



**FINANCIAL CONDITION REPORT ON EXAMINATION**

**OF THE**

**USAA LIFE INSURANCE COMPANY OF NEW YORK**

**AS OF DECEMBER 31, 2021**

**EXAMINER:**

**JOANNE CAMPANELLI, CFE**

**DATE OF REPORT:**

**MAY 17, 2023**

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KATHY HOCHUL  
Governor



ADRIENNE A. HARRIS  
Superintendent

June 26, 2023

Honorable Adrienne A. Harris  
Superintendent of Financial Services  
New York, New York 10004

Dear Adrienne A. Harris:

In accordance with instructions contained in Appointment No. 32401, dated March 31, 2022, and annexed hereto, an examination has been made into the condition and affairs of USAA Life Insurance Company of New York, hereinafter referred to as "the Company". The Company's statutory home office is located at 529 Main Street, Highland Falls, NY 10928. The Company's main administrative office is located at 9800 Fredericksburg Road, San Antonio, TX 78288. Due to the COVID-19 pandemic, the examination was conducted remotely.

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. SCOPE OF EXAMINATION

The examination of the Company was a full-scope examination as defined in the National Association of Insurance Commissioners' ("NAIC's") *Financial Condition Examiner's Handbook, 2022 Edition* (the "Handbook"). The examination covers the five-year period from January 1, 2017, through December 31, 2021. 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, 2021, but prior to the date of this report 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 called by the Texas Department of Insurance in accordance with the NAIC Handbook guidelines, through the NAIC's Financial Examination Electronic Tracking System. The examination was conducted as part of the USAA Group. Texas served as the lead state with participation from the State of New York. Since the lead and participating states are all accredited by the NAIC, all 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 years 2017 through 2021, by the accounting firm of Ernst & Young LLP (“EY”). The Company received an unqualified opinion in all years. Certain audit workpapers of the accounting firm were reviewed and relied upon in conjunction with this examination. United Services Automobile Association (“USAA”) has an internal audit department and a separate internal control department which was given the task of assessing the internal control structure and compliance with the Model Audit Rule (“MAR”). The Company and its affiliates share the USAA internal audit and internal control departments. Where applicable, MAR workpapers and reports were reviewed, and portions were relied upon for this examination.

The examiner reviewed the prior 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.

## 2. DESCRIPTION OF COMPANY

### A. History

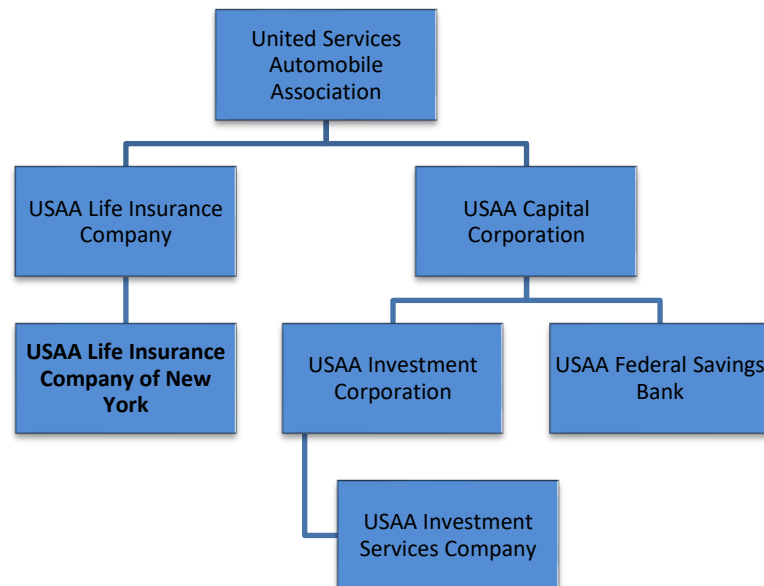
The Company was incorporated as a stock life insurance company under the laws of the State of New York on October 1, 1997 and was licensed and commenced business on November 14, 1997. Initial resources of \$6,661,425, consisting of common capital stock of \$2,000,000 and paid in and contributed surplus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

### B. Holding Company

The Company is a wholly owned subsidiary of USAA Life Insurance Company (“USAA Life”), a Texas domiciled life insurance company. USAA Life is in turn a wholly owned subsidiary of USAA, a Texas reciprocal inter-insurance exchange. USAA is the ultimate parent of the Company.

### C. Organizational Chart

An organization chart reflecting the relationship between the Company and significant entities in its holding company system as of December 31, 2021, follows:



#### D. Service Agreements

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

Type of Agreement	Effective Date	Provider(s) of Service(s)	Recipient(s) of Service(s)	Specific Service(s) Covered	Expense* For Each Year of the Examination
Administrative Services Agreement  File No. 43823	12/19/2010	USAA, USAA Life	The Company	Certain administrative services performed for the Company who reimburses the providers at cost for services and facilities	2017 \$ (8,658,291) 2018 \$ (8,797,876) 2019 \$(10,266,864) 2020 \$ (9,919,433) 2021 \$(11,979,115)
Financial Management and Investment Advisory Agreement  File No. 45739	01/01/2012  Terminated 06/17/2019	USAA Asset Management Company	The Company	Investment management and advisory services	2017 \$(495,854) 2018 \$(417,972) 2019 \$(195,229)
Master Participation and Servicing Agreement  File No. 59498	10/07/2020	USAA Life and USAA Real Estate Company	The Company	To allow the Company to purchase participation in loans originated by USAA Life managed by USAA Real Estate Company	2020 \$ (1,040) 2021 \$(35,145)

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

When the investment advisory agreement under Department File No. 45739 ended in June 2019, Blackrock Financial Management, Inc. became the primary external asset manager and currently handles investment advisory services for the Company and its insurance affiliates. Thus, the Company no longer receives investment services from any affiliate.

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 18 directors. Directors are elected for a period of one year at the annual meeting of the stockholders held in September of each year. As of December 31, 2021, the board of directors consisted of seven members. Meetings of the board are held in May and November of each year.

The seven board members and their principal business affiliation, as of December 31, 2021, were as follows:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>	<u>Year First Elected</u>
Maureen E. Adolf* New York, NY	Senior Policy Advisor Eversheds Sutherland	2018
Mathew R. Blunt* Middleburg, VA	President American Automotive Policy Council	2011
Brandon D. Carter San Antonio, TX	President USAA Life Insurance Company of New York	2014
Shawn T. Loftus San Antonio, TX	Senior Vice President and Chief Actuary USAA Life Insurance Company of New York	2007
Edgar K. Rugenstein* Poughquag, NY	Chief Operating Officer Crown Maple, LLC	2013
Jeff E. Tucker Helotes, TX	Senior Vice President, Senior Financial Officer, and Treasurer USAA Life Insurance Company of New York	2013
William S. White San Antonio, TX	Senior Vice President, General Manager Retirement Income Third-Party Distribution USAA Life Insurance Company of New York	2013

\* 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 the meetings.



The following is a listing of the principal officers of the Company as of December 31, 2021:

<u>Name</u>	<u>Title</u>
Brandon D. Carter	President
Shawn T. Loftus	Senior Vice President and Chief Actuary
William S. White	Senior Vice President, General Manager Retirement Income Third-Party Distribution
Jeff E. Tucker	Treasurer
Kelly A. Armstrong	Secretary
Bradley H. Weber	Chief Accounting Officer
David W. Danchak*	Assistant Vice President and Consumer Services Officer

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

### 3. 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 only in New York. In 2021, 75.0% of life premiums, 94.5% of annuity considerations and all deposit type funds were received from New York. Policies are written on a participating and non-participating basis.

#### A. Statutory and Special Deposits

As of December 31, 2021, the Company had \$450,000 (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.

#### B. Direct Operations

The Company issues individual life insurance (whole and term) and fixed annuity products. The Company's target market is the military, and spouses and dependents of military members ages 21 to 60. The Company's products and services are available to the general public. However, it does not actively solicit sales from the general public. The Company discontinued sales of its Universal Life Accumulator product on December 1, 2019.

All agents are salaried employees of the Company's affiliate, Life General Agency, Inc. ("LGA"). LGA distributed the Company's life and annuity products. Additionally, Fidelity Insurance Network and Charles Schwab & Co., Inc. distributed the Protected Retirement Income Annuity product.

#### C. Reinsurance

As of December 31, 2021, the Company had reinsurance treaties in effect with 12 companies, of which 10 were authorized, accredited, or certified. The Company's whole life, universal life, and term life business is reinsured on a coinsurance and yearly renewable term basis. Reinsurance is provided on an automatic and facultative basis.

The maximum retention limit for individual life contracts is \$1,000,000 with a \$250,000 corridor. The total face amount of life insurance ceded as of December 31, 2021, was

\$7,544,366,497, which represents 52% of the total face amount of life insurance in force. Reserve credit taken for reinsurance ceded to unauthorized companies, totaling \$8,267,641, was supported by letters of credit and trust agreements.

Effective July 1, 2021, the Company entered into a coinsurance arrangement with First Allmerica Financial Life Insurance Company to reinsure 50% of its closed block fixed rate annuity business and 90% of its legacy annuity closed block of business for approximately \$209,000,000 in ceded annuity reserves. The reinsurance agreement was executed on July 28, 2021 and was not required to be submitted to the Department.

The Company did not assume any reinsurance business.

#### 4. FINANCIAL STATEMENTS

The following statements show the assets, liabilities, capital and surplus as of December 31, 2021, as contained in the Company's 2021 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, 2021 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 of the Company as of December 31<sup>st</sup> 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	\$601,658,734
Mortgage loans on real estate:	
First liens	17,987,645
Cash, cash equivalents and short-term investments	17,343,622
Contract loans	6,160,999
Other invested assets	303,706
Investment income due and accrued	6,324,106
Premiums and considerations:	
Uncollected premiums and agents' balances in the course of collection	41,171
Deferred premiums, agents' balances and installments booked but deferred and not yet due	64,247
Reinsurance:	
Amounts recoverable from reinsurers	842,408
Other amounts receivable under reinsurance contracts	5,983,451
Current federal and foreign income tax recoverable and interest thereon	3,220,115
Net deferred tax asset	1,564,687
Prepaid ceded premiums	3,818,695
Other accounts receivable	<u>569,563</u>
 Total admitted assets	 <u>\$665,883,149</u>

C. Liabilities, Capital and Surplus

Aggregate reserve for life policies and contracts	\$544,121,985
Liability for deposit-type contracts	20,056,721
Contract claims:	
Life	3,985,667
Policyholders' dividends and coupons due and unpaid	16,223
Provision for policyholders' dividends and coupons payable in following calendar year – estimated amounts:	
Dividends apportioned for payment	1,925,873
Premiums and annuity considerations for life and accident and health contracts received in advance	73,213
Contract liabilities not included elsewhere:	
Surrender values on cancelled contracts	39,808
Other amounts payable on reinsurance	265,758
Interest maintenance reserve	673,696
General expenses due or accrued	3,742
Unearned investment income	170,228
Amounts withheld or retained by company as agent or trustee	7,631
Remittances and items not allocated	2,167,946
Miscellaneous liabilities:	
Asset valuation reserve	4,574,590
Payable to parent, subsidiaries and affiliates	2,247,223
Other accounts payable	61,422
Accrued interest payable on policy funds	<u>39,640</u>
 Total liabilities	 <u>\$580,431,368</u>
 Common capital stock	 \$ 2,000,000
Gross paid in and contributed surplus	31,482,647
Unassigned funds (surplus)	<u>51,969,135</u>
Surplus	\$ <u>83,451,781</u>
Total capital and surplus	\$ <u>85,451,781</u>
 Total liabilities, capital and surplus	 <u>\$665,883,149</u>

D. Condensed Summary of Operations

	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>
Premiums and considerations	\$42,268,604	\$40,170,546	\$36,183,876	\$42,389,133	\$(153,491,585)
Investment income	36,859,662	36,543,216	36,163,793	35,749,081	32,452,061
Commissions and reserve adjustments on reinsurance ceded	2,506,570	2,381,910	2,283,494	2,222,386	(7,156,641)
Miscellaneous income	<u>0</u>	<u>(1,705)</u>	<u>(2,952)</u>	<u>0</u>	<u>20,560,857</u>
Total income	<u>\$81,634,836</u>	<u>\$79,093,967</u>	<u>\$74,628,211</u>	<u>\$80,360,600</u>	<u>\$(107,635,308)</u>
Benefit payments	\$42,931,273	\$40,757,056	\$48,193,635	\$47,448,585	\$ 47,854,887
Increase in reserves	21,551,106	15,454,237	18,237,376	29,154,153	(174,466,531)
Commissions	0	0	0	126,581	1,757,722
General expenses and taxes	10,069,156	10,071,031	11,386,864	11,391,254	12,843,783
Increase in loading on deferred and uncollected premiums	50,928	79,245	21,817	(34,716)	22,317
Fines and penalties of regulatory authorities	<u>15,834</u>	<u>0</u>	<u>700</u>	<u>0</u>	<u>115</u>
Total deductions	<u>\$74,618,297</u>	<u>\$66,361,569</u>	<u>\$77,840,392</u>	<u>\$88,085,857</u>	<u>\$(111,987,707)</u>
Net gain (loss)	\$ 7,016,539	\$12,732,398	\$(3,212,181)	\$(7,725,257)	\$ 4,352,399
Dividends	2,327,204	2,163,313	2,078,088	2,044,059	1,974,850
Federal and foreign income taxes incurred	<u>1,482,196</u>	<u>2,648,033</u>	<u>630,822</u>	<u>2,158,258</u>	<u>(8,193,702)</u>
Net gain (loss) from operations before net realized capital gains	\$ 3,207,139	\$ 7,921,052	\$(5,921,091)	\$(11,927,574)	\$ 10,571,251
Net realized capital gains (losses)	<u>(721,662)</u>	<u>(193,132)</u>	<u>(1,749,781)</u>	<u>(608,035)</u>	<u>(552,093)</u>
Net income	<u>\$ 2,485,476</u>	<u>\$ 7,727,921</u>	<u>\$(7,670,873)</u>	<u>\$(12,535,609)</u>	<u>\$ 10,019,160</u>

E. Capital and Surplus Account

	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>
Capital and surplus, December 31, prior year	\$ <u>77,154,191</u>	\$ <u>78,549,016</u>	\$ <u>85,596,429</u>	\$ <u>78,245,841</u>	\$ <u>75,630,270</u>
Net income	\$ 2,485,476	\$ 7,727,921	\$(7,670,873)	\$(12,535,609)	\$10,019,160
Change in net unrealized capital gains (losses)	0	0	(48,190)	2,686	45,504
Change in net deferred income tax	(3,265,646)	758,656	2,014,932	4,589,270	(3,942,461)
Change in non-admitted assets and related items	2,323,961	(1,331,131)	(2,300,394)	(3,810,831)	3,155,985
Change in asset valuation reserve	(148,966)	(108,035)	653,938	(610,243)	814,262
Cumulative effect of changes in accounting principles	0	0	0	(250,512)	0
Surplus adjustments:					
Paid in	0	0	0	10,000,000	0
Prior year adjustments	<u>0</u>	<u>0</u>	<u>0</u>	<u>(333)</u>	<u>(270,939)</u>
Net change in capital and surplus for the year	\$ <u>1,394,825</u>	\$ <u>7,047,412</u>	\$ <u>(7,350,587)</u>	\$ <u>(2,615,571)</u>	\$ <u>9,821,511</u>
Capital and surplus, December 31, current year	\$ <u>78,549,016</u>	\$ <u>85,596,429</u>	\$ <u>78,245,841</u>	\$ <u>75,630,270</u>	\$ <u>85,451,781</u>



Respectfully submitted,

Joanne Campanelli  
Joanne Campanelli, CFE  
Examination Resources, LLC

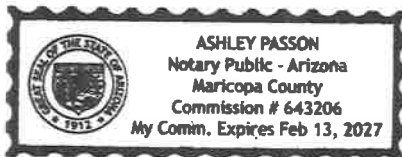
STATE OF ARIZONA        )  
  ) SS:  
COUNTY OF MARICOPA    )

Joanne Campanelli, being duly sworn, deposes and says that the foregoing report, subscribed by her, is true to the best of her knowledge and belief.

Joanne Campanelli  
Joanne Campanelli

Subscribed and sworn to before me

this 31<sup>st</sup> day of May  
[Signature]



Respectfully submitted,

\_\_\_\_\_/s/  
Flora Egbuchulam  
Associate Insurance Examiner

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

Flora Egbuchulam, being duly sworn, deposes and says that the foregoing report, subscribed by her, is true to the best of her knowledge and belief.

\_\_\_\_\_/s/  
Flora Egbuchulam

Subscribed and sworn to before me  
this \_\_\_\_\_ day of \_\_\_\_\_

*APPOINTMENT NO. 32401*

*NEW YORK STATE*

***DEPARTMENT OF FINANCIAL SERVICES***

*I, ADRIENNE A. HARRIS, 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:*

***JOANNE CAMPANELLI**  
**(EXAMINATION RESOURCES)***

*as a proper person to examine the affairs of the*  
***USAA LIFE INSURANCE COMPANY OF NEW YORK***  
*and to make a report to me in writing of the condition of said*  
***COMPANY***

*with such other information as she 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 March, 2022*

*ADRIENNE A. HARRIS  
Superintendent of Financial Services*

*By: Mark McLeod*

*MARK MCLEOD  
DEPUTY CHIEF - LIFE BUREAU*

