



NEW YORK STATE DEPARTMENT OF FINANCIAL SERVICES
FINANCIAL CONDITION REPORT ON EXAMINATION
OF THE
LINCOLN LIFE & ANNUITY COMPANY OF NEW YORK

CONDITION:

DECEMBER 31, 2012

DATE OF REPORT:

MAY 1, 2014

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EXAMINER:

WILLIAM O'CONNELL

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NEW YORK STATE
DEPARTMENT *of*
FINANCIAL SERVICES

Andrew M. Cuomo
Governor

Benjamin M. Lawsky
Superintendent

May 22, 2014

Honorable Benjamin M. Lawsky
Superintendent of Financial Services
New York, New York 10004

Sir:

In accordance with instructions contained in Appointment No. 30977, dated April 24, 2013 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 its administrative office located at 1300 South Clinton Street, Fort Wayne, Indiana, 46802. The Company’s home office is located at 100 Madison Street, Suite 1860, Syracuse, New York, 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 violation contained in this report is summarized below.

- 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.

2. SCOPE OF EXAMINATION

The examination of the Company was a full scope examination as defined in the *NAIC Financial Condition Examiners Handbook, 2013 Edition* (the “Handbook”). The examination covers the five-year period from January 1, 2008 through December 31, 2012. 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, 2012 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 National Association of Insurance Commissioners (“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, Department guidelines, Statutory Accounting Principles as adopted by the Department, and annual statement instructions.

The examination of the Indiana domestic insurance companies of Lincoln National Corporation (“LNC”), the Company’s ultimate parent, was called by the Indiana Department of Insurance (“INDOI”) in accordance with the Handbook guidelines through the NAIC’s Financial Examination Electronic Tracking System. The INDOI served as lead state on the examination and the Department, the South Carolina Department of Insurance (“SCDOI”) and the Vermont Department of Financial Regulation (“VDFR”) served as participants. The SCDOI participated on the examination with respect to their domestic insurance company Lincoln Reinsurance Company of South Carolina, and the VDFR participated on the examination with respect to their domestic insurance companies Lincoln Reinsurance Company of Vermont I, II, III and IV.

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 years 2008 through 2012, by the accounting firm of Ernst & Young, LLP ("EY"). The Company received an unqualified opinion in each year of the exam period. Certain audit workpapers of the accounting firm were reviewed and relied upon in conjunction with this examination. LNC has an internal audit department ("IAD") with an internal control staff assigned the task of assessing the internal control structure and compliance with the Sarbanes-Oxley Act of 2002 ("SOX"). Where applicable, IAD workpapers and reports, including specific SOX related workpapers, were reviewed and portions were relied upon for this examination.

The examiner reviewed the prior financial report on examination which did not contain any violations, recommendations or comments.

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 Jersey on October 27, 1897 with 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, the Colonial Life Insurance Company of America was acquired by Chubb Life Insurance Company, a subsidiary of the Chubb Corporation. On March 1, 1996, the 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”).

Lincoln Life & Annuity Company of New York (“LLANY”) was incorporated as a stock life insurance company under the laws 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 at which time JPC merged with and into LNC. On April 2, 2007, the LLANY merged with and into JPLA, which had re-domesticated from New Jersey to New York. JPLA was the surviving company and was renamed Lincoln Life and Annuity Company of New York.

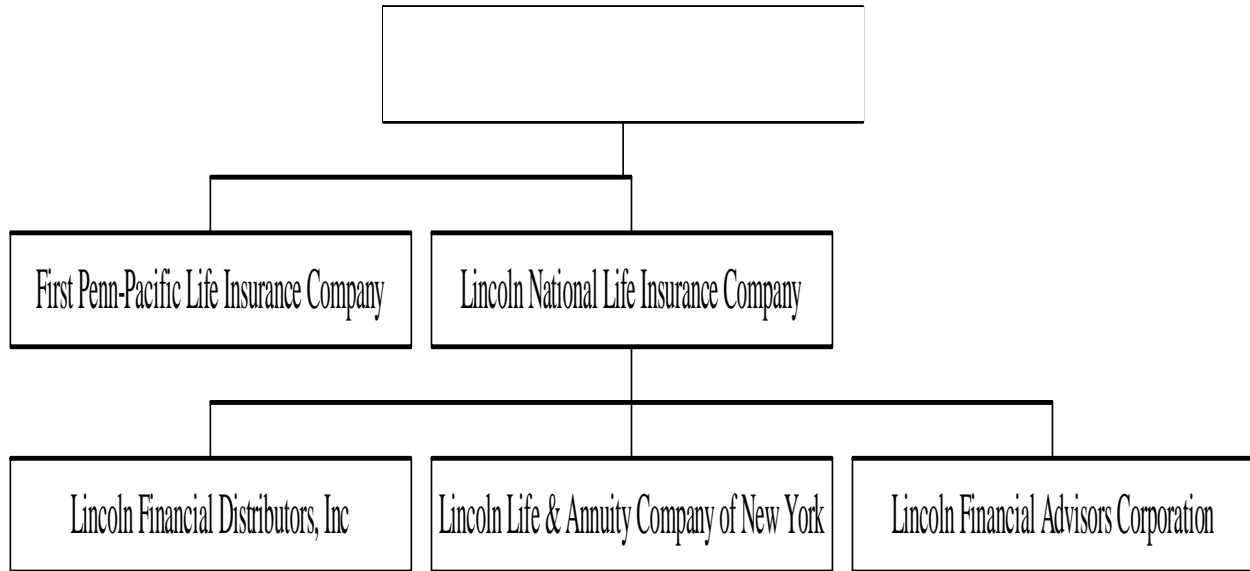
At December 31, 2012 the Company listed an amount of \$2,640,000 for common capital stock and paid in and contributed surplus of \$1,135,800,643. The common capital stock represents the initial common stock of JPLA, which was provided through the sale of 132,000 shares of \$20 par value common stock.

B. Holding Company

The Company is a wholly owned subsidiary of Lincoln National Life Insurance Company (“LNL”), an Indiana life insurance company. The ultimate parent of the Company is LNC, a publicly traded financial services firm. The Company, LNL and its affiliate First Penn-Pacific Life Insurance Company (“FPP”) are collectively known as the Lincoln Financial Group (“LFG”).

C. Organizational Chart

An organization chart reflecting the relationship between the Company and significant entities in its holding company system as of December 31, 2012 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 Service(s)	Recipient(s) of Service(s)	Specific Service(s) Covered	Income/ (Expense)* For Each Year of the Examination
Principal Underwriting Agreement Department File No. 37444	5/1/2007	Lincoln Financial Distributors, Inc. ("LFD")	The Company	LFD Distributes and acts as principal underwriter of the Company's separate accounts.	2008 \$ (4,293,843) 2009 \$ (3,961,047) 2010 \$ (4,907,363) 2011 \$ (5,662,835) 2012 \$ (6,386,897)
Wholesaling and Processing Agreement Department File No. 37443	5/1/2007	The Company	LFD	Recordkeeping services for LFD in its role as Principal Underwriter.	2008 \$ 5,276,370 2009 \$ 2,290,439 2010 \$ 1,829,189 2011 \$ 3,976,003 2012 \$ 4,629,439
Master Service Agreement Department File No. 37411	5/1/2007	Various LNC affiliated companies as listed in Exhibit A and B 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, IT services, legal, compliance, underwriting, sales and marketing, printing and mailing, wholesale distribution and facilities management.	2008 \$ (58,649,915) 2009 \$ (58,622,637) 2010 \$ (57,433,659) 2011 \$ (65,233,376) 2012 \$ (73,560,477)
Amendment 1 Department File No. 38111	10/1/2007				
Amendment 2 and Exhibits Department File No. 46889	3/14/2013				

*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 seven 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, 2012, the board of directors consisted of nine 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 nine board members and their principal business affiliation, as of December 31, 2012, were as follows:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>	<u>Year First Elected</u>
Ellen G. Cooper Mapleton, NJ	Chief Investment Officer and Executive Vice President Lincoln Life and Annuity Company of New York	2012
Charles C. Cornelio Greensboro, NC	Chief Administrative Officer and Executive Vice President Lincoln Life and Annuity Company of New York	2006
Randal J. Freitag Devon, PA	Chief Financial Officer and Executive Vice President Lincoln Life and Annuity Company of New York	2011
Dennis R. Glass Bryn Mawr, PA	President Lincoln Life and Annuity Company of New York	2006
George W. Henderson, III* Greensboro, NC	Retired Chairman and Chief Executive Officer Burlington Industries, Inc.	2006
Mark E. Konen Villanova, PA	Executive Vice President Lincoln Life and Annuity Company of New York	2006
M. Leanne Lachman* New York, NY	President Lachman Associates, LLC	1996
Louis G. Marcoccia* Manlius, NY	Executive Vice President and Chief Financial Officer Syracuse University	1996

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

In May, 2013, Robert Dineen joined the board after his retirement from the Lincoln Financial Network as Vice Chairman on May 1, 2013.

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, 2012:

<u>Name</u>	<u>Title</u>
Dennis R. Glass	President
Robert O. Sheppard	Secretary
Jeffrey D. Coutts	Treasurer
Richard M. Klenk	Appointed Actuary
Ellen G. Cooper	Chief Investment Officer and Executive Vice President
Randal J. Freitag	Chief Financial Officer and Executive Vice President
Charles C. Cornelio	Chief Administrative Officer and Executive Vice President
Mark E. Konen	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 U.S. Virgin Islands. In 2012, 84.4% of life premiums, 98.3% of annuity considerations, and 89.8% 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, 2012, the Company had \$5,235,000 (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. As per confirmations received from the following states which were reported in Schedule E of the 2012 filed annual statement; an additional \$6,689,335 was being held by the states of Arkansas, Georgia, New Jersey, New Mexico, North Carolina, South Carolina, and 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 2012, 60.5% of total premiums and considerations were from annuity business and 34.8% 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. Distribution channels such as broker-dealers, independent financial planners, wire/regional firms, financial institutions, and managing general agents are utilized.

C. Reinsurance

As of December 31, 2012, the Company had reinsurance treaties in effect with 61 companies, of which 28 were authorized or accredited. The Company's life and accident and health business is reinsured on a coinsurance, modified-coinsurance, and/or yearly renewable term basis. Reinsurance is provided on both an automatic and 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, 2012, was \$26,656,947,610, which represents 39.7% of the total face amount of life insurance in force.

Reserve credit taken for reinsurance ceded to unauthorized companies totaling \$98,900,392, was supported by letters of credit and trust agreements totaling \$96,140,478. The balance of \$2,333,766 is shown as a liability.

As of December 31, 2012, the Company assumed individual and group life business and individual and group annuity business from nine unaffiliated insurers and one affiliated insurer. The total face amount of life insurance assumed as of December 31, 2012 was \$17,295,361,139, or 25.6% of the total face amount of life insurance in force. The bulk of assumed life insurance (93.5%) is from a 1998 acquisition of a block of individual life insurance policies and annuities acquired from Aetna Life Insurance Company ("ALIC") and the Aetna Life Insurance and Annuity Company ("ALIAC"). The acquisition involved the Company acquiring the New York portion of the block while LNL acquired the non-New York portion of the block. During 2007, LNL transferred its obligations, as indemnity reinsurer and administrator, of the non-New York portion of the block to the Company.

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 (decline) during the period under review:

	<u>December 31,</u> <u>2008</u>	<u>December 31,</u> <u>2012</u>	<u>Increase</u> <u>(Decrease)</u>
Admitted assets	<u>\$8,440,912,301</u>	<u>\$10,925,489,739</u>	<u>\$2,484,577,438</u>
Liabilities	<u>\$7,645,741,199</u>	<u>\$10,277,092,962</u>	<u>\$2,631,351,763</u>
Common capital stock	\$ 2,640,000	\$ 2,640,000	\$ 0
Gross paid in and contributed surplus	1,135,800,643	1,135,800,643	0
Unassigned funds (surplus)	<u>(343,269,541)</u>	<u>(490,043,866)</u>	<u>146,774,325</u>
Total capital and surplus	<u>\$ 795,171,102</u>	<u>\$ 648,396,777</u>	<u>\$ (146,774,325)</u>
 Total liabilities, capital and surplus	 <u>\$8,440,912,301</u>	 <u>\$10,925,489,739</u>	 <u>\$2,484,577,438</u>

The Company's invested assets as of December 31, 2012, exclusive of separate accounts, were mainly comprised of bonds (88.6%), mortgage loans (5.6%), and policy loans (4.7%).

The majority (93.7%) of the Company's bond portfolio, as of December 31, 2012, 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>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Industrial life	\$ 570,826	\$ 571,371	\$ 249,778	\$ 130,760	\$ (830,390)
Ordinary:					
Life insurance	\$14,744,605	\$63,847,265	\$53,794,246	\$ 2,428,339	\$ 13,874,078
Individual annuities	(6,323,190)	33,971,415	14,489,494	(109,184,247)	54,410,783
Supplementary contracts	<u>599,704</u>	<u>(429,270)</u>	<u>772,200</u>	<u>143,931</u>	<u>(209,174)</u>
Total ordinary	<u>\$ 9,021,119</u>	<u>\$97,389,410</u>	<u>\$69,055,940</u>	<u>\$(106,611,977)</u>	<u>\$68,075,687</u>
Group:					
Life Annuities	\$ 269,000	\$ (993,154)	\$ (248,618)	\$ (804,346)	\$(6,789,161)
	<u>2,501,019</u>	<u>10,114,359</u>	<u>7,337,576</u>	<u>7,172,481</u>	<u>(1,536,677)</u>
Total group	<u>\$ 2,770,019</u>	<u>\$ 9,121,205</u>	<u>\$ 7,088,958</u>	<u>\$ 6,368,135</u>	<u>\$(8,325,838)</u>
Accident and health:					
Group	\$ 704,748	\$ (686,886)	\$ (3,456,505)	\$ 583,247	\$(1,589,643)
Other	<u>(287,071)</u>	<u>991,669</u>	<u>155,572</u>	<u>146,980</u>	<u>59,171</u>
Total accident and health	<u>\$ 417,677</u>	<u>\$ 304,783</u>	<u>\$(3,300,933)</u>	<u>\$ 730,227</u>	<u>\$(1,530,472)</u>
All other lines	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$24,557,172</u>
Total	<u>\$12,779,641</u>	<u>\$107,386,769</u>	<u>\$73,093,743</u>	<u>\$(99,382,855)</u>	<u>\$81,946,159</u>

The change in the Company's net gain from operations from its ordinary life insurance line in 2008 and 2009 primarily related to federal income taxes incurred due to a tax return true-up benefit provision. In 2011, the Company's net gain from operations decreased compared to 2010 as a result of a guaranty fund assessment accrual of \$17.1 million in 2011 resulting from the insolvency of Executive Life of New York. The additional decline in net gain from operations was due to the increase in reserves on a tax basis was smaller than the increase in reserves on a statutory basis resulting in a higher tax expense in 2011.

The loss in the Company's net gain from operations from its individual annuities line in 2008 related to increased amortization of existing Commissioners Annuity Reserve Valuation Method ("CARVM") reserves on the Legacy and Choice Plus blocks of business. Amortization increased over the prior year related to the low equity markets. The main drivers of the variable annuity business are the performance of the equity markets and the interest rate environment. The significant loss in 2011 was primarily due to an unfavorable reserve development related to low forward interest rates used in the reserve calculation. In 2012 the improvement in net gain from operations in the individual annuities line was due to a favorable reserve development in variable annuities. The improvement in variable annuities was driven by AG43 reserves due to the equity market gains during 2012.

The variability in the Company's net gain from operations from its group accident and health line is primarily due to increasing disability benefits, driven by unfavorable claim incidence experience and unfavorable claim recovery experience, offset by increasing premiums. The Company is focusing on group business, which is the reason for the increasing group premiums. Less sales initiative is being taken on the individual business, which resulted in a decline in the number of outstanding policies at year end.

6. FINANCIAL STATEMENTS

The following statements show the assets, liabilities, capital and surplus as of December 31, 2012, as contained in the Company's 2012 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, 2012 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 31st of each year in the examination period, and the related statutory-basis statements of operations, capital and surplus, and cash flows for the year 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	\$6,661,060,323
Stocks:	
Preferred stocks	5,090,280
Common stocks	127,250
Mortgage loans on real estate:	
First liens	423,189,154
Cash, cash equivalents and short term investments	53,987,263
Contract loans	356,212,139
Other invested assets	21,266,772
Investment income due and accrued	96,447,521
Premiums and considerations:	
Uncollected premiums and agents' balances in the course of collection	4,908,081
Deferred premiums, agents' balances and installments booked but deferred and not yet due	14,385,067
Reinsurance:	
Amounts recoverable from reinsurers	1,511,191
Other amounts receivable under reinsurance contracts	7,377,443
Net deferred tax asset	67,339,650
Guaranty funds receivable or on deposit	183,971
Electronic data processing equipment and software	9,203
Receivables from parent, subsidiaries and affiliates	11,980,449
Health care and other amounts receivable	1,162,540
Other receivables related to investments	67,699
From separate accounts, segregated accounts and protected cell accounts	<u>3,199,183,779</u>
Total admitted assets	<u>\$10,925,489,739</u>

C. Liabilities, Capital and Surplus

Aggregate reserve for life policies and contracts	\$6,660,567,160
Aggregate reserve for accident and health contracts	85,469,553
Liability for deposit-type contracts	240,974,451
Contract claims:	
Life	47,636,625
Accident and health	2,253,181
Policyholders' dividends and coupons due and unpaid	5,664
Provision for policyholders' dividends and coupons payable in following calendar year – estimated amounts	
Dividends apportioned for payment	23,949,998
Premiums and annuity considerations for life and accident and health contracts received in advance	2,615,116
Contract liabilities not included elsewhere:	
Other amounts payable on reinsurance	4,978,932
Interest maintenance reserve	1,090,367
Commissions to agents due or accrued	5,446,945
Commissions and expense allowances payable on reinsurance assumed	54,855
General expenses due or accrued	5,259,090
Transfers to separate accounts due or accrued	(108,600,598)
Taxes, licenses and fees due or accrued, excluding federal income taxes	19,529,100
Current federal and foreign income taxes	17,297,116
Unearned investment income	1,580,901
Amounts withheld or retained by company as agent or trustee	12,794,356
Amounts held for agents' account	5,731
Remittances and items not allocated	16,437,072
Miscellaneous liabilities:	
Asset valuation reserve	33,230,794
Reinsurance in unauthorized companies	2,923,856
Payable to parent, subsidiaries and affiliates	2,353,610
Miscellaneous liabilities	55,888
From Separate Accounts statement	<u>3,199,183,199</u>
Total liabilities	<u>\$10,277,092,962</u>
Common capital stock	\$2,640,000
Gross paid in and contributed surplus	1,135,800,643
Unassigned funds (surplus)	<u>(490,043,866)</u>
Surplus	<u>\$ 645,756,777</u>
Total capital and surplus	<u>\$ 648,396,777</u>
Total liabilities, capital and surplus	<u>\$10,925,489,739</u>

D. Condensed Summary of Operations

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Premiums and considerations	\$ 929,070,078	\$ 865,145,176	\$ 867,082,261	\$ 959,389,200	\$1,034,135,539
Investment income	392,606,052	403,448,674	414,344,375	414,466,723	418,781,559
Commissions and reserve adjustments on reinsurance ceded	(4,441,865)	625,666	860,912	890,482	979,243
Miscellaneous income	<u>81,703,458</u>	<u>92,316,561</u>	<u>100,110,938</u>	<u>96,301,313</u>	<u>105,774,836</u>
Total income	<u>\$1,398,937,724</u>	<u>\$1,361,536,077</u>	<u>\$1,382,398,486</u>	<u>\$1,471,047,718</u>	<u>\$1,559,671,177</u>
Benefit payments	\$ 752,078,378	\$ 680,002,475	\$ 744,470,067	\$ 815,030,876	\$ 882,642,324
Increase in reserves	131,873,258	296,905,144	207,872,565	389,078,078	158,384,552
Commissions	84,526,354	72,046,223	74,491,492	80,604,471	82,058,168
General expenses and taxes	82,944,190	81,094,900	77,013,157	102,030,852	96,991,914
Increase in loading on deferred and uncollected premiums	(623,554)	(623,955)	3,791,926	(1,470,825)	(605,766)
Net transfers to (from) separate accounts	290,625,813	102,116,089	145,367,995	123,743,029	209,776,196
Total deductions	<u>\$1,341,424,138</u>	<u>\$1,231,540,876</u>	<u>\$1,253,007,202</u>	<u>\$1,509,016,481</u>	<u>\$1,429,247,388</u>
Net gain (loss)	\$ 57,513,587	\$ 129,995,201	\$ 129,391,284	\$ (37,968,763)	\$ 130,423,789
Dividends	28,610,767	28,879,992	27,030,003	23,524,331	21,313,423
Federal and foreign income taxes Incurred	<u>16,123,179</u>	<u>(6,271,559)</u>	<u>29,267,538</u>	<u>37,889,761</u>	<u>27,164,207</u>
Net gain (loss) from operations before net realized capital gains	\$ 12,779,641	\$ 107,386,768	\$ 73,093,743	\$ (99,382,855)	\$ 81,946,159
Net realized capital gains (losses)	<u>(107,801,495)</u>	<u>(94,211,380)</u>	<u>(18,155,626)</u>	<u>(21,569,720)</u>	<u>(8,425,714)</u>
Net income	<u>\$ (95,021,854)</u>	<u>\$ 13,175,388</u>	<u>\$ 54,938,117</u>	<u>\$ (120,952,575)</u>	<u>\$ 73,520,445</u>

The Company is holding additional reserves of \$90 Million as of December 31, 2013 for its universal life business as part of a phase-in plan due to recent changes to Regulation 147.

E. Capital and Surplus Account

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Capital and surplus, December 31, prior year	\$ <u>832,792,903</u>	\$ <u>795,171,102</u>	\$ <u>818,994,051</u>	\$ <u>794,058,945</u>	\$ <u>586,089,941</u>
Net income	\$ (95,021,854)	\$ 13,175,388	\$ 54,938,117	\$(120,952,575)	\$ 73,520,445
Change in net unrealized capital gains (losses)	(10,304,118)	(16,667,925)	(6,661,588)	11,579,643	10,694,645
Change in net deferred income tax	43,560,971	(8,153,213)	(5,777,723)	66,264,706	(6,242,545)
Change in non-admitted assets and related items	(6,400,323)	(12,111,494)	(3,816,485)	(59,122,912)	1,081,622
Change in liability for reinsurance in unauthorized companies	2,056,941	556,871	0	2,384,812	(267,236)
Change in reserve valuation basis	11,732,522	2,864,001	9,195,602	0	0
Change in asset valuation reserve	13,614,953	4,351,666	989,254	(13,114,978)	(17,561,120)
Other changes in surplus in Separate Accounts statement	(273)	(183)	500	15	21
Cumulative effect of changes in accounting principles	0	21,405,399	0	0	1,238,850
Surplus adjustments:					
Change in surplus as a result of Reinsurance	(266,657)	(266,657)	(188,886)	(180,332)	(157,846)
Dividends to stockholders	0	0	(80,000,000)	(73,000,000)	0
Aggregate write ins for gains and losses in surplus:					
Correction of prior period Error	3,406,036	(4,470,342)	4,707,595	(24,899,096)	0
Change in surplus form Increased admissibility in deferred taxed	<u>0</u>	<u>23,139,438</u>	<u>1,678,508</u>	<u>3,071,713</u>	<u>0</u>
Net change in capital and surplus for the year	\$ <u>(37,621,802)</u>	\$ <u>23,822,949</u>	\$ <u>(24,935,106)</u>	\$ <u>(207,969,004)</u>	\$ <u>62,306,836</u>
Capital and surplus, December 31, current year	\$ <u>795,171,102</u>	\$ <u>818,994,051</u>	\$ <u>794,058,945</u>	\$ <u>586,089,941</u>	\$ <u>648,396,777</u>

7. SELF-SUPPORT

Section 4228(h) of the New York Insurance Law states, in part:

“No company shall offer for sale any life insurance policy form or annuity contract form covered by this section or any debit life insurance policy form which shall not appear to be self-supporting on reasonable assumptions as to interest, mortality, persistency, taxes, agents' and brokers' survival and expenses resulting from the sale of the policy or contract form. For all such forms offered for sale in this state, and for all forms filed for use outside this state by domestic life insurance companies, a statement that the requirements of this subsection have been met, signed by an actuary who is a member in good standing of the American Academy of Actuaries and meets the requirements prescribed by the superintendent by regulation shall be submitted with each such life insurance policy or annuity contract form filed pursuant to paragraph one or six of subsection (b) of section three thousand two hundred one of this chapter. A demonstration supporting each such statement, signed by an actuary meeting such qualifications, shall be retained in the company's home office, while such form is being offered in this state and for a period of six years thereafter and be available for inspection. . . .”

The examiner conducted a review of the pricing adequacy for various products subject to Section 4228(h) of the New York Insurance Law. This review included an examination of the required actuarial statements of self-support and the supporting demonstrations.

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.

In response to the Department's concerns, the Company agreed that all future demonstrations will be signed, dated and finalized prior to the date of the statement of self-support.

The Company also agreed that such demonstrations will be well organized, and include narrative descriptions of the methodologies and material assumptions used such that another actuary can make a reasonable assessment of the analysis performed. Where possible, the assumptions and results of the testing will be contained in one document. Where not possible, separate documents will be available and will be easily identified as being part of the same demonstration. With respect to the statements of self-support, the Company agreed that the statements would include all riders that are tested along with the base policy.

8. SUMMARY AND CONCLUSIONS

Following is the violation contained in this report:

<u>Item</u>	<u>Description</u>	<u>Page No(s).</u>
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.	20

Respectfully submitted,

_____/s/
William A. O'Connell

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

William A. O'Connell, being duly sworn, deposes and says that the foregoing report, subscribed by him, is true to the best of his knowledge and belief.

_____/s/
William A. O'Connell

Subscribed and sworn to before me
this _____ day of _____

APPOINTMENT NO. 30977

NEW YORK STATE

DEPARTMENT OF FINANCIAL SERVICES

I, BENJAMIN M. LAWSKY, 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:

BILL O'CONNELL

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 24th day of April, 2013

BENJAMIN M. LAWSKY
Superintendent of Financial Services

By:


MICHAEL MAFFEI

ASSISTANT DEPUTY SUPERINTENDENT
AND CHIEF OF THE LIFE BUREAU

