NEW YORK STATE DEPARTMENT OF FINANCIAL SERVICES

FINANCIAL CONDITION REPORT ON EXAMINATION

OF THE

LINCOLN LIFE & ANNUITY COMPANY OF NEW YORK

CONDITION:	DECEMBER 31, 2017
DATE OF REPORT:	JUNE 6, 2019

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<u>AS OF</u>

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<u>EXAMINER</u>: <u>DANIEL P. MCBAY, CFE</u>

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NEW YORK STATE
DEPARTMENT of
FINANCIAL SERVICES

Andrew M. Cuomo
Governor

Linda A. Lacewell
Acting Superintendent

June 7, 2019

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

Madam:

In accordance with instructions contained in Appointment No. 31773, dated May 31, 2018, and annexed hereto, an examination has been made into the condition and affairs of Lincoln Life & Annuity Company of New York, hereinafter referred to as "the Company," at the administrative office of the Company's parent located at 100 North Greene Street, Greensboro, NC 27401. The Company's statutory home office is located at 120 Madison Street, Suite 1310, Syracuse, NY 13202.

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

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

1. EXECUTIVE SUMMARY

The material comment contained in this report is summarized below.

At this juncture, the certificate of reserve valuation is being held and is not expected to be issued until the Department's concerns are resolved. During this process, the Company reserves its rights to contest any potential findings by the Department with respect to these reserve issues, notwithstanding the Company's acceptance of this report. (See item 7 of this report.)

2. SCOPE OF EXAMINATION

The examination of the Company was a full-scope examination as defined in the National Association of Insurance Commissioners' ("NAIC") *Financial Condition Examiners Handbook*, *2018 Edition* (the "Handbook"). The examination covers the five-year period from January 1, 2013, to December 31, 2017. The examination was conducted observing the guidelines and procedures in the Handbook and, where deemed appropriate by the examiner, transactions occurring subsequent to December 31, 2017, but prior to the date of this report (i.e., the completion date of the examination) were also reviewed.

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

The examination was conducted and coordinated with the examinations of Lincoln National Life Insurance Company ("LNL") and First Penn-Pacific Life Insurance Company ("FPP"), Indiana domiciled insurers, and Lincoln Reinsurance Company of South Carolina ("LRSC"), a South Carolina domiciled insurer. The examination was led by the State of Indiana with participation from the states of New York and South Carolina. Since the lead and participating states are accredited by the NAIC, the states deemed it appropriate to rely on each other's work.

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

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

The Company was audited annually, for the years2013 through 2017, by the accounting firm of Ernst & Young, LLP ("EY"). The Company received an unqualified opinion in each year of the examination. Certain audit workpapers of the accounting firm were reviewed and relied upon in conjunction with this examination. The Company's ultimate parent, Lincoln National Corporation ("LNC"), has an internal audit department that was given the task of assessing the internal control structure and the compliance with the Sarbanes-Oxley Act of 2002 ("SOX"). Where applicable, SOX workpapers and reports were reviewed, and portions were relied upon for this examination

The examiner reviewed the corrective actions taken by the Company with respect to the violation contained in the prior financial condition report on examination. The result of the examiner's review is contained in item 8 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 the State of New Jersey on October 27, 1897, under the name Colonial Life Insurance Company of America. A certificate of authority, dated December 31, 1897, authorized the Company to commence business and issue policies as a joint stock life insurance company on August 4, 1900. Effective May 18, 1978, Colonial Life Insurance Company of America was acquired by Chubb Life Insurance Company, a subsidiary of Chubb Corporation. On March 1, 1996, Colonial Life Insurance Company of America changed its name to Chubb Colonial Life Insurance Company. Effective May 13, 1997, Chubb Life Insurance Company and its subsidiaries were acquired by Jefferson Pilot Corporation ("JPC"). On May 1, 1998, Chubb Colonial Life Insurance Company changed its name to Jefferson Pilot Life America Insurance Company ("JPLA").

The Company was incorporated as a stock life insurance company under the laws of the State of New York on June 6, 1996, was licensed on September 27, 1996, and commenced business on October 1, 1996.

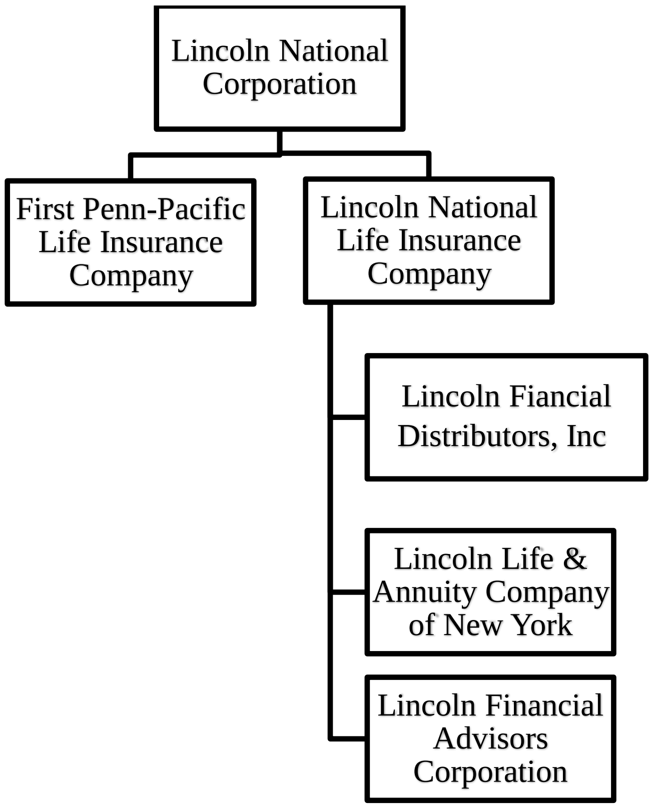
On April 3, 2006, LNC acquired 100% of the outstanding shares of JPC, and JPC then merged with and into LNC. On April 2, 2007, the Company changed its name from JPLA, which had re-domesticated from New Jersey to New York, to its present name.

B. Holding Company

The Company is a wholly owned subsidiary of LNL, an Indiana life insurance company. The ultimate parent of the Company is LNC, a publicly traded financial services corporation. The Company, LNL, and its affiliate FPP are collectively known as the Lincoln Financial Group.

C. Organizational Chart

An organization chart reflecting the relationship between the Company and significant entities in its holding company system as of December 31, 2017, follows:



D. Service Agreements

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

Type of Agreement and Department File Number	Effective Date	Provider(s) of Services	Recipient of Services	Specific Services Covered	Income/ (Expense)* For Each Year of the Examination
Principal Underwriting Agreement File No. 37444	05/01/2007	Lincoln Financial Distributors, Inc. (“LFD”)	The Company	LFD distributes and acts as principal underwriter of the Company’s separate accounts	2013 $ (7,972,657) 2014 $ (9,950,040) 2015 $(11,294,600) 2016 $(11,738,613) 2017 $(13,207,587)
Wholesaling and Processing Agreement File No. 37443	05/01/2007	The Company	LFD	Recordkeeping services for LFD in its roles as principal underwriter	2013 $4,535,580 2014 $2,929,825 2015 $2,746,840 2016 $2,062,575 2017 $1,981,581
Master Service Agreement File No. 37411 Amendment 1 File No. 38111 Amendment 2 and Exhibits File No. 46889	05/01/2007 Amendment 1 and 2 and Exhibits 10/01/2007 03/14/2013	All LNC affiliated companies listed in Exhibit A to the Agreement	The Company	Actuarial, risk management, tax accounting and administration, internal auditing, separate account operations, accounting and financial reporting, treasury operations, corporate management, customer service, human resources, information technology services, legal, compliance, underwriting, sales and marketing, printing and mailing, wholesale distribution and facilities management	2013 $(73,977,779) 2014 $(70,147,098) 2015 $(68,022,590) 2016 $(80,052,134) 2017 $(77,350,310)

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

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

E. Management

The Company's by-laws provide that the board of directors shall be comprised of not less than 7 and not more than 11 directors. Directors are elected for a period of one year at the annual meeting of the stockholders held in May of each year. As of December 31, 2017, the board of directors consisted of eight members. Meetings of the board are held immediately or within 30 days thereafter the annual shareholders meeting in May and at such intervals and on such dates as the board may designate by resolution.

The eight board members and their principal business affiliation, as of December 31, 2017, were as follows:

Name and Residence	Principal Business Affiliation	Year First Elected
Ellen G. Cooper Mapleton, New Jersey	Chief Investment Officer and Executive Vice President Lincoln Life & Annuity Company of New York	2012
Randal J. Freitag Devon, Pennsylvania	Chief Financial Officer and Executive Vice President Lincoln Life & Annuity Company of New York	2011
Dennis R. Glass Bryn Mawr, Pennsylvania	President Lincoln Life & Annuity Company of New York	2006
George W. Henderson, III* Greensboro, North Carolina	Retired Chairman and Chief Executive Officer Burlington Industries, Inc.	2006
Mark E. Konen Villanova, Pennsylvania	Executive Vice President Lincoln Life & Annuity Company of New York	2006
M. Leanne Lachman* New York, New York	President Lachman Associates, LLC	1996
Louis G. Marcoccia* Manlius, New York	Retired Executive Vice President & Chief Financial Officer Syracuse University	1996
Patrick S. Pittard* Ball Ground, Georgia	Chairman and Chief Executive Officer Southern Fiber Company	2007

*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, 2017:

Name	Title
Dennis R. Glass	President
Robert O. Sheppard	Secretary
Jeffrey D. Coutts	Treasurer
Amy J. Eby	Appointed Actuary
Ellen G. Cooper	Chief Investment Officer and Executive Vice President
Randal J. Freitag	Chief Financial Officer and Executive Vice President
Kirkland L. Hicks	Executive Vice President
Kenneth S. Solon	Executive Vice President
Joseph D. Spada*	Vice President and Chief Compliance Officer

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

In December 2018, Leon E. Roday replaced Kirkland L. Hicks as Executive Vice President.

4. TERRITORY AND PLAN OF OPERATIONS

The Company is authorized to write life insurance, annuities, and accident and health insurance as defined in paragraphs 1, 2 and 3 of Section 1113(a) of the New York Insurance Law.

The Company is licensed to transact business in all states, the District of Columbia, and the territory of the U.S. Virgin Islands. In 2017, 87.5% of life premiums, 93.6% of annuity considerations, and 87.2% of accident and health premiums were received from New York. Policies are written on a non-participating basis.

A. Statutory and Special Deposits

As of December 31, 2017, the Company had $5,500,000 (par value) of United States Treasury Bonds on deposit with the State of New York, its domiciliary state, for the benefit of all policyholders, claimants and creditors of the Company. Per confirmations received from the following states, which were reported in Schedule E of the 2017 filed annual statement, an additional $6,840,011 was being held by the states of Arkansas, Georgia, New Jersey, New Mexico, North Carolina, South Carolina, and the territory of the U.S. Virgin Islands.

B. Direct Operations

The Company currently offers life insurance, annuity products, disability products and qualified pension products and services to individuals and groups. The Company’s portfolio includes term life, universal life, variable universal life, individual and group variable and fixed annuities, accidental death and dismemberment, as well as short-term and long-term disability products. The Company writes both general account and separate account business. The Company discontinued selling universal life policies with secondary guarantees in 2013. The Company is increasing its focus on group sales and decreasing its focus on individual sales.

During the examination period, the Company’s principal lines of business sold were ordinary fixed and variable annuities and universal life with a lapse protection rider. In 2017, 53.1% of total premiums and considerations were from annuity business and 43.2% were from life insurance. The Company’s life insurance segment focuses on the creation and protection of wealth, targets the affluent to high net worth markets and focuses primarily on product design and customer service.

The Company's agency operations are conducted on a general agency basis. The Company also uses other distribution channels such as broker-dealers, independent financial planners, wire/regional firms, financial institutions, and managing general agents.

C. Reinsurance

As of December 31, 2017, the Company had reinsurance treaties in effect with 61 companies, of which 27 were authorized or accredited. The Company's life, accident and health business is reinsured on a coinsurance, modified-coinsurance, and/or yearly renewable term basis. Reinsurance is provided on an automatic and/or facultative basis.

The maximum retention limit for individual life contracts is $20,000,000. The total face amount of life insurance ceded as of December 31, 2017, was $33,982,855,734, which represents 54.5% of the total face amount of life insurance in force.

Reserve credit taken for reinsurance ceded to unauthorized companies and reinsurance recoverables from unauthorized companies, totaling $2,309,522,216, was supported by letters of credit, trust agreements, funds withheld, and other miscellaneous balances.

The total face amount of life insurance assumed, as of December 31, 2017, was $11,643,321,750, which represents 18.7% of the total face amount of life insurance in force. The bulk of assumed life insurance (93.5%) is from the 1998 acquisition of the individual life insurance policies and annuities block of business from Aetna Life Insurance Company and Aetna Life Insurance and Annuity Company. The Company acquired New York portion of the block of business while LNL acquired the non-New York portion. During 2007, LNL, as indemnity reinsurer and administrator, transferred its obligations of the non-New York portion of the block to the Company.

Effective April 1, 2016 the Company entered into a coinsurance agreement with FNL Insurance Company, LTD ("FNL"), whereby the Company ceded to FNL 90% quota share of certain universal life insurance policies and riders and certain term life insurance policies and riders. As a result, the Company coinsured $2.1 billion of statutory reserves to FNL. This transaction improved the Company's surplus by approximately $390 million through December 31, 2017. The statutory reserve credit taken under the agreement was collateralized by a trust agreement and funds withheld.

5. SIGNIFICANT OPERATING RESULTS

Indicated below is significant information concerning the operations of the Company during the period under examination as extracted from its filed annual statements. Failure of items to add to the totals shown in any table in this report is due to rounding.

The following table indicates the Company's financial growth during the period under review:

	December 31, 2012	December 31, 2017	Increase
Admitted assets	$10,925,489,739	$14,783,893,100	$3,858,403,361
Liabilities	$10,277,092,962	$13,596,548,394	$3,319,455,432
Common capital stock	$ 2,640,000	$ 2,640,000	$ 0
Gross paid in and contributed surplus	1,135,800,643	1,135,995,341	194,698
Unassigned funds (surplus)	(490,043,866)	48,709,365	538,753,231
Total capital and surplus	$ 648,396,777	$ 1,187,344,706	$ 538,947,929
Total liabilities, capital and surplus	$10,925,489,739	$14,783,893,100	$3,858,403,361

The Company's invested assets as of December 31, 2017, exclusive of separate accounts, mainly comprised bonds (86.7%) and mortgage loans (9.3%).

The majority (96.1%) of the Company's bond portfolio, as of December 31, 2017, was composed of investment grade obligations.

The significant increase in admitted assets was primarily driven by increases in separate account assets. Likewise, the increase in liabilities was primarily related to the offset to increases in separate account assets.

The increase in unassigned funds (surplus) was primarily driven by a change in surplus because of reinsurance primarily related to the 2016 reinsurance transaction between the Company and FNL, as well as the increase in net income during the examination period.

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

	Individual Whole Life		Individual Term		Group Life	
Year	Issued	In Force	Issued	In Force	Issued & Increases	In Force
2013	$1,398,160	$31,709,209	$2,746,340	$19,646,152	$3,785,133	$19,276,689
2014	$ 435,945	$30,647,445	$3,229,788	$21,946,363	$3,106,308	$20,002,807
2015	$ 568,747	$29,858,248	$1,556,708	$22,324,552	$1,700,701	$15,684,910
2016	$ 665,970	$28,896,211	$ 665,157	$21,813,181	$1,453,934	$12,131,425
2017	$1,064,216	$28,402,093	$ 647,636	$21,582,648	$2,457,761	$12,333,196

The significant fluctuation in individual whole life insurance issued during 2014 compared with 2013 was not related to any unusual activities other than changes in market condition and consumers' desires.

The significant decrease in individual term insurance issued in 2015, 2016 and 2017, compared with 2014, was primarily the result of the Company offering only two term products during that period, one of which has not been sold since 2013, and sales of the other product peaked under the 2014 market condition.

The significant fluctuation in group life issued and increases in 2015 and 2016, compared with 2014, was primarily the result of the Company's repricing strategy, which resulted in higher lapses and surrenders. New business growth in 2017 reflected prices in line with the Company's repricing strategy.

The following is the net gain (loss) from operations by line of business after federal income taxes but before realized capital gains (losses) reported for each of the years under examination in the Company's filed annual statements:

	2013	2014	2015	2016	2017
Ordinary:					
Life insurance	$ (7,488,024)	$43,112,657	$ 824,179	$239,499,677	$181,990,909
Individual annuities	137,427,133	(6,717,755)	(69,585,269)	131,515,273	42,139,926
Supplementary contracts	(899,549)	(1,337,199)	169,192	419,343	(4,481)
Total ordinary	$129,039,560	$35,057,703	$(68,591,898)	$371,434,293	$224,126,354
Industrial Life	$ 607,037	$ (3,730,124)	$ (69,815)	$ 243,436	$ (21,359)
Group:					
Life	$ (5,837,374)	$ (1,681,781)	$ (3,757,295)	$ (2,789,901)	$ (674,131)
Annuities	14,759,033	(3,847,427)	4,938,434	5,230,384	(15,360,487)
Total group	$ 8,921,659	$ (5,529,208)	$ 1,181,139	$ 2,440,483	$ (16,034,618)
Accident and health:					
Group	$ (300,161)	$ 251,492	$ 1,862,616	$ (2,630,854)	$ 342,229
Other	1,286,164	1,978,276	39,660	252,252	(427,403)
Total accident and health	$ 986,003	$ 2,229,768	$ 1,902,276	$ (2,378,602)	$ (85,174)
All other lines	$ 26,860,863	$13,019,415	$ 15,195,785	$ 23,494,237	$ 29,941,841
Total	$166,415,122	$41,047,554	$(50,382,513)	$395,233,847	$237,927,044

The significant increase in ordinary life insurance net gain in 2014 compared with 2013 was due to the recapture fee of $61 million that was received from Swiss Re Life & Health America Inc. The same adjustment caused the significant decrease in ordinary life insurance net gain in 2015. The significant increase in 2016 and the significant decrease in 2017 were the result of the April 1, 2016, FNL reinsurance transaction. (See item 4C of this report.)

The significant increase in ordinary individual annuities net gain in 2013 was primarily attributed to the decrease of miscellaneous reserves related to conditional tail amount ("CTE") calculations of $116.5 million. The significant decrease in 2014 compared with 2013 was driven by Actuarial Guideline 43 ("AG43") calculations, resulting from the lower forward interest rates in current year compared to prior year.

The significant increase in ordinary individual annuities net loss in 2015 compared with 2014 was the result of aggregate reserves for ordinary annuity contracts increasing by $64.5 million from December 31, 2014. The increase was primarily attributed to a $115.6 million increase in retirement services variable annuity contracts, offset by a decrease of $58.1 million in retirement services fixed annuity contracts. The increase in retirement services variable annuity contracts was primarily driven by an increase in gross AG43 CTE excel reserves of $83.1 million resulting from the lower forward interest rates and an increase in AG43 standard scenario of $15.7 million. The decrease in retirement services fixed annuity contracts was primarily due to lower sales and increased surrenders.

The significant increase in ordinary individual annuities net gain in 2016 compared with 2015 was the result of aggregate reserves for ordinary annuity contracts decreasing by $195.2 million from December 31, 2015. The decrease was primarily the result of a $153.7 million and $43.3 million decreases in retirement services variable annuity contracts and retirement services fixed annuity contracts, respectively. The decrease in retirement services variable annuity contracts was primarily due to a decrease in gross AG43 CTE excess reserves of $124.9 due to the change from option 1 (forward rates implied by the swap curve in effect as of the valuation date) to option 3 (interest rates developed for this purpose from a stochastic model that integrates the development of interest rates and the separate account returns) scenario in the first quarter of 2016.

The significant decrease in ordinary individual annuities net gain in 2017 compared with 2016 was also affected by the 2016 decrease in gross AG43 CTE excess reserves due to the change from option 1 to option 3 in the first quarter of 2016.

The fluctuation in net loss in the group life for each examination year were mainly due to the high claims and the pricing strategy employed by the Company. The high loss ratios and claim incidences resulted in the Company implementing a pricing strategy that led to high lapse and surrender ratios, resulting in lower premiums. By 2017, the pricing strategy was successfully employed, and new business was being added, resulting in a decrease in group life net loss.

The significant change in group annuities net loss in 2014 compared with 2013 was primarily due to a $31.2 million increase in net transfers to separate accounts and a $17.2 million increase in surrender benefits, offset by a $10.2 million increase in federal income tax benefit and a $15.0 million reduction in increase in aggregate reserves. The significant change in 2015 compared with 2014 was primarily due to a $47.0 million increase in premiums and annuity considerations offset by a $20.3 million increase in net transfers to separate accounts, a $10.7 million increase in surrender benefits, and a $7.4 million increase in federal income taxes incurred. The significant net loss from operations in 2017 compared with 2016 was primarily due to a $45.2 million increase in net transfers to separate accounts, a $32.9 million increase in increase in aggregate reserves, and a $28.2 million increase in surrender benefits, offset by a $69.9 million increase in premiums and annuity considerations and a $11.1 million increase in federal income tax benefits.

The decrease in accident and health's "all other lines" net gain in 2014 compared with 2013 was the result of the increase in federal income taxes incurred in 2014, which was due to a change in accounting principle related to Actuarial Guideline 38 calculations and 11 NYCRR 98 (Insurance Regulation 147) reserves that went into effect in 2013. The increase in 2016 was due to the increased net investment income that resulted from the allocation of interest income to "all other lines."

6. FINANCIAL STATEMENTS

The following statements show the assets, liabilities, and capital and surplus as of December 31, 2017, as contained in the Company's 2017 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, 2017 filed annual statement.

A. Independent Accountants

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

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

B. Net Admitted Assets

Bonds	$ 7,135,838,434
Stocks:	
Preferred stocks	3,003,683
Common stocks	1,974,620
Mortgage loans on real estate:	
First liens	764,176,567
Cash, cash equivalents and short-term investments	55,938,346
Contract loans	250,366,986
Other invested assets	21,334,062
Investment income due and accrued	102,792,838
Premiums and considerations:	
Uncollected premiums and agents' balances in the course of collection	994,651
Deferred premiums, agents' balances and installments booked but deferred and not yet due	10,473,565
Reinsurance:	
Amounts recoverable from reinsurers	6,239,521
Other amounts receivable under reinsurance contracts	14,493,310
Net deferred tax asset	33,298,308
Guaranty funds receivable or on deposit	5,284,467
Receivables from parent, subsidiaries and affiliates	14,757,579
Health care and other amounts receivable	2,850,932
Prepaid and other assets	3,034,353
From separate accounts, segregated accounts and protected cell accounts	6,357,040,878
Total admitted assets	$14,783,893,100

C. Liabilities, Capital and Surplus

Aggregate reserve for life policies and contracts	$ 5,506,413,040
Aggregate reserve for accident and health contracts	94,969,331
Liability for deposit-type contracts	169,241,611
Contract claims:	
Life	35,291,076
Accident and health	1,734,501
Policyholders' dividends and coupons due and unpaid	12,903
Provision for policyholders' dividends and coupons payable in following calendar year – estimated amounts	
Dividends apportioned for payment	21,054,626
Premiums and annuity considerations for life and accident and health contracts received in advance	863,729
Contract liabilities not included elsewhere:	
Interest maintenance reserve	119,970
Commissions to agents due or accrued	5,418,146
Commissions and expense allowances payable on reinsurance assumed	1,257
General expenses due or accrued	5,289,423
Transfers to separate accounts due or accrued	(163,770,987)
Taxes, licenses and fees due or accrued, excluding federal income taxes	1,272,892
Current federal and foreign income taxes	2,735,958
Unearned investment income	785,897
Amounts withheld or retained by company as agent or trustee	10,574,629
Amounts held for agents' account	10,007
Remittances and items not allocated	13,760,832
Borrowed money and interest thereon	805
Miscellaneous liabilities:	
Asset valuation reserve	58,116,303
Reinsurance in unauthorized companies	5,874,882
Funds held under reinsurance treaties with unauthorized reinsurers	1,464,270,588
Payable to parent, subsidiaries and affiliates	477,359
Payable for Securities	4,989,999
From Separate Accounts statement	6,357,039,617
Total liabilities	$13,596,548,394
Common capital stock	$ 2,640,000
Gross paid in and contributed surplus	1,135,995,341
Unassigned funds (surplus)	48,709,365
Surplus	1,184,704,706
Total capital and surplus	$ 1,187,344,706
Total liabilities, capital and surplus	$14,783,893,100

D. Condensed Summary of Operations

	2013	2014	2015	2016	2017
Premiums and considerations	$1,229,434,899	$1,291,411,083	$1,264,859,819	$ (719,649,198)	$1,339,683,383
Investment income	416,990,257	420,696,400	423,277,844	362,290,102	336,396,028
Commissions and reserve adjustments on reinsurance ceded	1,301,590	807,242	964,690	(72,670,059)	29,965,002
Miscellaneous income	117,093,627	195,504,401	148,737,337	145,717,832	180,044,341
Total income	$1,764,820,373	$1,908,419,126	$1,837,839,690	$ (284,311,323)	$1,886,088,754
Benefit payments	$ 902,247,447	$ 981,545,706	$1,050,212,072	$ 1,042,015,423	$1,124,014,027
Increase in reserves	96,762,540	205,620,254	248,757,155	(2,072,810,095)	71,055,707
Commissions	98,002,084	96,773,337	91,161,683	76,021,869	76,995,398
General expenses and taxes	92,817,015	83,545,515	88,902,574	104,176,144	111,156,318
Increase in loading on deferred and uncollected premiums	(1,308,605)	(1,974,046)	(1,604,220)	3,965,373	284,471
Net transfers to (from) Separate Accounts	345,294,586	415,698,903	348,423,051	184,841,545	313,692,229
Total deductions	$1,533,815,067	$1,781,209,669	$1,825,852,315	$ (661,789,741)	$1,555,086,736
Net gain (loss)	$ 231,005,306	$ 127,209,457	$ 11,987,375	$ 377,478,418	$ 331,002,018
Dividends	18,004,173	21,032,518	24,409,604	20,962,593	20,725,276
Federal and foreign income taxes incurred	46,586,011	65,129,385	37,960,284	(38,718,022)	72,349,698
Net gain (loss) from operations before net realized capital gains	$ 166,415,122	$ 41,047,554	$ (50,382,513)	$ 395,233,847	$ 237,927,044
Net realized capital gains (losses)	(5,182,713)	(1,691,382)	(4,815,981)	(16,442,286)	(1,231,710)
Net income	$ 161,232,409	$ 39,356,172	$ (55,198,494)	$ 378,791,561	$ 236,695,334

The significant decreases in premiums and considerations, commissions and reserve adjustments on reinsurance ceded, and increase in reserves in 2016, compared with 2015 and 2017, was the direct result of the reinsurance transaction with FNL, which provided reserve relief and transferred significant unfavorable economic risks to the reinsurer.

E. Capital and Surplus Account

	2013	2014	2015	2016	2017
Capital and surplus, December 31, prior year	$648,396,777	$713,035,212	$ 652,543,381	$ 512,231,561	$1,207,350,647
Net income	$161,232,409	$ 39,356,172	$ (55,198,494)	$ 378,791,561	$ 236,695,334
Change in net unrealized capital gains (losses)	5,102,188	5,081,442	966,918	2,802	(985,971)
Change in net deferred income tax	10,787,987	56,241,127	87,567,238	(267,913,032)	(29,639,631)
Change in non-admitted assets and related items	(11,663,933)	(58,782,148)	(81,940,317)	250,938,637	15,575,948
Change in liability for reinsurance in unauthorized companies	57,174	315,185	421,154	(1,283,986)	(2,460,553)
Change in reserve valuation basis	0	(1,893,543)	0	4,330,511	0
Change in asset valuation reserve	(10,749,089)	(10,713,629)	(2,065,725)	6,325,424	(7,682,490)
Surplus (contributed to), withdrawn from					
Separate Accounts during period	0	0	(400)	0	0
Other changes in surplus in Separate Accounts statement	59	1	(48)	86	184
Cumulative effect of changes in accounting principles	(90,000,000)	(90,000,000)	(90,000,000)	(90,000,000)	(90,000,000)
Surplus adjustments:					
Paid in	9,135	21,460	39,630	53,764	70,709
Change in surplus as a result of reinsurance	(137,495)	(117,898)	(101,776)	413,873,319	(21,579,471)
Dividends to stockholders	0	0	0	0	(120,000,000)
Net change in capital and surplus for the year	$ 64,638,435	$ (60,491,831)	$ (140,311,820)	$ 695,119,086	$ (20,005,941)
Capital and surplus, December 31, current year	$713,035,212	$652,543,381	$ 512,231,561	$1,207,350,647	$1,187,344,706

During 2013, the Department announced that it would not recognize the NAIC's revisions to Actuarial Guideline 38 in applying the New York Insurance Law governing the reserves to be held for universal and variable universal life insurance products containing secondary guarantees. The Company began phasing in the increase in reserves over a five-year period beginning in 2013 at $90 million per year. As of December 31, 2017, the Company had increased reserves by $450 million.

7. RESERVES

The Department conducted a review of the Company's reserves as of December 31, 2017. It included an examination of the asset adequacy analysis in accordance with 11 NYCRR 95 (Insurance Regulation 126), and the formulaic reserves in accordance with 11 NYCRR 98 (Insurance Regulation 147). During the review, potential concerns were raised with respect to the Company's modeling of a reinsurance treaty with the asset adequacy testing. Concerns were also raised with respect to the Company's reserves held for certain universal life insurance policies with secondary guarantees pursuant to Regulation 147.

At this juncture, the certificate of reserve valuation is being held and is not expected to be issued until the Department's concerns are resolved. During this process, the Company reserves its rights to contest any potential findings by the Department with respect to these reserve issues, notwithstanding the Company's acceptance of this report.

8. PRIOR REPORT SUMMARY AND CONCLUSIONS

Following is the violation contained in the prior financial condition report on examination and the subsequent actions taken by the Company in response to the citation:

Item	Description
A	For one policy form, with 2,306 policies issued, the Company violated Section 4228(h) of the New York Insurance Law by failing to demonstrate that pricing was performed prior to the date that the statement of self-support was signed. The Department's actuaries confirmed that the Company has improved its self-support documentation. The demonstrations for all the selected forms were also signed and dated; however, the narrative included within the demonstration for one of the life forms was fairly light and could have benefited from a more detailed, extensive narrative.

9. SUMMARY AND CONCLUSIONS

Following is the comment contained in this report:

Item	Description	Page No(s).
A	At this juncture, the certificate of reserve valuation is being held and is not expected to be issued until the Department's concerns are resolved. During this process, the Company reserves its rights to contest any potential findings by the Department with respect to these reserve issues, notwithstanding the Company's acceptance of this report.	23

Respectfully submitted,

Daniel P. McBay, ~~CFE~~
Noble Consulting Services, Inc.

STATE OF NORTH CAROLINA)
)SS:
COUNTY OF GUILFORD)

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

Daniel P. McBay

Subscribed and sworn to before me

this 10th day of June 2019

Commission expires -
3-25-2023

Respectfully submitted,

/s/

Vincent Targia
Principal Insurance Examiner

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

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

/s/

Vincent Targia

Subscribed and sworn to before me

this__________ day of ___________________

APPOINTMENT NO. 31773

NEW YORK STATE

DEPARTMENT OF FINANCIAL SERVICES

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

DANIEL P. MCBAY
(NOBLE CONSULTING SERVICES, INC.)

as a proper person to examine the affairs of the

LINCOLN LIFE & ANNUITY COMPANY OF NEW YORK

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

COMPANY

with such other information as he shall deem requisite.

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

this 31st day of May, 2018

MARIA T. VULLO
Superintendent of Financial Services

By: Mark McLeod

MARK MCLEOD
DEPUTY CHIEF - LIFE BUREAU