Life	145,000	145,000
Accident and health	44,771,940	44,771,940
Premiums received in advance	1,425,103	1,425,103
Interest maintenance reserve	67,790	67,790
Commissions to agents due or accrued	4,205,649	4,205,649
General expenses due or accrued	3,341,403	3,341,403
Taxes; licenses and fees due or accrued	374,119	374,119
Current federal income taxes	11,800,154	11,800,154
Amounts withheld or retained by company	10,490	10,490
Amounts held for agents' account	774,091	774,091
Remittances and items not allocated	11,655,857	11,655,857
Asset valuation reserve	56,790	56,790
Payable to parent and affiliates	825,566	825,566
Total liabilities	$ 207,190,070	$ 207,190,070

Capital and Surplus

Common capital stock	$ 2,000,000	$ 2,000,000
Gross paid in and contributed surplus	33,331,688	33,331,688
Unassigned funds (surplus)	24,003,116	24,003,116
Total capital and surplus	$ 59,334,804	$ 59,334,804
Total liabilities, capital and surplus	$ 266,524,874	$ 266,524,874

Note: The Internal Revenue Service has completed its audits of the Company's consolidated federal income tax returns through tax year 2000. The examiner is unaware of any potential exposure of the Company to any further tax assessment and no liability has been established herein relative to such contingency.

B. Statement of Revenue, Expenses and Capital and Surplus

Capital and surplus increased by $35,238,405 during the four-year period of this examination, January 1, 2005 through December 31 2008, detailed as follows:

Revenue		
Premiums and annuity considerations		$ 660,157,748
Expenses		
Disability benefits	$ 329,342,644	
Death benefits	367,904	
Annuity benefits	68,476	
Surrender benefits	435,602	
Interest on deposit contract funds	3,799	
Increase in aggregate reserve	82,326,798	
Commissions on premiums	136,196,723	
General insurance expenses	63,405,617	
Insurance taxes licenses and fees	18,058,608	
Increase in loading on deferred and uncollected premiums	372,145	
Total underwriting deductions		630,578,316
Net underwriting gain		$ 29,579,432
Net investment income	$ 40,864,901	
Net realized capital loss	(2,313,175)	
Amortization of IMR	(135,826)	
Miscellaneous income	481,262	
Net investment gain		38,897,162
Net gain before federal income taxes		$ 68,476,594
Federal income taxes incurred		33,904,534
Net income		$ 34,572,060

Change in Capital and Surplus

	Gains in Surplus	Losses in Surplus	
Capital and surplus, per report on examination as of December 31, 2004			$ 24,096,399
Net income from operations	$ 34,572,060		
Change in net unrealized capital loss		$ 230,131	
Change in net deferred income tax	12,518,503		
Change in non-admitted assets		18,045,798	
Change in asset valuation reserve	108,771		
Increase in paid in surplus	3,000,000		
Aggregate write-ins for gains in surplus	3,315,000		
Net increase in capital and surplus			35,238,405
Capital and surplus, per report on examination as of December 31, 2008			$ 59,334,804

4. AGGREGATE RESERVES AND UNPAID CLAIMS

The examination liability of $172,653,058 is the same as the amount reported by the Company as of December 31, 2008.

The examination analysis was conducted in accordance with generally accepted actuarial principles and practices and was based on statistical information contained in the Company's internal records, and in its filed annual statements as verified during the examination. The examination reserve was based upon actual payments made through a point in time, plus an estimate for claims remaining unpaid at that date. Such estimate was calculated based on actuarial principles, which utilized the Company's experience in projecting the ultimate cost of claims incurred on or prior to December 31, 2008.

The capitated liability of $172,653,058 consisted of the following components:

Aggregate reserve for life contracts	$7,181,192
Aggregate reserve for accident and health contracts	120,544,114
Liability for deposit-type contracts	10,812
Contract claims: Life	145,000
Contract claims: Accident and health	44,771,940
Total aggregate reserves and unpaid claims	$172,653,058

5. MARKET CONDUCT ACTIVITIES

In the course of this examination, a review was made of the manner in which the Company conducts its business and fulfills its contractual obligations to policyholders and claimants. The review was general in nature and was directed at practices of the Company in the following major areas:

A) Underwriting
B) Claims
C) Rating
D) Sales and advertising

The examiner's review revealed no issues.

6. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

The prior report on examination as of December 31, 2004, contained the following five (5) comments and recommendations.(page number refers to the prior report on examination):

ITEM NO.		**PAGE NO.**
	Allocation of Expenses	
1.	It is recommended that Aflac-Columbus reimburse the Company for the estimated overcharges of $316,278 in the aggregate total for years 2002-2004.	15
	The Company has complied with this recommendation.	
2.	Also, it is recommended that in the future the Company use actual calling and claims count generated from its systems to properly allocate the shared expenses of these two cost centers between the Company and its parent.	15
	The Company has complied with this recommendation.	
	Accounts and Records	
3.	It is recommended that the Company comply with the New York State Insurance Department Regulation No. 152 (11 NYCRR 243) relative to the maintenance of records, including maintenance of copies of the Company's termination letters to its agents.	16
	The Company has complied with this recommendation.	
	Claims	
4.	It is recommended that the Company change its claims processing procedures in order to properly report an accurate count of claims paid in Health Insurance Claims Payable (reported and unreported), of the New York Supplement to the Company's annual statement.	24
	The Company has complied with this recommendation.	

ITEM NO.		PAGE NO
5.	It is recommended that the Company change its policy to link the denial of dental and Medicare supplemental claims upon the termination of its policies instead of premiums being in arrears. *The Company has complied with this recommendation.*	24

7. SUMMARY OF COMMENTS AND RECOMMENDATIONS

ITEM		PAGE NO.
A.	Allocation of Expenses	
	It is recommended that the Company update its time studies by using more recent data in order to have an accurate allocation of expenses among affiliates.	12
B.	Accounts and Records	
	Inasmuch as the Company is aware that the forgiven premiums are not expected to be collected, it is recommended that the Company refrain from including such forgiven premiums and related amounts within its reported premiums written and its administrative expenses.	14

Appointment No. **30351**

STATE OF NEW YORK
INSURANCE DEPARTMENT

I, **James J. Wrynn**, Superintendent of Insurance of the State of New York, pursuant to the provisions of the Insurance Law, do hereby appoint:

Elsaid Elbially

as a proper person to examine into the affairs of the

American Family Life Assurance 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 this Department, at the City of New York.

this 21st day of September, 2009

James J. Wrynn
Superintendent of Insurance

STATE OF NEW YORK ★ SUPERINTENDENT OF INSURANCE ★ EXCELSIOR