STATE FARM LIFE AND ACCIDENT ASSURANCE COMPANY VARIABLE LIFE SEPARATE ACCOUNT
(Registrant)

STATE FARM LIFE AND ACCIDENT ASSURANCE COMPANY
(Depositor)

P.O. Box 2307
Bloomington, Illinois 61702-2307
Telephone (888) 702-2307

STATEMENT OF ADDITIONAL INFORMATION
Individual Flexible Premium Variable Universal Life Insurance Policy

This Statement of Additional Information ("SAI") contains additional information regarding the flexible premium variable universal life insurance policy (the "Policy") offered by State Farm Life and Accident Assurance Company ("State Farm," "we," "us," or "our"). This SAI is not a prospectus, and should be read together with the prospectus for the Policy dated May 1, 2009, and the prospectus for the State Farm Variable Product Trust (the "Trust"). You may obtain a copy of these prospectuses by writing or calling us at our address or phone number shown above. Capitalized terms in this SAI have the same meanings as in the prospectus for the Policy.

The date of this Statement of Additional Information is May 1, 2009.

STATEMENT OF ADDITIONAL INFORMATION

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ADDITIONAL POLICY INFORMATION

Incontestability

The Policy limits our right to contest the Policy as issued or as increased, for reasons of material misstatements contained in the application, after it has been in force during the Insured's lifetime for a minimum period, generally for two years from the Issue Date of the Policy or effective date of the increase.

Misstatement of Age or Sex

State Farm will adjust the Death Benefit if the application misstates the Insured's Age or sex.

Limited Death Benefit—Suicide Exclusion

The Policy limits the Death Benefit if the Insured dies by suicide generally within two years after the Issue Date of the Policy or effective date of the increase.

Assignment

You may assign the Policy subject to its terms. We are not deemed to know of an assignment unless we receive a written copy of it at our Securities Products Department. We assume no responsibility for the validity or effect of any assignment. In certain circumstances, an assignment may be a taxable event. See "Tax Considerations" in the prospectus.

Change of Owner

When allowed by law, you may change the Owner of the Policy by sending a written request to our Securities Products Department while the Insured is alive and the Policy is in force. The change will take effect the date you sign the written request, but the change will not affect any action we have taken before we receive the written request. A change of Owner does not change the Beneficiary designation. A change of Owner may have adverse tax consequences. You should consult a tax advisor before changing an Owner.

The Beneficiary

You designate the Beneficiary(ies) when you apply for the Policy. The Beneficiary is entitled to the insurance benefits under the Policy. You may change the Beneficiary or the order of payment during the Insured's lifetime by providing a written request to the Securities Products Department. We will effect your change on the date you sign the request or on any later date specified in the request, but the change will not affect any action we have taken before we receive the request. When the Insured dies, we will make payment in equal shares to the primary Beneficiary(ies) living when payment is made. If a primary Beneficiary dies after the first payment is made, we will pay that primary Beneficiary's unpaid share in equal shares to the other primary Beneficiaries living when payment is made. If the last primary Beneficiary dies, we will make payment in equal shares to the successor beneficiaries living when payment is made. If a successor dies when receiving payments, we will pay that successor Beneficiary's unpaid share in equal shares to the other successor Beneficiaries living when payment is made. If, at any time, no primary or successor is alive, we will make a one-sum payment in equal shares to the final Beneficiaries. If, at any time, no Beneficiary is living, we will make a one-sum payment to you, if you are alive when payment is made. Otherwise, we will make a one-sum payment to the estate of the last survivor of you and all Beneficiaries.

Dividends

The Policy is participating. However, we do not anticipate paying any dividends on the Policy.

Changing Death Benefit Options

You may change the Death Benefit Option on your Policy subject to the following rules:

You must submit each change by written request that we receive at our Securities Products Department, and you may only change the Death Benefit Option once in any Policy Year. We will process each change on the date we receive your written request at our Securities Products Department. We will send you revised Policy schedule pages reflecting the new Death Benefit Option and the effective date of the change.

If you request a change from Option 1 to Option 2, the Basic Amount will be decreased by the Policy Account Value on the effective date of the change. When you make a change from Option 2 to Option 1, the Basic Amount after the change will be increased by the Policy Account Value on the effective date of the change. The minimum monthly premium for the Death Benefit Guarantee will also change when you change a Death Benefit Option. Changing the Death Benefit option may have tax consequences and you should consult a tax advisor before doing so.

More Information on Payments

We may delay making a payment or processing a transfer request if:

(1) the disposal or valuation of the Variable Account's assets is not reasonably practicable because the New York Stock Exchange is closed for other than a regular holiday or weekend, trading is restricted by the SEC, or the SEC declares that an emergency exists as a result of which it is not reasonably practicable for the Variable Account: (A) to dispose of its securities; or (B) to determine the value of its net assets; or

(2) the SEC by order permits postponement of payment to protect State Farm's policy owners.

We also may defer making payments attributable to a check that has not cleared, and we may defer payment of proceeds from the Fixed Account for a withdrawal, surrender or Policy loan request for up to six months from the date we receive the request. However, we will not defer payment of a withdrawal or Policy loan requested to pay a premium due on a State Farm policy.

Due to federal laws designed to counter terrorism and prevent money laundering by criminals, we may be required to reject a premium payment. We may also be required to provide additional information about your account to government regulators. In addition, we may be required to block a Policy owner's account and thereby refuse to pay any request for transfers, withdrawals, surrenders, loans, or death benefits, until instructions are received from the appropriate regulator.

Dollar Cost Averaging Program

You may elect to participate in the dollar-cost averaging program at any time by sending us a written request. To use the dollar-cost averaging program, you must transfer at least $100 from the Money Market Subaccount or Bond Subaccount, as applicable. Once elected, dollar-cost averaging remains in effect from the date we receive your request until the value of the Subaccount from which transfers are being made is depleted, or until you cancel the program by written request or by telephone if we have your telephone authorization on file. There is no additional charge for dollar-cost averaging. A transfer under this program is not considered a transfer for purposes of assessing a transfer processing fee. We reserve the right to discontinue offering the dollar-cost averaging program at any time and for any reason. Dollar-cost averaging is not available while you are participating in the portfolio rebalancing program.

Portfolio Rebalancing Program

You may elect to participate in the portfolio rebalancing program at any time by sending us a written request at the Securities Products Department. Your percentage allocations must be in whole percentages. You may make subsequent changes to your percentage allocations at any time by providing written or telephone instructions to the Securities Products Department (if we have your telephone authorization on file). Once elected, portfolio rebalancing remains in effect from the date we receive your written request until you instruct us to discontinue portfolio rebalancing. There is no additional charge for using portfolio rebalancing, and a portfolio rebalancing transfer is not considered a transfer for purposes of assessing a transfer processing fee. We reserve the right to discontinue offering the portfolio rebalancing program at any time and for any reason. Portfolio rebalancing does not guarantee a profit or protect against loss. You may not use amounts in the Fixed Account in connection with the portfolio rebalancing program. Portfolio rebalancing is not available while you are participating in the dollar-cost averaging program.

RELATIONSHIPS WITH THE COMPANIES THAT MAINTAIN THE BENCHMARK INDICES

Standard & Poor's

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S&P does not guarantee the accuracy and/or the completeness of the S&P 500 Index or any data included therein and S&P shall have no liability for any errors, omissions, or interruptions therein. S&P makes no warranty, express or implied, as to results to be obtained by State Farm, the Trust, Owners of the Product and Funds, or any other person or entity from the use of the S&P 500 Index or any data included therein. S&P makes no express or implied warranties, and expressly disclaims all warranties of merchantability or fitness for a particular purpose or use with respect to the S&P 500 Index or any data included therein. Without limiting any of the foregoing, in no event shall S&P have any liability for any special, punitive, indirect, or consequential damages (including lost profits), even if notified of the possibility of such damages.

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ADDITIONAL INFORMATION

Insurance Marketplace Standards Association

We and State Farm Life Insurance Company are members of the Insurance Marketplace Standards Association (IMSA). IMSA is an independent and voluntary organization created by the American Council of Life Insurance (ACLI) to improve customer confidence in the life insurance industry. Life insurers that are members of IMSA agree to meet and maintain high standards of ethical conduct in their dealings with consumers for individual life insurance and annuity products.

Potential Conflicts of Interest

The Funds currently sell shares to separate accounts to serve as the underlying investment for both variable life insurance policies and variable annuity contracts. We currently do not foresee any disadvantage to Owners arising from the sale of shares to support variable life insurance policies and variable annuity contracts. However, we will monitor events in order to identify any material irreconcilable conflicts that may possibly arise. In that event, we would determine what action, if any, should be taken in response to those events or conflicts. In addition, if we believe that a Fund's response to any if those events or conflicts insufficiently protects Owners, we will take appropriate action on our own, including withdrawing the Variable Account's investment in that Fund.

The Funds also may sell shares directly to certain pension and retirement plans qualifying under Section 401 of the Internal Revenue Code of 1986, as amended. As a result, there is a possibility that a material conflict may arise between the interests of Owners of this Policy or other policies or contracts (including policies issued by other companies), and such retirement plans or participants in such retirement plans. In the event of any such material conflicts, we will consider what action may be appropriate, including removing the Fund as an investment option under the Policies or replacing the Fund with another fund.

See the Trust's prospectus for more detail.

Safekeeping of Account Assets

We hold the Variable Account's assets physically segregated and apart from the general account. We maintain records of all purchases and sale of portfolio shares by each of the Subaccounts. A fidelity bond in the amount of $5 million covering our directors, officers, and employees has been issued by National Union Fire Insurance Company.

Reports to Policy Owners

State Farm maintains records and accounts of all transactions involving the Policy, the Variable Account, the Fixed Account and the Loan Account at its Securities Products Department. Each year, or more often if required by law, we will send you a report showing information about your Policy for the period covered by the report. State Farm also will send you an annual and a semi-annual report for each Fund underlying a Subaccount to which you have allocated Policy Account Value, as required by the 1940 Act. In addition, when you pay premiums (other than by pre-authorized checking account deduction) or if you take out a Policy loan, make transfers or make withdrawals, you will receive a written confirmation of these transactions.

Principal Underwriter

State Farm VP Management Corp., the principal underwriter of the Policy, is located at One State Farm Plaza, Bloomington, Illinois 61710-0001. State Farm VP Management Corp. is affiliated with State Farm Life and Accident Assurance Company because each company is directly or indirectly owned by State Farm Mutual Automobile Insurance Company. State Farm VP Management Corp. received $181,416 in 2008, $225,805 in 2007 and $218,013 in 2006, as commissions for serving as principal underwriter of the Policy. State Farm VP Management Corp. did not retain any commissions in 2008, 2007 and 2006.

We discontinued new sales of the Policy during the latter half of 2008; however, we will continue to administer existing Policies and will continue to accept premiums and permit transfers for such Policies.

Underwriting Procedures

State Farm will follow its established insurance underwriting procedures for life insurance designed to determine whether the proposed Insured is insurable. This process may involve such verification procedures as medical examinations and may require that further information be provided about the proposed Insured before a determination can be made.

Legal Matters

Sutherland Asbill & Brennan LLP of Washington, D.C. has provided advice on certain legal matters relating to the federal securities laws.

Experts

The statutory statements of admitted assets, liabilities, capital and surplus of State Farm Life and Accident Assurance Company as of December 31, 2008 and 2007, and the related statutory statements of operations and change in capital and surplus, and cash flows for the years ended December 31, 2008, 2007 and 2006, included in this Statement of Additional Information have been so included in the reliance on the report of PricewaterhouseCoopers LLP, Independent Registered Public Accounting Firm, given on the authority of said firm as experts in accounting and auditing.

As stated in their report, these financial statements were prepared by the Company in conformity with the accounting practices prescribed or permitted by the Illinois Department of Financial and Professional Regulation—Division of Insurance (statutory basis), which practices differ from accounting principles generally accepted in the United States of America (GAAP). The effect on the financial statements of the variances between the statutory basis of accounting and GAAP, although not reasonably determinable, are presumed to be material. Therefore, their report contains an adverse opinion on the financial statements of the Company in conformity with GAAP, but an unqualified opinion in conformity with statutory basis accounting.

The statements of assets and policy owners' equity and surplus of the State Farm Life and Accident Assurance Company Variable Life Separate Account at December 31, 2008, and the results of its operations for the year then ended, and the changes in its policy owners' equity and surplus for each of the two years in the period ended December 31, 2008, included in this Statement of Additional Information have been so included in the reliance on the report of PricewaterhouseCoopers LLP, Independent Registered Public Accounting Firm, given on the authority of said firm as experts in accounting and auditing.

The Company

We are an Illinois stock life insurance company and are wholly owned by State Farm Mutual Automobile Insurance Company, an Illinois mutual insurance company. We were incorporated in 1960 and have been continuously engaged in the life insurance business since that year. We are subject to regulation by the Insurance Department of the State of Illinois, as well as by the insurance departments of all other states and jurisdictions in which we do business. We sell insurance in New York and Wisconsin and we are licensed in Illinois and Connecticut. We submit annual statements on our operations and finances to insurance officials in such states and jurisdictions. The Policy described in the prospectus and this SAI has been filed with and, where required, approved by, insurance officials in those jurisdictions where it is sold.

Other Information

State Farm has filed a registration statement under the Securities Act of 1933, as amended, with the SEC relating to the offering described in the prospectus. The prospectus and SAI do not include all the information set forth in the registration statement. Statements contained in this SAI concerning the content of the Policies and other legal instruments are intended to be summaries. You may obtain the omitted information at the SEC's principal office at 100 F Street, N.E., Washington, DC 20549 by paying the SEC's prescribed fees. The omitted information is also available at the SEC's Internet site (http://www.sec.gov).

Financial Statements

The audited statutory statements of admitted assets, liabilities, capital and surplus of State Farm Life and Accident Assurance Company as of December 31, 2008 and 2007, and the related statutory statements of operations and change in capital and surplus, and cash flows for the years ended December 31, 2008, 2007 and 2006, as well as the Report of the Independent Registered Public Accounting Firm, appears in this SAI. Our financial statements should be considered only as bearing on our ability to meet our obligations under the Policies. They should not be considered as bearing on the investment performance of the assets held in the Variable Account.

Statements of assets and policy owners' equity and surplus of the State Farm Life and Accident Assurance Company Variable Life Separate Account at December 31, 2008, and the results of its operations for the year then ended, and the changes in its policy owners' equity and surplus for each of the two years in the period ended December 31, 2008, also appear in the SAI.

The audits were conducted in accordance with standards of the Public Company Accounting Oversight Board (United States).

State Farm Life and Accident Assurance Company

(a wholly-owned subsidiary of State Farm Mutual Automobile Insurance Company)

Report on Audits of Financial Statements—Statutory Basis

For the Years Ended December 31, 2008, 2007, and 2006

State Farm Life and Accident Assurance Company
(a wholly-owned subsidiary of State Farm Mutual Automobile Insurance Company)

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PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers LLP
One North Wacker
Chicago, IL 60606
Telephone (312) 298-2000
Facsimile (312) 298-2001

Report of Independent Auditors

To the Board of Directors
State Farm Life and Accident Assurance Company:

We have audited the accompanying statutory statements of admitted assets, liabilities, capital and surplus of State Farm Life and Accident Assurance Company (the "Company") as of December 31, 2008 and 2007, and the related statutory statements of operations and change in capital and surplus, and cash flows for the years ended December 31, 2008, 2007, and 2006. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audit in accordance with generally accepted auditing standards as established by the Auditing Standard Board (United States) and in accordance with the auditing standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As described in Note 2 to the financial statements, the Company prepared these financial statements using accounting practices prescribed or permitted by the Illinois Department of Financial and Professional Regulation—Division of Insurance, which practices differ from accounting principles generally accepted in the United States of America. The effects on the financial statements of the variances between the statutory basis of accounting and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

In our opinion, because of the effects of the matter discussed in the preceding paragraph, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Company as of December 31, 2008 and 2007, or the results of its operations or its cash flows for the years ended December 31, 2008, 2007, and 2006.

In our opinion, the financial statements referred to above present fairly, in all material respects, the admitted assets, liabilities, capital and surplus of the Company as of December 31, 2008 and 2007, and the results of its operations and its cash flows for the years ended December 31, 2008, 2007, and 2006, on the basis of accounting described in Note 2.

PricewaterhouseCoopers LLP

February 18, 2009

State Farm Life and Accident Assurance Company
(a wholly-owned subsidiary of State Farm Mutual Automobile Insurance Company)

Statements of Admitted Assets, Liabilities, Capital and Surplus—Statutory Basis (in thousands)
As of December 31, 2008 and 2007

ADMITTED ASSETS	2008	2007
Bonds:		
United States government	$ 161,668	$ 160,978
Other governmental units	315,787	318,080
Public utilities	206,388	164,996
Industrial and other	719,113	690,370
	1,402,956	1,334,424
Policy loans	117,859	110,064
Cash (overdraft)	(662)	(846)
Cash equivalents	61,868	13,783
Short-term investments	8,273	5,310
Accounts receivable—investment sales	—	18
	187,338	128,329
Total cash and invested assets	1,590,294	1,462,753
Net deferred tax asset	12,502	11,053
Premiums deferred and uncollected	2,272	2,213
Investment income due and accrued	21,202	20,157
Other assets	19	18
Assets held in separate accounts	34,619	53,360
Total admitted assets	$1,660,908	$1,549,554

LIABILITIES	2008	2007
Aggregate reserves for life polices and contracts	$1,132,851	$1,016,921
Liability for deposit type contracts	148,634	142,970
Policy and contract claims	3,876	3,057
Policyholders' dividends due and unpaid	125	127
Dividends to policyholders payable in the following year	20,060	19,104
Advance premiums, deposits and other policy and contract liabilities	14,605	13,902
Interest maintenance reserve	1,655	2,248
Commissions payable	506	417
Federal income taxes (including payable to affiliates)	6,280	1,168
Postretirement benefits	10,873	10,044
Agent termination benefits	5,697	5,280
Payable to parent, subsidiaries and affiliates	2,383	2,061
Other liabilities	8,829	6,999
Liabilities related to separate accounts	34,619	53,360
Asset valuation reserve (AVR)	3,370	5,370
Total liabilities	1,394,363	1,283,028
CAPITAL AND SURPLUS		
Common stock, $100 par value; 10,000 shares authorized, issued and outstanding	1,000	1,000
Paid-in surplus	2,000	2,000
Unassigned surplus	263,545	263,526
Total capital and surplus	266,545	266,526
Total liabilities, capital and surplus	$1,660,908	$1,549,554

The accompanying notes are an integral part of these financial statements.

State Farm Life and Accident Assurance Company
(a wholly-owned subsidiary of State Farm Mutual Automobile Insurance Company)

Statements of Operations and Change in Capital and Surplus—Statutory Basis (in thousands)
For the Years Ended December 31, 2008, 2007, and 2006

SUMMARY OF OPERATIONS	2008	2007	2006
Income:			
Premiums and annuity considerations	$194,490	$156,195	$147,313
Net investment income	83,824	79,962	76,474
Other income	1,213	1,499	1,268
	279,527	237,656	225,055
Benefits and other expenses:			
Death benefits	32,018	29,545	29,929
Surrender benefits and other fund withdrawals	41,112	37,558	38,428
Other benefits and claims	13,981	13,865	12,663
Net transfers to separate accounts	(1,612)	(496)	871
Increase in policy and contract reserves	115,930	70,876	53,136
Commissions	11,117	10,080	9,857
General insurance expenses	28,285	29,265	28,410
Taxes, licenses and fees	3,100	3,726	3,031
	243,931	194,419	176,325
Net gain from operations before dividends to policyholders and federal and foreign income taxes	35,596	43,237	48,730
Dividends to policyholders	19,719	18,816	17,838
Net gain from operations before federal and foreign income taxes	15,877	24,421	30,892
Federal and foreign income taxes incurred (excluding capital gains)	14,344	13,103	11,126
Net gain from operations before net realized capital gains or (losses)	1,533	11,318	19,766
Net realized capital gains (losses), net of transfers to the IMR less capital gains tax	(4,935)	(1,051)	654
Net income (loss)	$ (3,402)	$ 10,267	$ 20,420

CAPITAL AND SURPLUS ACCOUNT	2008	2007	2006
Common stock:			
Balance at beginning and end of year	$ 1,000	$ 1,000	$ 1,000
Paid-in Surplus:			
Balance at beginning and end of year	2,000	2,000	2,000
Unassigned surplus:			
Balance at beginning of year	263,526	252,327	240,562
Net income (loss)	(3,402)	10,267	20,420
Change in net unrealized capital gains (losses) less capital gains tax	2	—	—
Change in nonadmitted assets	(9,706)	(4,232)	(512)
Change in asset valuation reserve	2,000	(70)	(349)
Dividends to stockholder (parent company)	—	—	(7,602)
Surplus withdrawn from Separate Accounts	—	—	22
Other changes in surplus in Separate Accounts statement	—	—	(22)
Change in net deferred income tax	11,125	5,234	(192)
Balance at end of year	263,545	263,526	252,327
Total capital and surplus	$266,545	$266,526	$255,327

The accompanying notes are an integral part of these financial statements.

State Farm Life and Accident Assurance Company
(a wholly-owned subsidiary of State Farm Mutual Automobile Insurance Company)

Statements of Cash Flows—Statutory Basis (in thousands)
For the Years Ended December 31, 2008, 2007, and 2006

CASH FLOW	2008	2007	2006
Cash from operations:			
Premiums collected net of reinsurance	$195,357	$157,043	$147,913
Net investment income	82,902	79,452	76,584
Other income	497	588	543
Benefits and loss related items	(86,564)	(81,606)	(81,384)
Net transfers to Separate Accounts	2,123	614	(752)
Commissions, expenses paid and other deductions	(40,937)	(43,213)	(42,625)
Dividends paid to policyholders	(18,764)	(17,927)	(17,168)
Federal and foreign income taxes paid	(9,043)	(17,998)	(7,059)
Net cash from operations	125,571	76,953	76,052
Cash from investments:			
Proceeds from investments sold, matured or repaid:			
Bonds	73,818	86,122	118,312
Other	18	—	2,073
Total investment proceeds	73,836	86,122	120,385
Cost of investments acquired (long term only):			
Bonds	147,562	142,455	183,435
Other applications	—	2,056	—
Total investments acquired	147,562	144,511	183,435
Increase in policy loans and premium notes	7,794	7,173	7,031
Net cash from investments	(81,520)	(65,562)	(70,081)
Cash from financing and miscellaneous sources:			
Net deposits on deposit-type contracts and other insurance liabilities	5,663	2,246	(224)
Dividends to stockholder	—	—	(7,602)
Other cash provided (applied)	1,518	2,884	593
Net cash from financing and miscellaneous sources	7,181	5,130	(7,233)
Net change in cash, cash equivalents, and short-term investments	51,232	16,521	(1,262)
Cash, cash equivalents, and short-term investments, beginning of year	18,247	1,726	2,988
Cash, cash equivalents, and short-term investments, end of year	$ 69,479	$ 18,247	$ 1,726

The accompanying notes are an integral part of these financial statements.

1. Nature of Business Operations

State Farm Life and Accident Assurance Company (the Company) is a wholly-owned subsidiary of State Farm Mutual Automobile Insurance Company (SFMAIC). The Company is licensed in four states and primarily markets individual life and annuity products through an exclusive independent contractor agency force. The Company's individual life insurance products include traditional whole life, universal life, term insurance and variable universal life contracts, which together account for approximately 75% of premium revenue in 2008, and 89% in 2007 and 2006. Individual annuity products including variable annuity contracts account for an additional 25% in 2008, and 11% in 2007 and 2006. The Company also writes a small amount of employee group life.

The Company discontinued new sales of variable products during September, 2008; however, the Company will continue to administer the existing book of variable business.

The insurance industry is highly regulated and deals in contractual obligations. As such, the industry is subject to the risk of changes resulting from legislative enactments, legal interpretations and regulatory actions not anticipated in pricing the product.

2. Summary of Significant Accounting Practices

The accompanying financial statements have been prepared principally for filing with regulatory agencies and as such are prepared in conformity with accounting practices prescribed or permitted by the Illinois Department of Financial and Professional Regulation—Division of Insurance.

Prescribed statutory accounting practices include the National Association of Insurance Commissioners (NAIC) *Accounting Practices and Procedures Manual* (NAIC SAP), which reflects the NAIC's adoption of the Codification of Statutory Accounting Principles, as well as state laws, regulations and general administrative rules. Permitted statutory accounting practices encompass all accounting practices not so prescribed when such practices are approved by the insurance department of the insurer's state of domicile. The Company did not use any significant permitted practices during 2008, 2007, or 2006.

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates. Certain amounts applicable to the prior year have been reclassified to conform to the current year presentation.

Significant accounting practices include:

A. Investments

Bonds are stated at values prescribed by the NAIC. Investment grade bonds not backed by other loans are stated at amortized cost using the scientific method. Below investment grade bonds not backed by other loans are stated at the lower of amortized cost using the scientific method or fair value. Prices from third party organizations and prices published by the Securities Valuation Office (SVO) of the NAIC are used to calculate fair value. Where no SVO published price or third party price is available, management's best estimate of fair value is used. Under accounting principles generally accepted in the United States of America (GAAP), debt securities would be classified into three categories: held-to-maturity, trading and available-for-sale. Held-to-maturity securities would be reported at amortized cost. Trading securities would be reported at fair value, with unrealized gains and losses included in earnings. Available-for-sale securities would be reported at fair value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of unassigned surplus.

Single class and multi-class mortgage-backed/asset-backed securities are stated at amortized cost using the modified scientific method including anticipated prepayments at the date of purchase. Changes in estimated cash flows from the original purchase assumptions are accounted for using the retrospective method. Prepayment assumptions for single class and multi-class mortgage-backed/assets-backed securities are obtained from Interactive Data Corporation and Bloomberg. The Company uses prices provided by Interactive Data Corporation in determining the fair value of its loan-backed securities.

Policy loans are stated at the aggregate of unpaid loan balances, which are not in excess of cash surrender values of related policies.

The Company's interest in State Farm Liquidity Pool, LLC is carried at its underlying audited GAAP equity. The Company's interest in the pool is reported as a cash equivalent.

Short-term investments are stated at amortized cost, which approximates fair value.

Investment income is recorded when earned. Due and accrued investment income is excluded from unassigned surplus when it is 90 days past due or when collection is in doubt. There were no amounts excluded in 2008 or 2007. Realized gains and losses on sale or maturity of investments are determined by the specific identification method. Aggregate unrealized capital gains and losses are credited or charged directly to unassigned surplus net of deferred income taxes.

For any decline in the fair value of a bond that is considered to be other than temporary, a valuation adjustment is made to reduce the cost of the asset to fair value and is recognized as a realized capital loss.

B. Premiums Deferred and Uncollected

Premiums deferred and uncollected represent modal premiums, either due directly from policyholders and uncollected or not yet due, where policy reserves have been provided on the assumption that the full premium for the current policy year has been collected. Also, where policy reserves have been provided on a continuous premium assumption, premiums uncollected are similarly defined.

C. Aggregate Reserves for Life Policies and Contracts

Policy reserves on life insurance are based on statutory mortality and interest requirements and are computed using principally net level and modified preliminary term methods with interest rates ranging from 2.5% to 5.5%. The use of a modified reserve basis partially offsets the effect of immediately expensing policy acquisition costs. Policy reserves on annuities are based on statutory mortality and interest requirements with interest rates ranging from 3% to 7%. Under GAAP, reserves are based on mortality, lapse, withdrawal and interest rate assumptions that are based on Company experience.

D. Policyholders' Dividends

All of the Company's life insurance business is written on the participating basis. The amount of dividends to be paid to policyholders is determined annually by the Company's Board of Directors. The aggregate amount of policyholders' dividends is related to actual interest, mortality, morbidity, and expense experience for the year and judgment as to the appropriate level of statutory surplus to be retained by the Company. Amounts declared and estimated to be payable to policyholders in the forthcoming year have been included in the accompanying financial statements as a liability based on approved dividend scales. Under GAAP, dividends are anticipated and may be considered as a planned contractual benefit when computing the value of future policy benefits. For the years ended December 31, 2008, 2007, and 2006, respectively, premiums under individual and group life participating policies were $146,136, $139,031, and $131,133. The Company's Statements of Operations for 2008, 2007, and 2006 includes $19,719, $18,816, and $17,838 of policyholder dividends, respectively.

E. Federal Income Taxes

The Company files a consolidated federal income tax return with the following companies:

State Farm Mutual Automobile Insurance Company (SFMAIC)
State Farm Fire and Casualty Company (SFFCC)
State Farm General Insurance Company
State Farm Life Insurance Company (SFLIC)
State Farm Annuity and Life Insurance Company (SFALIC)
State Farm Lloyds (SFL)
State Farm Indemnity Company (SFIC)
State Farm Guaranty Insurance Company (Guaranty)
State Farm Florida Insurance Company (SFFIC)
State Farm International Services, Inc.
State Farm Lloyds, Inc.
State Farm Investment Management Corp.
State Farm VP Management Corp.
State Farm Bank, FSB
State Farm Investor Services (Canada) Holding Company
State Farm Funding Corp.
Insurance Placement Services, Inc.
State Farm Realty Investment Company
Fiesta Jack, Ltd. (2007)
Oglesby Reinsurance, Ltd.

The provision for federal income taxes is based on the Internal Revenue Code of 1986, as amended.

The consolidated federal income tax liability is apportioned to each company in accordance with an agreement authorized by each Company's Board of Directors or Underwriters. The allocation is based upon separate return calculations for regular and alternative minimum tax with current credit for net losses and tax credits. Intercompany federal income tax balances are settled as follows: 1) intercompany federal income tax receivables and payables shown in this annual statement which relate to the tax year reflected by this annual statement will be settled within ninety (90) days of the statement date; 2) any refunds of federal income tax will be settled within thirty (30) days of receipt of the refund; and 3) any payments of federal income tax due will be settled within thirty (30) days of payment of the tax due. Changes in prior year tax liability may result in reallocation of prior year tax.

The reporting of federal income taxes under NAIC SAP is similar to the reporting requirements under GAAP except for the following differences. Under NAIC SAP, the calculation of state income taxes incurred is limited to taxes due on the current year's taxable income and any adjustments due to changes in prior year returns. Therefore, deferred state income taxes are not recorded. Furthermore, the estimate of the current state income tax expense is not a component of income taxes incurred. Instead, current state income tax is reported as a component of general expenses and is an element of pre-tax book income.

Under GAAP, Statement of Financial Accounting Standards (SFAS) 109 contains a requirement to reduce the amount of deferred tax assets (DTAs) by a valuation allowance if it is more likely than not that some portion of the deferred tax asset will not be realized. No such provision is required by NAIC SAP. Instead, NAIC SAP requires that the gross DTA be subject to an admissibility test. The admissibility test has three parts. The first two parts determine the portion of the gross DTA that can be reduced to cash or result in a reduction of future cash taxes. The third part of the test permits admission of gross DTAs to the extent of gross deferred tax liabilities (DTLs). Overall, the test limits the net admitted DTA to the sum of 10% of a modified surplus amount plus taxes subject to recovery via loss carryback for the current year and the two immediately preceding years.

Any changes in DTAs and DTLs are to be recognized as a separate component of the change in unassigned surplus. Therefore, changes in the DTAs and DTLs will not be included in current year income. This differs from GAAP, which reports the change in deferred income taxes (deferred tax provision) as a component of the total tax provision (sum of federal, state and foreign, current and deferred) rather than as a direct adjustment to unassigned surplus.

F. Other Postretirement Benefits

As a result of the policy promulgated by the NAIC concerning the treatment of certain postretirement benefits, beginning in 1993, the Company changed its method of accounting for the costs of the potential health care and life insurance benefits provided to post-career associates to the accrual method, and elected to amortize its transition obligation attributable to these potential benefits over twenty years.

Under GAAP, an additional accrual would be required for the estimated cost of the potential benefit obligation under the plans for active, but not yet eligible, employees, agents, and their dependents.

G. Agent Termination Benefits

The Company provides termination benefits for certain independent contractor agents subject to service and age eligibility requirements as defined in the agents' contracts. Liabilities and expenses are recorded at the time eligibility requirements are met. Under GAAP, an additional accrual would be required for the estimated cost of the potential benefit obligation for active, but not yet eligible, agents.

H. Interest Maintenance Reserve and Asset Valuation Reserve

The Interest Maintenance Reserve (IMR) and Asset Valuation Reserve (AVR) are maintained in accordance with requirements prescribed by the NAIC. Under the IMR, realized investment gains and losses, net of tax, attributable to interest rate changes on short-term and long-term fixed income investments are deferred and held in the IMR account. Such gains and losses are then amortized over the remaining original maturity of the investment sold and are reflected in the Company's Statements of Operations.

The AVR provides a reserve for credit related and equity risks in a broad range of invested assets including bonds, stocks, mortgage loans, real estate, and other invested assets. Changes in the AVR are charged or credited directly to unassigned surplus. The IMR and AVR are not calculated under GAAP.

I. Separate Accounts

The Company has established individual variable life and individual variable annuity separate accounts as unit investment trusts registered with the Securities and Exchange Commission under the Investment Company Act of 1940 and issues individual variable universal life and individual variable annuity contracts. A separate account is an accounting entity segregated as a discrete operation within an insurance company. Deposits received in connection with these contracts are placed in the Company's separate accounts and general accounts within certain limits.

Assets held in separate accounts under variable life and variable annuity contracts are invested as designated by the contract holder in shares of mutual funds offered by the State Farm Variable Product Trust which are managed either by the Company or by an outside manager.

Separate account assets are reported at market value and liabilities are recorded at amounts equal to contract holder assets. Except for rights of the Company as a result of surplus contributions made to the separate accounts, contract holders are the only persons having rights to any assets in the separate accounts or to income arising from such assets.

J. Recognition of Premiums and Annuity Considerations and Related Expenses

Premiums and annuity considerations are recognized as income over the premium paying period of the policies. Premiums paid in advance of the policy anniversary date and unearned premiums which are not included in the policy reserve liability are recognized as a liability on the balance sheet. Acquisition costs, such as commissions and other costs related to the new business, are expensed as incurred. Contracts that permit the insured to change the amount and timing of premium payments, such as universal life products, are recorded as revenue when received. Under GAAP, the premiums for universal life contracts are recorded as increases to liabilities and revenue is recognized as mortality and other assessments are made to policyholders. Additionally, acquisition costs under GAAP are capitalized and amortized over the policy period.

K. Nonadmitted Assets

Certain assets designated as “nonadmitted” assets, principally non-admitted deferred income tax assets, aggregating $44,344 and $34,638 at December 31, 2008 and 2007, respectively, are not recognized by statutory accounting practices. These assets are excluded from the balance sheet, and the net change in such assets is charged or credited directly to unassigned surplus. Under GAAP, such assets would be recognized at the lower of cost or net realizable value.

L. Stockholder Dividends

The maximum amount of dividends that can be paid by State of Illinois insurance companies to shareholders without the prior approval of the Insurance Commissioner is subject to restrictions relating to statutory surplus and net income.

M. Guaranty Fund Assessments

As of December 31, 2008 and 2007, no liabilities have been recorded for guaranty fund assessments. In addition, assets of $14 and $18 for premium tax offsets have been established for December 31, 2008 and 2007, respectively, based on guaranty fund assessments paid. These amounts represent assets and liabilities recorded for all states in which the Company operates.

The preceding discussion highlights the significant variances between the statutory accounting practices followed by the Company and GAAP. The effect of these differences has not been determined, but is presumed to be material.

State Farm Life and Accident Assurance Company
(a wholly-owned subsidiary of State Farm Mutual Automobile Insurance Company)

3. Investments

A. Bonds and Other Debt Securities

The amortized cost and estimated market values of investments in debt securities, including short-term investments, were as follows (in thousands):

	December 31, 2008			
	Amortized Cost or Fair Value	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
U.S. Governments	$ 163,609	$15,611	$ (43)	$ 179,177
All other Governments	2,985	257	—	3,242
States, Territories and Possessions (Direct and Guaranteed)	22,941	517	(841)	22,617
Political Subdivisions of States, Territories and Possessions (Direct and Guaranteed)	12,034	217	(257)	11,994
Special Revenue & Special Assessment Obligations and all Non-Guaranteed Obligations of Agencies and Authorities of Governments and their Political Subdivisions	280,813	6,884	(237)	287,460
Public Utilities (Unaffiliated)	206,388	3,175	(6,457)	203,106
Industrial & Miscellaneous (Unaffiliated)	722,459	16,305	(29,963)	708,801
Totals	$1,411,229	$42,966	$(37,798)	$1,416,397

	December 31, 2007			
	Amortized Cost or Fair Value	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
U.S. Governments	$ 159,441	$ 5,848	$ (164)	$ 165,125
All other Governments	2,983	122	—	3,105
States, Territories and Possessions (Direct and Guaranteed)	22,937	419	(448)	22,908
Political Subdivisions of States, Territories and Possessions (Direct and Guaranteed)	12,039	278	—	12,317
Special Revenue & Special Assessment Obligations and all Non-Guaranteed Obligations of Agencies and Authorities of Governments and their Political Subdivisions	283,105	2,082	(2,116)	283,071
Public Utilities (Unaffiliated)	164,996	3,783	(1,137)	167,642
Industrial & Miscellaneous (Unaffiliated)	694,233	19,166	(5,105)	708,294
Totals	$1,339,734	$31,698	$ (8,970)	$1,362,462

Notes to Financial Statements—Statutory Basis, Continued (amounts in thousands)

The amortized cost and estimated market value of debt securities by contractual maturity are shown. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	December 31, 2008	
	Amortized Cost or Fair Value	Estimated Market Value
Due in one year or less	$ 78,167	$ 78,990
Due after one year through five years	445,557	450,185
Due after five years through ten years	624,259	619,768
Due after ten years	263,246	267,454
Totals	$1,411,229	$1,416,397

Gross proceeds and realized gains and losses on bonds, including other than temporary impairments, for the years ended December 31, were:

	2008	2007	2006
Proceeds	$ 7,646	$19,181	$30,199
Gross gains	298	244	2,538
Gross losses	(5,575)	(1,478)	(307)

At December 31, 2008 and 2007, bonds carried at an amortized cost of $1,800 and $1,659, respectively, were on deposit with regulatory authorities.

B. Unrealized Losses

In evaluating whether a decline in value is other than temporary, management considers several factors including, but not limited to, the following:

- The Company's ability and intent to retain the security for a sufficient period of time for it to recover.
- The extent and duration of the decline in value.
- The probability of collecting all cash flows according to contractual terms in effect at acquisition or restructuring.
- Relevant industry conditions and trends.
- The financial condition and current and future business prospects of the issuer.

Notes to Financial Statements—Statutory Basis, Continued (amounts in thousands)

The unrealized losses based on estimated market values are shown below:

	December 31, 2008					
	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Governments	$ 1,961	$ (30)	$ 1,412	$ (13)	$ 3,373	$ (43)
States, Territories and Possessions (Direct and Guaranteed)	8,404	(554)	4,711	(287)	13,115	(841)
Political Subdivisions of States, Territories and Possessions (Direct and Guaranteed)	6,743	(257)	—	—	6,743	(257)
Special Revenue & Special Assessment Obligations and all Non-Guaranteed Obligations of Agencies and Authorities of Governments and their Political Subdivisions	6,286	(12)	8,793	(225)	15,079	(237)
Public Utilities (Unaffiliated)	98,975	(5,196)	13,212	(1,261)	112,187	(6,457)
Industrial & Miscellaneous (Unaffiliated)	252,668	(16,900)	67,009	(13,063)	319,677	(29,963)
Total temporarily impaired securities . . .	$375,037	$(22,949)	$ 95,137	$(14,849)	$470,174	$(37,798)

	December 31, 2007					
	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Governments	$ 14,306	$ (104)	$ 1,537	$ (60)	$ 15,843	$ (164)
States, Territories and Possessions (Direct and Guaranteed)	—	—	11,506	(448)	11,506	(448)
Special Revenue & Special Assessment Obligations and all Non-Guaranteed Obligations of Agencies and Authorities of Governments and their Political Subdivisions	53,174	(372)	85,574	(1,744)	138,748	(2,116)
Public Utilities (Unaffiliated)	23,677	(221)	35,517	(916)	59,194	(1,137)
Industrial & Miscellaneous (Unaffiliated)	84,250	(1,709)	110,340	(3,396)	194,590	(5,105)
Total temporarily impaired securities . . .	$175,407	$ (2,406)	$244,474	$ (6,564)	$419,881	$ (8,970)

The unrealized losses on the Company's bond investments were primarily interest related with market declines driven by widening credit spreads on corporate bonds and not on fundamental credit problems of the issuers. The Company had $14.8 million in unrealized losses on bonds with losses outstanding for greater than 12 months at December 31, 2008. The contractual terms of the Company's bond investments do not permit the issuer to settle the securities at a price less than the amortized cost of the investment. The Company did not have the intent to sell these investments at the reporting date and does not consider those investments to be other-than-temporarily impaired at December 31, 2008.

Notes to Financial Statements—Statutory Basis, Continued (amounts in thousands)

C. Realized Capital Gains (Losses)

The Company had realized capital losses due to other than temporary declines in the fair value of $4,581, $1,235, and $0 during 2008, 2007, and 2006, respectively.

The reconciliation of realized capital gains (losses) is as follow:

	December 31, 2008		
	Pre-tax Gains (Losses)	Capital Gains Tax	Post-tax Gains (Losses)
Realized capital gains (losses)	$(5,089)	$(189)	$(4,900)
Less: IMR capital gains (losses)	$ 54	$ 19	$ 35
Capital gains (losses) net of IMR	$(5,143)	$(208)	$(4,935)

	December 31, 2007		
	Pre-tax Gains (Losses)	Capital Gains Tax	Post-tax Gains (Losses)
Realized capital gains (losses)	$ (421)	$ 97	$ (518)
Less: IMR capital gains (losses)	$ 784	$ 251	$ 533
Capital gains (losses) net of IMR	$(1,205)	$(154)	$(1,051)

	December 31, 2006		
	Pre-tax Gains (Losses)	Capital Gains Tax	Post-tax Gains (Losses)
Realized capital gains (losses)	$ 2,727	$ 955	$ 1,772
Less: IMR capital gains (losses)	$ 1,720	$ 602	$ 1,118
Capital gains (losses) net of IMR	$ 1,007	$ 353	$ 654

D. Net Investment Income

The components of net investment income earned by type of investment for the years ended December 31, were as follows:

	2008	2007	2006
Bonds	$76,005	$73,262	$69,533
Cash, cash equivalents and short-term investments	1,223	564	1,360
Premium notes, policy loans and liens	7,084	6,583	6,047
Other	2	1	4
Gross investment income	84,314	80,410	76,944
Investment expenses	(490)	(448)	(470)
Net investment income	$83,824	$79,962	$76,474

Notes to Financial Statements—Statutory Basis, Continued (amounts in thousands)

E. Fair Value Measurements

Financial statements prepared in accordance with generally accepted accounting principles (GAAP) are required to conform to Financial Accounting Standards Board Statement of Financial Accounting Standards No. 157, Fair Value Measurements (FAS 157), effective January 1, 2008. FAS 157 defines fair value as the price that would be received upon selling an investment in a timely transaction to an independent buyer in the principle or most advantageous market of the investment. The Company's financial assets carried at fair value have been classified, for disclosure purposes, based on a hierarchy defined by FAS 157 which prioritizes the inputs to valuation techniques used to measure fair value. A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The three levels of the fair value hierarchy are summarized below:

Level 1—Observable inputs that reflect unadjusted quoted prices for identical securities in active markets.

Level 2—Observable inputs other than quoted prices included in level 1 such as quoted prices for similar securities; interest rates, prepayment schedules, and credit risk for fixed income securities; or other inputs that are observable or can be corroborated by observable market data.

Level 3—Unobservable inputs including the Company's own assumptions in determining the fair value of investments.

Included in various investment related line items in the financial statements are certain financial instruments carried at fair value. Other financial instruments are periodically measured at fair value, such as when impaired, or, for certain bonds when carried at lower of amortized cost or market.

Assets measured at fair value on a recurring basis are summarized below:

		Fair Value Measurements at December 31, 2008		
Description	**Total**	**Level 1**	**Level 2**	**Level 3**
Short-term investments Money market funds	$ 8,273	$8,273	$ —	$—
Separate Accounts	34,619	—	34,619	—
Total	$42,892	$8,273	$34,619	$—

Level 1 Measurements

Money Market Funds. These assets are actively-traded Short-term money market funds valued at quoted net asset value.

Level 2 Measurements

Separate Accounts. These assets include private, affiliated mutual funds valued at net asset value daily using observable inputs. Valuation inputs of underlying assets include, but are not limited to, quoted exchange prices, quotations by independent pricing services, bid price quotations from brokers, multiple of earnings, multiple of book values, similar freely traded securities, and yield to maturity

Assets measured at fair value on a nonrecurring basis are summarized below:

		Fair Value Measurements at December 31, 2008		
Description	**Total**	**Level 1**	**Level 2**	**Level 3**
Bonds	$5,755	$—	$5,755	$—
Total	$5,755	$—	$5,755	$—

Notes to Financial Statements—Statutory Basis, Continued (amounts in thousands)

Level 2 Measurements

Bonds. These assets include below investment grade bonds that have fair values below amortized cost as well as bonds that have been impaired at the reporting date. SVO valuations are used for such bonds when available. SVO valuations are based upon publicly available prices for identical or similar assets or on valuation models or matrices using observable inputs. When no SVO price is available an evaluated price is provided by a pricing vendor based on observable market data. Typical inputs to models used by pricing vendors include but are not limited to benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers, and reference data including market research publications.

4. Separate Accounts

Information regarding the Separate Accounts of the Company as of December 31, 2008, 2007, and 2006 is as follows:

	2008				
	(1) Indexed	(2) Nonindexed Guarantee Less Than Equal to 4%	(3) Nonindexed Guarantee More than 4%	(4) Nonguaranteed Separate Accounts	(5) Total
Premiums, considerations or deposits for year ended December 31	$—	$—	$—	$ 4,480	$ 4,480
Reserves at December 31:					
For accounts with assets at:					
Fair value	—	—	—	33,778	33,778
Amortized cost	—	—	—	—	—
Total reserves	$—	$—	$—	$33,778	$33,778
Withdrawal characteristics:					
Subject to discretionary withdrawal	$—	$—	$—	$ —	$ —
With fair value adjustment				—	—
At book value without fair value adjustment and with current surrender of 5% or more	—	—	—	—	—
At fair value	—	—	—	33,254	33,254
At book value without fair value adjustment and with current surrender charge of less than 5%	—	—	—	—	—
Subtotal	—	—	—	33,254	33,254
Not subject to discretionary withdrawal	—	—	—	524	524
Total	$—	$—	$—	$33,778	$33,778

Notes to Financial Statements—Statutory Basis, Continued (amounts in thousands)

Reconciliation of Net Transfers to or (from) separate accounts:

	2008
Transfers as reported in the Summary of Operations of the Separate Accounts Statements:	
Transfers to separate accounts	$ 4,532
Transfers from separate accounts	(6,144)
Net transfers to separate accounts	$(1,612)
Transfers as reported in the Statements of Operations	$(1,612)

	2007				
	(1) Indexed	(2) Nonindexed Guarantee Less Than Equal to 4%	(3) Nonindexed Guarantee More than 4%	(4) Nonguaranteed Separate Accounts	(5) Total
Premiums, considerations or deposits for year ended December 31	$—	$—	$—	$ 5,619	$ 5,619
Reserves at December 31:					
For accounts with assets at:					
Fair value	—	—	—	52,086	52,086
Amortized cost	—	—	—	—	—
Total reserves	$—	$—	$—	$52,086	$52,086
Withdrawal characteristics:					
Subject to discretionary withdrawal	$—	$—	$—	$ —	$ —
With fair value adjustment				—	—
At book value without fair value adjustment and with current surrender of 5% or more	—	—	—	—	—
At fair value	—	—	—	51,538	51,538
At book value without fair value adjustment and with current surrender charge of less than 5%	—	—	—	—	—
Subtotal	—	—	—	51,538	51,538
Not subject to discretionary withdrawal	—	—	—	548	548
Total	$—	$—	$—	$52,086	$52,086

Reconciliation of Net Transfers to or (from) separate accounts:

	2007
Transfers as reported in the Summary of Operations of the Separate Accounts Statements:	
Transfers to separate accounts	$ 5,661
Transfers from separate accounts	(6,157)
Net transfers to separate accounts	$ (496)
Transfers as reported in the Statements of Operations	$ (496)

Reconciliation of Net Transfers to or (from) separate accounts:

	2006
Transfers as reported in the Summary of Operations of the Separate Accounts Statements:	
Transfers to separate accounts	$ 5,553
Transfers from separate accounts	(4,682)
Net transfers to separate accounts	$ 871
Transfers as reported in the Statements of Operations	$ 871

5. Fair Value of Financial Instruments

The following methods and assumptions were used to estimate the fair value of each significant class of financial instruments for which it is practicable to estimate that value:

Bonds and Short-Term Investments

Fair values were determined by the SVO of the NAIC, and were approximated based upon values determined in public exchanges. For issues that were not evaluated by the SVO, fair values were estimated based on prices received from an independent pricing source, market comparables or internal analysis.

Cash and Cash Equivalents

The carrying amount is a reasonable estimate of fair value.

Deferred Annuities

Fair values were approximated by the amount due to the annuity holder as if the annuity contract was surrendered at year end, ignoring the affects of any market value adjustments.

Advance Premiums

Fair values were approximated by the amount available to the policyholder for the discounted value of premiums received in advance.

Settlement Options Without Life Contingencies

Settlement options without life contingencies are similar to demand deposits. The fair value is the amount payable on demand at year end.

Policy Loans

Policy loans have no stated maturity dates and are an integral part of the insurance contract. Accordingly, it is not practicable to estimate a fair value for them.

Notes to Financial Statements—Statutory Basis, Continued (amounts in thousands)

The estimated fair values and statement values of the Company's financial instruments at December 31, were as follows:

	2008		2007	
	Fair Value	Statement Value	Fair Value	Statement Value
Financial assets:				
Bonds	$1,408,125	$1,402,956	$1,357,152	$1,334,424
Cash	(662)	(662)	(846)	(846)
Cash equivalents	61,868	61,868	13,783	13,783
Short-term investments	8,273	8,273	5,310	5,310
Separate accounts	34,619	34,619	53,360	53,360
Financial liabilities:				
Deferred annuity reserves	$ 164,258	$ 169,692	$ 134,964	$ 136,945
Advance premiums	1,921	1,923	2,002	2,008
Settlement options without life contingencies	50,476	50,476	47,773	47,773
Separate accounts	34,619	34,619	53,360	53,360

6. Life Reserves

A. Life Contracts and Deposit-Type Contracts

The Company waives deduction of deferred fractional premiums upon death of an insured and returns any portion of the final premium beyond the date of death. Surrender values are not promised in excess of the legally computed reserves. Policies subject to an extra premium because the insured is placed in a special rating class are valued as follows:

Premium-paying Policies

If the nonforfeiture values provided by such policy are computed on the same basis as for standard risks, or if no nonforfeiture values are provided, reserves are based on a substandard mortality table or are equal to the sum of the mean reserve for a similar standard policy and the unearned extra premium. If the nonforfeiture values provided by such policy are based on a substandard mortality table, reserves are maintained according to the same table.

Paid-up Policies

For whole life policies that are known to have been based on a substandard mortality table, the reserves are those based on the same substandard table. As of December 31, 2008 and 2007, the Company had $4,073,982 and $4,131,635, respectively, of insurance in force for which the gross premiums are less than the net premiums according to the standard valuation set by the state of Illinois. Deficiency reserves to cover the above insurance totaled the gross amount of $8,723 and $7,756 at December 31, 2008 and 2007, respectively. The insurance amount does not include insurance on policies for which deficiency reserves are either exempted or calculated to be zero on a seriatim basis.

Tabular interest, tabular less actual reserve released, and tabular cost have been determined by formulas used in accordance with the NAIC Annual Statement Instructions. Tabular interest on deposit funds not involving life contingencies is determined as a balance item where interest is included in other items at appropriate rates and adjustments due to changes in valuation basis or other increases have been reflected.

Notes to Financial Statements—Statutory Basis, Continued (amounts in thousands)

B. Annuity Actuarial Reserves and Deposit Liabilities by Withdrawal Characteristics

Annuity Actuarial Reserves and Deposit Type Contract Funds and Other Liabilities Without Life or Disability Contingencies by Withdrawal Characteristics as of December 31, 2008 and 2007 are as follows:

	2008	
	Amount	Percentage of Total
Subject to discretionary withdrawal:		
With market value adjustment	$ 54,300	14.3
At book value less surrender charge of 5% or more	7,322	1.9
At fair value	26,637	7.0
Subtotal	88,259	23.2
At book value without adjustment (minimal or no charge or adjustment)	266,823	70.2
Not subject to discretionary withdrawal	24,938	6.6
Total (gross)	$380,020	100.0
Reinsurance ceded	—	
Total (net)*	$380,020	
As reported in the Life, and Accident and Health Annual Statement:		
Annuities total (net)		$202,715
Supplementary contracts with life contingencies total (net)		1,982
Disability-active lives (net)		19
Disability-disabled lives (net)		33
Deposit-type contracts		148,634
Subtotal		353,383
As reported in the Separate Accounts Annual Statement:		
Annuities total (net)		26,637
Supplementary contracts, total		—
Policyholder dividend and coupon accumulations		—
Policyholder premiums		—
Guaranteed interest contracts		—
Other contract deposit funds		—
Subtotal		26,637
Total annuity actuarial reserves and deposit-type contract liabilities		$380,020

* Reconciliation of total annuity actuarial reserves and deposit fund liabilities.

Notes to Financial Statements—Statutory Basis, Continued (amounts in thousands)

	2007	
	Amount	**Percentage of Total**
Subject to discretionary withdrawal:		
With fair value adjustment	$ 14,405	4.1
At book value less surrender charge of 5% or more	9,550	2.7
At fair value	41,996	11.9
Subtotal	65,951	18.7
At book value without adjustment (minimal or no charge or adjustment)	262,731	74.3
Not subject to discretionary withdrawal	24,894	7.0
Total (gross)	$353,576	100.0
Reinsurance ceded	—	
Total (net)*	$353,576	
As reported in the Life, and Accident and Health Annual Statement:		
Annuities total (net)		$166,588
Supplementary contracts with life contingencies total (net)		1,967
Disability-active lives (net)		20
Disability-disabled lives (net)		35
Deposit-type contracts		142,970
Subtotal		311,580
As reported in the Separate Accounts Annual Statement:		
Annuities total (net)		41,996
Supplementary contracts, total		—
Policyholder dividend and coupon accumulations		—
Policyholder premiums		—
Guaranteed interest contracts		—
Other contract deposit funds		—
Subtotal		41,996
Total annuity actuarial reserves and deposit-type contract liabilities		$353,576

* Reconciliation of total annuity actuarial reserves and deposit fund liabilities.

Notes to Financial Statements—Statutory Basis, Continued (amounts in thousands)

C. Premium and Annuity Considerations Deferred and Uncollected

Deferred and uncollected life insurance premiums and annuity considerations are as follows:

	December 31, 2008		December 31, 2007	
Type	Gross	Net of Loading	Gross	Net of Loading
Industrial	$ —	$ —	$ —	$ —
Ordinary new business	45	18	41	23
Ordinary renewal	2,031	1,730	2,106	1,793
Annuity new business	—	—	—	—
Annuity renewal	—	—	—	—
Credit life	—	—	—	—
Group life	3	3	9	9
Group annuity	—	—	—	—
Total	$2,079	$1,751	$2,156	$1,825

7. Federal Income Taxes

The components of the net deferred tax assets (liabilities) at December 31 are as follows:

	2008	2007
Gross deferred tax assets (admitted and nonadmitted)	$57,065	$46,747
Gross deferred tax liabilities	(670)	(1,476)
Net deferred tax assets	56,395	45,271
Total deferred tax assets nonadmitted in accordance with SSAP 10	43,893	34,218
Admitted deferred tax assets	$12,502	$11,053
Increase in deferred tax assets nonadmitted	$ 9,675	$ 4,294

The components of incurred income tax expense are as follows:

	2008	2007	2006
Current income taxes incurred consist of the following major components:			
Current income tax expense	$13,871	$13,235	$11,186
Adjustments to prior year taxes	473	(132)	(60)
Combined income taxes incurred	14,344	13,103	11,126
Tax (benefit) on capital gains (losses)	(189)	97	955
Current income taxes incurred	$14,155	$13,200	$12,081

Notes to Financial Statements—Statutory Basis, Continued (amounts in thousands)

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and the deferred tax liabilities as of December 31, 2008 and 2007 are as follows:

	2008	2007	Change
DTAs Resulting from Book/Tax Differences in:			
Insurance liabilities	$27,449	$20,133	$ 7,316
Deferred acquisition costs	15,057	14,129	928
Apportioned dividends	6,638	6,307	331
Invested assets	667	—	667
Agent benefits	2,146	1,976	170
Employee benefits	4,928	3,912	1,016
Other	180	290	(110)
Gross DTAs	$57,065	$46,747	$10,318
DTAs nonadmitted	$43,893	$34,218	$ 9,675
DTLs Resulting from Book/Tax Differences in:			
Deferred premiums	$ (567)	$ (594)	$ 27
Invested assets	(1)	(743)	742
Other	(102)	(139)	37
Gross DTLs	$ (670)	$ (1,476)	$ 806

The change in net deferred income taxes is comprised of the following (this analysis is exclusive of nonadmitted assets as the change in nonadmitted Assets is reported separately from the change in net deferred income taxes in the financial statements):

	2008	2007	Change
Total deferred tax assets	$57,065	$46,747	$10,318
Total deferred tax liabilities	670	1,476	806
Net deferred tax asset (liability)	$56,395	$45,271	11,124
Tax effect of unrealized gains (losses)			(1)
Change in net deferred income tax			$11,125

Notes to Financial Statements—Statutory Basis, Continued (amounts in thousands)

The provision for federal and foreign income tax incurred is different from that which would be obtained by applying the statutory federal income tax rate to income before income taxes. The significant items causing this difference are as follows:

	2008		
	Amount	Tax Effect at 35%	Effective Tax Rate
Net gain from operations after dividends and before federal income taxes	$15,877		
Capital gain (loss) before tax	(5,089)		
Income before taxes	$10,788	$ 3,776	35.00%
Dividends received deduction—Separate Accounts	(210)	(73)	-0.68%
IMR amortization	(629)	(220)	-2.04%
Foreign taxes	(79)	(28)	-0.26%
Change in nonadmitted assets	(30)	(11)	-0.10%
Prior year underaccrual (overaccrual)	(127)	(44)	-0.41%
Other adjustments	(1,056)	(370)	-3.42%
Total	$ 8,657	$ 3,030	28.09%
Federal income tax incurred		14,344	132.96%
Capital gain (loss) taxes incurred		(189)	-1.75%
Change in net deferred income tax		(11,125)	-103.12%
Total statutory income taxes		$ 3,030	28.09%

	2007		
	Amount	Tax Effect at 35%	Effective Tax Rate
Net gain from operations after dividends and before federal income taxes	$24,421		
Capital gain (loss) before tax	(421)		
Income before taxes	$24,000	$ 8,400	35.00%
Dividends received deduction—Separate Accounts	(166)	(58)	-0.24%
IMR amortization	(630)	(221)	-0.93%
Foreign taxes	(67)	(23)	-0.10%
Change in nonadmitted assets	62	21	0.09%
Prior year underaccrual (overaccrual)	(409)	(143)	-0.60%
Other adjustments	(28)	(10)	-0.04%
Total	$22,762	$ 7,966	33.18%
Federal income tax incurred		13,103	54.59%
Capital gain (loss) taxes incurred		97	0.40%
Change in net deferred income tax		(5,234)	-21.81%
Total statutory income taxes		$ 7,966	33.18%

Notes to Financial Statements—Statutory Basis, Continued (amounts in thousands)

	2006		
	Amount	Tax Effect at 35%	Effective Tax Rate
Net gain from operations after dividends and before federal income taxes	$30,892		
Capital gain (loss) before tax	2,727		
Income before taxes	$33,619	$11,767	35.00%
Dividends received deduction—Separate Accounts	(192)	(68)	-0.20%
IMR amortization	(629)	(220)	-0.66%
Change in nonadmitted assets	(133)	(47)	-0.14%
Prior year underaccrual (overaccrual)	2,222	778	2.31%
Other adjustments	180	63	0.19%
Total	$35,067	$12,273	36.50%
Federal income tax incurred		11,126	33.09%
Capital gain (loss) taxes incurred		955	2.84%
Change in net deferred income tax		192	0.57%
Total statutory income taxes		$12,273	36.50%

As of December 31, 2008, 2007, and 2006, the Company had no operating loss carryforwards.

The following are income taxes incurred in the current and prior years, which will be available for recoupment in the event of future net losses:

2008	$14,552
2007	$13,187
2006	$12,004

Financial Interpretation No. 48 "*Accounting for Uncertainty in Income Taxes—an interpretation of FASB Statement No. 109*" (FIN 48) provides guidance on disclosure of uncertain tax positions. The Company has not taken any position that would require disclosure under the new guidance.

SFMAIC and its affiliated companies file a consolidated federal income tax return. A petition has been filed in the U.S. Tax Court relating to the 1996, 1997, 1998 and 1999 returns, and an administrative appeal for tax years 2000 through 2004 is currently pending. Returns for 2005 and 2006 are currently under examination. The eventual resolution of the issues is not expected to have a material adverse effect on surplus of the Company.

The Company and its affiliates file various state income tax returns and those state returns remain subject to examination from 1996 to present in conjunction with the results of federal examinations, litigation, and appeals for those years.

8. Benefit Plans

A. Other Postretirement Benefits

The Company and its affiliated insurers currently provide certain health care and life insurance benefits pursuant to plans sponsored by its parent, SFMAIC. Eligible former employees, eligible former agents, and their eligible dependents currently may participate in these plans.

As a result of the policy promulgated by the NAIC concerning the treatment of certain postretirement benefits, beginning in 1993, the Company changed its method of accounting for the costs of the potential health care and life insurance benefits provided to post-career associates to the accrual method and elected to amortize its transition obligation attributable to these potential benefits over twenty years. The Company's share of the remaining transition obligation for these potential benefits was $464 and $580 at December 31, 2008 and 2007, respectively.

The effects of the Medicare Prescription Drug, Improvement and Modernization Act of 2003 on the U.S. Employee and Agent Plans are included in the post-career net periodic benefit cost and unfunded post-career benefit obligation.

The Company's share of the post-career net periodic benefit cost for the years ended December 31, 2008, 2007, and 2006 was $1,087, $1,390, and $1,333, respectively.

At December 31, 2008 and 2007, the Company's share of the unfunded post-career benefit obligation attributable to the potential health care and life insurance benefits for post-career associates was $10,873 and $10,044, respectively.

B. Agent Termination Benefits

The Company provides termination benefits for certain independent contractor agents subject to service and age eligibility requirements as defined in the agents' contracts. The Company accrues agent termination benefit liabilities and costs in accordance with SAP 89. During 2008, the Company refined the actuarial calculations by including a long-term premium growth assumption in the expense and liability valuation. Long-term premium growth rates were based on historical trends in the agents' compensation levels. Benefits are paid from the Company's general assets.

Notes to Financial Statements—Statutory Basis, Continued (amounts in thousands)

A summary of obligations and assumptions related to agent termination benefits are as follows at December 31, 2008 and December 31, 2007, respectively:

	Agent Termination Benefits Plan	
	2008	**2007**
Change in benefit obligation:		
Benefit obligation at beginning of year	$ 5,280	$ 5,232
Current year expense	688	313
Unrecognized actuarial losses	1,399	—
Benefits paid	(275)	(265)
Benefit obligation at end of year	$ 7,092	$ 5,280
Change in plan assets:		
Fair value of plan assets at beginning of year	$ —	$ —
Company contributions	275	265
Benefits paid	(275)	(265)
Fair value of plan assets at end of year	$ —	$ —
Funded status	$ (7,092)	$(5,280)
Unrecognized net loss	1,399	—
Accrued liability	$ (5,693)	$(5,280)
Accumulated benefit obligations for vested agents	$ 5,697	$ 5,280
Additional minimum liability adjustment	$ 4	$ —
Benefit obligation for nonvested agents		
Projected benefit obligation	$ 5,805	$ 2,153
Accumulated benefit obligation	$ 1,571	$ 2,153
Weighted-average assumptions used to determine net periodic cost as of January 1:		
Discount rate	6.27%	6.27%
Expected long-term rate of return on plan assets	N/A	N/A
Rate of compensation increase	2% - 21%*	0.00%
Weighted-average assumptions used to determine Projected benefit obligation as of December 31:		
Discount rate	6.18%	6.27%
Rate of compensation increase	2% - 21%*	0.00%

* Compensation is based on a service-based scale using ten years of historical renewal commissions data.

Estimated Future Benefit Payments

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

Years	Amount
2009	$ 312
2010	$ 338
2011	$ 366
2012	$ 392
2013	$ 414
2014 - 2018	$2,512

9. Other Related Party Transactions

The Company has no direct employees. The Company is a party to various servicing and cost allocation agreements with its affiliates, which involve the sharing of certain services, facilities, personnel and marketing costs, among others. As a result of these agreements, the Company reported $0 and $1 as a receivable due from affiliates, and $2,383 and $2,061 as a payable due to affiliates at December 31, 2008 and December 31, 2007, respectively. The terms of settlement require that these amounts be settled within sixty (60) days. Shared expenses are allocated among State Farm affiliates based on surveys and usage studies. Total expenses allocated to the Company from the affiliates were $27,399 and $28,181 during 2008 and 2007, respectively.

The Company reported no dividends to SFMAIC in 2008 and 2007, and $7,602 in 2006. The $7,602 in cash dividends declared and paid during the quarter ending September 30, 2006 were related to the suspension of the Phase III tax under Internal Revenue Code Section 815. The American Jobs Creation Act of 2004 suspended the Phase III tax for 2006.

As of December 31, 2008 and 2007, the Company's federal income tax payable to affiliates was $6,280 and $1,168, respectively. The nature of the consolidated tax return, the method of allocation, and the settlement terms are highlighted in Note 2.

The State Farm Liquidity Pool, LLC was created in 2001 as a means to more effectively manage cash equivalents. At December 31, 2008 and 2007, the Company was an active participant in the pool.

The Company incurs lease costs for real estate, computer equipment, and other equipment primarily through the allocation of expenses from SFMAIC, in accordance with company cost sharing agreements. SFMAIC is the lessee on almost all lease agreements.

Rental expense for real estate for 2008, 2007, and 2006 was $1,148, $1,360, and $1,511, respectively. Rental expense for leased computer and other equipment for 2008, 2007, and 2006 was $202, $223, and $313, respectively.

10. Contingencies

A. The Company is subject to liabilities of a contingent nature which may from time to time arise. Such liabilities could result from sales practices, income tax matters, guaranty fund assessments or other occurrences that take place in the normal course of doing business. In addition, the life insurance industry has not been exempt from the impact of an increasingly litigious environment which is being experienced in the United States. Liabilities arising as a result of these factors, or other such contingencies, that are not provided for elsewhere in these financial statements are not reasonably estimable and are not considered by management to be material in relation to the financial position of the Company.

B. The Company is aware that there is reasonable possibility that an impairment exists due to an expected shortfall in assets available to pay future liabilities of Executive Life Insurance Company of New York which could generate guaranty association assessments at some future date. At this time, the Company is unable to estimate the possible amounts, if any, of such assessments. Accordingly, the Company is unable to determine the impact, if any, such assessments may have on the Company's financial position or results of operations.

SUPPLEMENTAL FINANCIAL INFORMATION

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Report of Independent Auditors on Supplemental Financial Information

To the Board of Directors of
State Farm Life and Accident Assurance Insurance Company:

The report on our audit of the basic statutory basis financial statements (the “financial statements”) of State Farm Life and Accident Assurance Company (the “Company”) as of December 31, 2008 and for the year then ended is presented on page one of this document. That audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Supplemental Schedule of Assets and Liabilities, Supplemental Summary Investment Schedule and Supplemental Investment Risk Interrogatories of the Company as of December 31, 2008 and for the year then ended are presented for purposes of additional analysis and are not a required part of the financial statements. The effects on the Supplemental Schedule of Assets and Liabilities, Supplemental Summary Investment Schedule and Supplemental Investment Risk Interrogatories of the variances between the statutory basis of accounting and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material. As a consequence, the Supplemental Schedule of Assets and Liabilities, Supplemental Summary Investment Schedule and Supplemental Investment Risk Interrogatories do not present fairly, in conformity with accounting principles generally accepted in the United States of America, such information of the Company as of December 31, 2008 and for the year then ended. The Supplemental Schedule of Assets and Liabilities, Supplemental Summary Investment Schedule and Supplemental Investment Risk Interrogatories have been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, are fairly stated in all material respects in relation to the financial statements taken as a whole.

PricewaterhouseCoopers LLP

February 18, 2009

State Farm Life and Accident Assurance Company
(a wholly-owned subsidiary of State Farm Mutual Automobile Insurance Company)

Supplemental Schedule of Assets and Liabilities (amounts in thousands)
December 31, 2008

The following is a summary of certain financial data included in other exhibits and schedules subjected to audit procedures by independent auditors and utilized by actuaries in the determination of reserves.

Investment income earned:	
U.S. government bonds	$ 7,845
Other bonds (unaffiliated)	68,160
Premiums notes, policy loans and liens	7,084
Cash, cash equivalents, and short-term investments	1,223
Other	2
Gross investment income	$ 84,314
Bonds and short-term investments by class and maturity:	
Bonds by maturity—statement value	
Due within one year or less	$ 91,326
Over 1 year through 5 years	538,530
Over 5 years through 10 years	688,821
Over 10 years through 20 years	84,481
Over 20 years	8,071
Total by maturity	$1,411,229
Bond by class—statement value	
Class 1	$1,139,893
Class 2	253,841
Class 3	13,375
Class 4	2,999
Class 5	1,121
Total by class	$1,411,229
Total bonds and short-term investments publicly traded	$1,263,947
Total bonds and short-term investments privately placed	$ 147,282
Short term investments—book value	$ 8,273
Cash on deposit	$ (662)
Cash equivalents	$ 61,868

See Report of Independent Auditors on Supplemental Financial Information

State Farm Life and Accident Assurance Company
(a wholly-owned subsidiary of State Farm Mutual Automobile Insurance Company)

Supplemental Schedule of Assets and Liabilities, Continued (amounts in thousands)
December 31, 2008

Life insurance in force (000):	
Ordinary	$ 29,727
Credit life	$ 4
Group life	$ 60
Amount of accidental death insurance in force under ordinary policies	$ 217
Amount of life insurance with disability provisions in force:	
Ordinary	$ 18,329
Group life	$ 60
Supplementary contracts in force:	
Ordinary—not involving life contingencies:	
Amount on deposit	$ 32,808
Income payable	$ 117
Ordinary—involving life contingencies:	
Income payable	$ 212
Annuities:	
Ordinary:	
Immediate—amount of income payable	$ 5,309
Deferred—fully paid account balance	$195,498
Deferred—not fully paid—account balance	$ 48
Deposit funds and dividend accumulations:	
Deposit funds—account balance	$ 2,705
Dividend accumulations—account balance	$ 95,447

See Report of Independent Auditors on Supplemental Financial Information

State Farm Life and Accident Assurance Company
(a wholly-owned subsidiary of State Farm Mutual Automobile Insurance Company)

Supplemental Summary Investment Schedule
December 31, 2008

	Gross Investment Holdings		Admitted Assets as Reported in the Annual Statement	
	Amount	Percentage	Amount	Percentage
1. Bonds:				
1.1 U.S. treasury securities	$ 80,170,460	5.041	$ 80,170,460	5.041
1.2 U.S. government agency obligations (excluding mortgage-backed securities):				
1.21 Issued by U.S. government agencies	37,419,677	2.353	37,419,677	2.353
1.22 Issued by U.S. government sponsored agencies	41,075,816	2.583	41,075,816	2.583
1.3 Foreign government (including Canada, excluding mortgage-backed securities)	5,984,803	.376	5,984,803	.376
1.4 Securities issued by states, territories, and possessions and political subdivisions in the U.S.:				
1.41 States, territories, and possessions and general obligations	16,956,607	1.066	16,956,607	1.066
1.42 Political subdivisions of states, territories and possessions and political subdivision general obligations	12,033,726	.757	12,033,726	.757
1.43 Revenue and assessment obligations	17,981,136	1.131	17,981,136	1.131
1.44 Industrial development and similar obligations	—	—	—	—
1.5 Mortgage-backed securities (includes residential and commercial MBS):				
1.51 Pass-through securities:				
1.511 Issued or guaranteed by GNMA	16,404	.001	16,404	.001
1.512 Issued or guaranteed by FNMA and FHLMC	3,002,560	.189	3,002,560	.189
1.513 All Other	—	—	—	—
1.52 CMOs and REMICs:				
1.521 Issued or guaranteed by GNMA, FNMA, FHLMC or VA	259,828,776	16.338	259,828,776	16.338
1.522 Issued by non-U.S. Government issuers and collateralized by mortgage-backed securities issued or guaranteed by	—	—	—	—
agencies shown in Line 1.521				
1.523 All Other	10,865,438	.683	10,865,438	.683
2. Other debt and other fixed income securities (excluding short-term):				
2.1 Unaffiliated domestic securities				
(includes credit tenant loans rated by the SVO)	782,822,382	49.225	782,822,382	49.225
2.2 Unaffiliated foreign securities	134,798,726	8.476	134,798,726	8.476
2.3 Affiliated securities	—	—	—	—
3. Equity interests:				
3.1 Investments in mutual funds	—	—	—	—
3.2 Preferred stocks:				
3.21 Affiliated	—	—	—	—
3.22 Unaffiliated	—	—	—	—

See Report of Independent Auditors on Supplemental Financial Information

State Farm Life and Accident Assurance Company
(a wholly-owned subsidiary of State Farm Mutual Automobile Insurance Company)

Supplemental Summary Investment Schedule, Continued
December 31, 2008

	Gross Investment Holdings		Admitted Assets as Reported in the Annual Statement	
	Amount	Percentage	Amount	Percentage
3.3 Publicly traded equity securities (excluding preferred stocks):				
3.31 Affiliated	—	—	—	—
3.32 Unaffiliated	—	—	—	—
3.4 Other equity securities:				
3.41 Affiliated	—	—	—	—
3.42 Unaffiliated	—	—	—	—
3.5 Other equity interests including tangible personal property under leases:		—		
3.51 Affiliated	—	—	—	—
3.52 Unaffiliated	—	—	—	—
4. Mortgage loans:				
4.1 Construction and land development	—	—	—	—
4.2 Agricultural	—	—	—	—
4.3 Single family residential properties	—	—	—	—
4.4 Multifamily residential properties	—	—	—	—
4.5 Commercial loans	—	—	—	—
4.6 Mezzanine real estate loans				
5. Real estate investments:				
5.1 Property occupied by company	—	—	—	—
5.2 Property held for production of income (including $ of property acquired in satisfaction of debt)	—	—	—	—
5.3 Property held for sale (including $ property acquired in satisfaction of debt)	—	—	—	—
6. Contract loans	117,858,568	7.411	117,858,568	7.411
7. Receivables for securities	—	—	—	—
8. Cash, cash equivalents and short-term investments	69,478,654	4.369	69,478,654	4.369
9. Other invested assets	—	—	—	—
10. Total invested assets	$1,590,293,733	100.000	$1,590,293,733	100.000

See Report of Independent Auditors on Supplemental Financial Information

State Farm Life and Accident Assurance Company
(a wholly-owned subsidiary of State Farm Mutual Automobile Insurance Company)

Supplemental Investment Risk Interrogatories
December 31, 2008

Answer the following interrogatories by stating the applicable U.S. dollar amounts and percentages of the reporting entity's total admitted assets held in that category of investments as shown on the Summary Investment Schedule. All reporting entities must answer interrogatories 1 through 4, 11, 13 through 17, 19 and if applicable, 20 through 24. Answer each of interrogatories 5 through 10 only if the reporting entity's aggregate holding in the gross investment category addressed in interrogatory 4 equals or exceeds 2.5% of the reporting entity's total admitted assets. Answer interrogatory 12 only if the reporting entity's aggregate holding in the gross investment category addressed in interrogatory 11 equals or exceeds 2.5% of the reporting entity's total admitted assets. Answer interrogatory 18 only if the reporting entity's aggregate holding in the gross investment category addressed in interrogatory 17 equals or exceeds 2.5% of the reporting entity's total admitted assets. For Life, Health and Fraternal blanks, responses are to exclude Separate Accounts.

1. Reporting entity's total admitted assets as reported on Page 2 of this annual statement. $1,626,288,374

2. Ten largest exposures to a single issuer/borrower/investment.

	1 Issuer	2 Description of Exposure	3 Amount	4 Percentage of Total Admitted Assets
2.01	STATE FARM LIQUIDITY POOL LLC	Cash Equivalents	$61,868,068	3.8%
2.02	IL ST OF	Bonds	$10,956,607	0.7%
2.03	CITIGROUP INC	Bonds	$ 8,979,435	0.6%
2.04	DUPONT EI DE NEMOURS	Bonds	$ 8,774,821	0.5%
2.05	PROCTER & GAMBLE CO	Bonds	$ 8,489,809	0.5%
2.06	WAL-MART STORES	Bonds	$ 8,486,106	0.5%
2.07	KRAFT FOODS INC	Bonds	$ 7,974,687	0.5%
2.08	UNION PACIFIC RR CO	Bonds	$ 7,311,309	0.4%
2.09	COCA-COLA CO	Bonds	$ 7,138,524	0.4%
2.10	ALCOA INC	Bonds	$ 7,063,635	0.4%

3. Amounts and percentages of the reporting entity's total admitted assets held in bonds and preferred stocks by NAIC rating.

	Bonds	1	2		Preferred Stocks	3	4
3.01	NAIC-1	$1,139,892,433	70.1%	3.07	P/RP-1	$0	0.0%
3.02	NAIC-2	$ 253,841,365	15.6%	3.08	P/RP-2	$0	0.0%
3.03	NAIC-3	$ 13,375,411	0.8%	3.09	P/RP-3	$0	0.0%
3.04	NAIC-4	$ 2,998,537	0.2%	3.10	P/RP-4	$0	0.0%
3.05	NAIC-5	$ 1,121,250	0.1%	3.11	P/RP-5	$0	0.0%
3.06	NAIC-6	$ 0	0.0%	3.12	P/RP-6	$0	0.0%

4. Assets held in foreign investments:

4.01	Are assets held in foreign investments less than 2.5% of the reporting entity's total admitted assets?	Yes [ ]	No [X]
4.02	Total admitted assets held in foreign investments	$109,925,428	6.8%
4.03	Foreign-currency-denominated investments	$ 0	0.0%
4.04	Insurance liabilities denominated in that same foreign currency	$ 0	0.0%

If response to 4.01 above is yes, responses are not required for interrogatories 5 -10

See Report of Independent Auditors on Supplemental Financial Information

5. Aggregate foreign investment exposure categorized by NAIC sovereign rating:

		1	2
5.01	Countries rated NAIC-1	$109,925,428	6.8%
5.02	Countries rated NAIC-2	$ 0	0.0%
5.03	Countries rated NAIC-3 or below	$ 0	0.0%

6. Two largest foreign investment exposures in a single country, categorized by NAIC sovereign rating:

		1	2
	Countries rated NAIC-1:		
6.01	Country: Great Britain	$30,027,985	1.8%
6.02	Country: Germany	$21,987,931	1.4%
	Countries rated NAIC-2:		
6.03	Country:	$ 0	0.0%
6.04	Country:	$ 0	0.0%
	Countries rated NAIC-3 or below:		
6.05	Country:	$ 0	0.0%
6.06	Country:	$ 0	0.0%

7. Aggregate unhedged foreign currency exposure

1	2
$0	0.0%

8. Aggregate unhedged foreign currency exposure categorized by the country's NAIC sovereign rating:

		1	2
8.01	Countries rated NAIC-1	$0	0.0%
8.02	Countries rated NAIC-2	$0	0.0%
8.03	Countries rated NAIC-3 or below	$0	0.0%

9. Two largest unhedged foreign currency exposures to a single country, categorized by the country's NAIC sovereign rating:

		1	2
	Countries rated NAIC-1:		
9.01	Country:	$0	0.0%
9.02	Country:	$0	0.0%
	Countries rated NAIC-2:		
9.03	Country:	$0	0.0%
9.04	Country:	$0	0.0%
	Countries rate NAIC-3 or below:		
9.05	Country:	$0	0.0%
9.06	Country:	$0	0.0%

See Report of Independent Auditors on Supplemental Financial Information

10. Ten largest non-sovereign (i.e. non-governmental) foreign issues:

	1 Issuer	2 NAIC Rating	3	4
10.01	SHELL INTL FIN BV	Bond 1	$5,987,331	0.4%
10.02	GLAXOSMITHKLINE	Bond 1	$5,980,741	0.4%
10.03	ASTRAZENECA PLC	Bond 1	$5,197,083	0.3%
10.04	AMERICAN HONDA FINANCE	Bond 1	$4,996,834	0.3%
10.05	DAIMLERCHRYSLER NA	Bond 1	$4,995,873	0.3%
10.06	CRH AMERICA INC	Bond 2	$3,997,153	0.2%
10.07	BP CAPITAL MARKETS PLC	Bond 1	$3,996,987	0.2%
10.08	STORA ENSO OYJ	Bond 3	$3,020,598	0.2%
10.09	LONESTAR IND INC	Bond 2	$2,998,198	0.2%
10.10	BHP BILLITON FINANCE	Bond 1	$2,994,172	0.2%

11. Amounts and percentages of the reporting entity's total admitted assets held in Canadian investments and unhedged Canadian currency exposure.
    11.01 Are assets held in Canadian investments less than 2.5% of the reporting entity's total admitted assets? Yes [X] No [ ]
    If response to 11.01 is yes, detail is not required for the remainder of Interrogatory 11.

12. Report aggregate amounts and percentages of reporting entity's total admitted assets held in investments with contractual sales restrictions.
    12.01 Are assets held in investments with contractual sales restrictions less than 2.5% of the reporting entity's total admitted assets? Yes [X] No [ ]
    If response to 12.01 is yes, responses are not required for the remainder of Interrogatory 12

13. Amounts and percentages of admitted assets held in the largest 10 equity interests:
    13.01 Are assets held in equity interests less than 2.5% of the reporting entity's total admitted assets? Yes [X] No [ ]
    If response to 13.01 above is yes, responses are not required for the remainder of Interrogatory 13

14. Amounts and percentages of the reporting entity's total admitted assets held in nonaffiliated, privately placed equities:
    14.01 Are assets held in nonaffiliated, privately placed equities less than 2.5% of the reporting entity's total admitted assets? Yes [X] No [ ]
    If response to 14.01 above is yes, responses are not required for the remainder of Interrogatory 14.

15. Amounts and percentages of the reporting entity's total admitted assets held in general partnership interests:
    15.01 Are assets held in general partnership interests less than 2.5% of the reporting entity's total admitted assets? Yes [X] No [ ]
    If response to 15.01 is yes, responses are not required for the remainder of Interrogatory 15.

16. Amounts and percentages of the reporting entity's total admitted assets held in mortgage loans:
    16.01 Are mortgage loans reported in Schedule B less than 2.5% of the reporting entity's total admitted assets? Yes [X] No [ ]
    If response to 16.01 above is yes, responses are not required for the remainder of Interrogatory 16 and Interrogatory 17.

17. Aggregate mortgage loans having the following loan-to-value ratios as determined from the most current appraisal as of the annual statement date: Not applicable.

18. Amounts and percentages of the reporting entity's total admitted assets held in each of the five largest investments in real estate:
    18.01 Are assets held in real estate reported in Schedule A, excluding property occupied by the company, less than 2.5% of the reporting entity's total admitted assets? Yes [X] No [ ]
    If response to 18.01 above is yes, responses are not required for the remainder of Interrogatory 18.

19. Amounts and percentages of the reporting entity's total admitted assets subject to the following types of agreements:
    19.01 Are assets held in mezzanine real estate loans less than 2.5% of the reporting entity's total admitted assets? Yes [X] No [ ]

20. Amounts and percentages of the reporting entity's total admitted assets subject to the following types of agreements:

		At Year-End		At End of Each Quarter		
				1st Qtr	2nd Qtr	3rd Qtr
		1	2	3	4	5
20.01	Securities lending	$0	0.0%	$0	$0	$0
20.02	Repurchase agreements	$0	0.0%	$0	$0	$0
20.03	Reverse repurchase agreements	$0	0.0%	$0	$0	$0
20.04	Dollar repurchase agreements	$0	0.0%	$0	$0	$0
20.05	Dollar reverse repurchase agreements	$0	0.0%	$0	$0	$0

21. Amounts and percentages of the reporting entity's total admitted assets for warrants not attached to other financial instruments, options, caps, and floors:

		Owned		Written	
		1	2	3	4
21.01	Hedging	$0	0.0%	$0	0.0%
21.02	Income generation	$0	0.0%	$0	0.0%
21.03	Other	$0	0.0%	$0	0.0%

22. Amounts and percentages of the reporting entity's total admitted assets of potential exposure for collars, swaps, and forwards:

		At Year-End		At End of Each Quarter 1st Qtr	2nd Qtr	3rd Qtr
		1	2	3	4	5
22.01	Hedging	$0	0.0%	$0	$0	$0
22.02	Income generation	$0	0.0%	$0	$0	$0
22.03	Replications	$0	0.0%	$0	$0	$0
22.04	Other	$0	0.0%	$0	$0	$0

23. Amounts and percentages of the reporting entity's total admitted assets of potential exposure for futures contracts:

		At Year-End		At End of Each Quarter 1st Qtr	2nd Qtr	3rd Qtr
		1	2	3	4	5
23.01	Hedging	$0	0.0%	$0	$0	$0
23.02	Income generation	$0	0.0%	$0	$0	$0
23.03	Replications	$0	0.0%	$0	$0	$0
23.04	Other	$0	0.0%	$0	$0	$0

24. Amounts and percentages of the reporting entity's total admitted assets of potential exposure for futures contracts:

		At Year-End		At End of Each Quarter 1st Qtr	2nd Qtr	3rd Qtr
		1	2	3	4	5
24.01	Hedging	$0	0.0%	$0	$0	$0
24.02	Income generation	$0	0.0%	$0	$0	$0
24.03	Replications	$0	0.0%	$0	$0	$0
24.04	Other	$0	0.0%	$0	$0	$0

State Farm Life and Accident Assurance Company
Variable Life Separate Account

Report on Audits of Financial Statements

As of December 31, 2008 and for the two years ended December 31, 2008

State Farm Life and Accident Assurance Company
Variable Life Separate Account

Index

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Report of Independent Registered Public Accounting Firm

To the Board of Directors of State Farm Life and Accident Assurance Company and Policy Owners of the State Farm Life and Accident Assurance Company Variable Life Separate Account:

In our opinion, the accompanying statements of assets and policy owners' equity and the related statements of operations and changes in policy owners' equity and the financial highlights present fairly, in all material respects, the financial position of the subaccounts of the State Farm Life and Accident Assurance Company Variable Life Separate Account (which includes the Large Cap Equity Index Subaccount, Small Cap Equity Index Subaccount, Bond Subaccount, Money Market Subaccount, International Equity Index Subaccount, Stock and Bond Balanced Subaccount, Large Cap Equity Subaccount, Small/Mid Cap Equity Subaccount, and the International Equity Subaccount thereof) at December 31, 2008, and the results of each of their operations for the year then ended, and the changes in each of their policy owners' equity for each of the two years in the period ended December 31, 2008, and the financial highlights for the periods presented, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of State Farm Life and Accident Assurance Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these financial statements in accordance with standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits, which included direct confirmation of the number of shares owned as of December 31, 2008 with the State Farm Variable Product Trust, provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

February 18, 2009

State Farm Life and Accident Assurance Company
Variable Life Separate Account

Statement of Assets and Policy Owners' Equity
December 31, 2008

ASSETS

Investments at market value:	
State Farm Variable Product Trust Funds:	
Large Cap Equity Index Fund, 349,472 shares (cost $ 4,090,499)	$3,157,658
Small Cap Equity Index Fund, 221,527 shares (cost $ 2,137,922)	1,526,420
Bond Fund, 81,024 shares (cost $ 800,314)	786,366
Money Market Fund, 197,221 shares (cost $ 197,221)	197,218
International Equity Index Fund, 154,811 shares (cost $ 1,710,218)	1,447,094
Stock and Bond Balanced Fund, 41,740 shares (cost $ 471,242)	407,559
Large Cap Equity Fund, 14,662 shares (cost $ 129,602)	81,986
Small/Mid Cap Equity Fund, 10,192 shares (cost $ 99,536)	61,139
International Equity Fund, 6,505 shares (cost $ 64,528)	42,586
Total assets	$7,708,026

POLICY OWNERS' EQUITY

Total policy owners' equity	$7,708,026

The accompanying notes are an integral part of the financial statements.

State Farm Life and Accident Assurance Company
Variable Life Separate Account

Statement of Operations
For the Year Ended December 31, 2008

	Large Cap Equity Index Subaccount	Small Cap Equity Index Subaccount	Bond Subaccount	Money Market Subaccount	International Equity Index Subaccount	Stock and Bond Balanced Subaccount	Large Cap Equity Subaccount	Small/Mid Cap Equity Subaccount	International Equity Subaccount
Investment income:									
Dividend income	$ 94,027	$ 138,111	$ 37,565	$4,064	$ 77,391	$ 18,908	$ 2,577	$ 1,299	$ 1,483
Expenses:									
Mortality and expense risk charges	32,134	15,269	6,434	1,581	15,294	3,810	575	494	348
Net investment income (loss)	61,893	122,842	31,131	2,483	62,097	15,098	2,002	805	1,135
Realized gain (loss) on investments	(27,674)	(37,703)	(3,651)	—	(26,443)	(4,544)	(1,832)	(1,048)	(2,619)
Change in unrealized appreciation gain (loss) on (depreciation), net	(1,858,564)	(857,708)	(27,130)	—	(1,053,965)	(136,628)	(39,171)	(35,170)	(25,108)
Net realized and unrealized gain (loss) on investments	(1,886,238)	(895,411)	(30,781)	—	(1,080,408)	(141,172)	(41,003)	(36,218)	(27,727)
Net increase (decrease) in policy owners' equity from operations	$(1,824,345)	$(772,569)	$ 350	$2,483	$(1,018,311)	$(126,074)	$(39,001)	$(35,413)	$(26,592)

The accompanying notes are an integral part of the financial statements.

State Farm Life and Accident Assurance Company
Variable Life Separate Account

Statement of Changes in Policy Owners' Equity
For the Year Ended December 31, 2008

	Large Cap Equity Index Subaccount	Small Cap Equity Index Subaccount	Bond Subaccount	Money Market Subaccount	International Equity Index Subaccount	Stock and Bond Balanced Subaccount	Large Cap Equity Subaccount	Small/Mid Cap Equity Subaccount	International Equity Subaccount
Operations:									
Net investment income (loss)	$ 61,893	$ 122,842	$ 31,131	$ 2,483	$ 62,097	$ 15,098	$ 2,002	$ 805	$ 1,135
Realized gain (loss) on investments	(27,674)	(37,703)	(3,651)	—	(26,443)	(4,544)	(1,832)	(1,048)	(2,619)
Change in unrealized appreciation (depreciation), net	(1,858,564)	(857,708)	(27,130)	—	(1,053,965)	(136,628)	(39,171)	(35,170)	(25,108)
Net realized and unrealized gain (loss) on investments	(1,886,238)	(895,411)	(30,781)	—	(1,080,408)	(141,172)	(41,003)	(36,218)	(27,727)
Net increase (decrease) in policy owners' equity from operations	(1,824,345)	(772,569)	350	2,483	(1,018,311)	(126,074)	(39,001)	(35,413)	(26,592)
Policy owners' equity transactions:									
Proceeds from units purchased	868,405	398,157	166,273	44,025	369,183	90,289	79,103	40,541	38,179
Transfers (net) including transfers (to) or from fixed account	(36,849)	(6,238)	(89,661)	(12,161)	11,722	(16,997)	(579)	3,632	(3,780)
Payments for surrenders and other redemptions	(509,172)	(238,519)	(110,835)	(31,769)	(211,928)	(65,715)	(18,709)	(12,436)	(12,334)
Net increase (decrease) in policy owners' equity derived from policy owners' equity transactions	322,384	153,400	(34,223)	95	168,977	7,577	59,815	31,737	22,065
Total increase in policy owners' equity	(1,501,961)	(619,169)	(33,873)	2,578	(849,334)	(118,497)	20,814	(3,676)	(4,527)
Policy owners' equity:									
Beginning of year	4,659,619	2,145,589	820,239	194,640	2,296,428	526,056	61,172	64,815	47,113
End of year	$ 3,157,658	$1,526,420	$ 786,366	$197,218	$ 1,447,094	$ 407,559	$81,986	$61,139	$42,586

The accompanying notes are an integral part of the financial statements.

State Farm Life and Accident Assurance Company
Variable Life Separate Account

Statement of Changes in Policy Owners' Equity, Continued
For the Year Ended December 31, 2007

	Large Cap Equity Index Subaccount	Small Cap Equity Index Subaccount	Bond Subaccount	Money Market Subaccount	International Equity Index Subaccount	Stock and Bond Balanced Subaccount	Large Cap Equity Subaccount	Small/Mid Cap Equity Subaccount	International Equity Subaccount
Operations:									
Net investment income (loss)	$ 51,869	$ 168,043	$ 28,383	$ 6,957	$ 95,138	$ 10,376	$ 4,120	$ 5,164	$ 4,508
Realized gain (loss) on investments	978	(3,497)	(2,358)	—	(514)	243	(68)	(57)	952
Change in unrealized appreciation (depreciation), net	138,491	(231,589)	15,835	(3)	90,729	13,233	(8,812)	(3,633)	(1,135)
Net realized and unrealized gain (loss) on investments	139,469	(235,086)	13,477	(3)	90,215	13,476	(8,880)	(3,690)	(183)
Net increase (decrease) in policy owners' equity from operations	191,338	(67,043)	41,860	6,954	185,353	23,852	(4,760)	1,474	4,325
Policy owners' equity transactions:									
Proceeds from units purchased	922,730	381,256	216,174	45,672	370,277	88,343	56,544	30,347	28,288
Transfers (net) including transfers (to) or from fixed account	(129,806)	(50,276)	(28,179)	454	(60,543)	206	666	30,494	1,261
Payments for surrenders and other redemptions	(614,715)	(225,006)	(91,121)	(25,892)	(220,894)	(65,750)	(11,348)	(6,471)	(25,988)
Net increase (decrease) in policy owners' equity derived from policy owners' equity transactions	178,209	105,974	96,874	20,233	88,840	22,799	45,861	54,370	3,561
Total increase in policy owners' equity	369,547	38,931	138,734	27,187	274,193	46,651	41,101	55,844	7,886
Policy owners' equity:									
Beginning of year	4,290,072	2,106,658	681,505	167,453	2,022,235	479,405	20,071	8,971	39,227
End of year	$4,659,619	$2,145,589	$820,239	$194,640	$2,296,428	$526,056	$61,172	$64,815	$47,113

The accompanying notes are an integral part of the financial statements.

1. General Information

Organization

The State Farm Life and Accident Assurance Company Variable Life Separate Account (the "Separate Account") is a unit investment trust registered under the Investment Company Act of 1940 as amended, established by State Farm Life and Accident Assurance Company (the "Company"). The Separate Account was established by the Company on December 9, 1996. The Company sells a variable life insurance product, which has unique combinations of features and fees that are charged against the policy owners' account balances. Under applicable insurance law, the assets and liabilities of the Separate Account are clearly identified and distinguished from the Company's other assets and liabilities. The portion of the Separate Account's assets applicable to the variable life policies is not chargeable with liabilities arising out of any other business the Company may conduct.

The Company discontinued new sales of the variable life product during September, 2008; however, the Company will continue to administer the existing book of variable life policies.

2. Significant Accounting Policies

Valuation of Investments

The assets of the Separate Account are invested in one or more of the funds of the State Farm Variable Product Trust (the "Trust") at the fund's net asset value, which are based on the daily closing market value prices of the underlying securities, in accordance with the selection made by the policy owners.

Fair Value

The Separate Account implemented Financial Accounting Standards Board Statement of Financial Accounting Standards No. 157, Fair Value Measurements (FAS 157), effective January 1, 2008. FAS 157 defines fair value as the price that would be received upon selling an investment in a timely transaction to an independent buyer in the principle or most advantageous market of the investment. The effect of adopting FAS 157 was not material to the Separate Account's financial position or results of operations. The Separate Account's financial assets carried at fair value have been classified, for disclosure purposes, based on a hierarchy defined by FAS 157 which prioritizes the inputs to valuation techniques used to measure fair value. A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The three levels of the fair value hierarchy are summarized below:

Level 1 – Observable inputs that reflect unadjusted quoted prices for identical securities in active markets.

Level 2 – Observable inputs other than quoted prices included in level 1 such as quoted prices for similar securities; interest rates, prepayment schedules, and credit risk for fixed income securities; or other inputs that are observable or can be corroborated by observable market data.

Level 3 – Unobservable inputs including the Separate Account's own assumptions in determining the fair value of investments.

Assets measured at fair value on a recurring basis are summarized below:

		Fair Value Measurements at December 31, 2008		
Description	**Total**	**Level 1**	**Level 2**	**Level 3**
Funds of the trust	$7,708,026	$—	$7,708,026	$—
Total	$7,708,026	$—	$7,708,026	$—

Level 2 Measurements

Separate Account assets include private, affiliated mutual funds valued at net asset value daily using observable inputs. Valuation inputs of underlying assets include, but are not limited to, quoted exchange prices, quotations by independent pricing services, bid price quotations from brokers, multiple of earnings, multiple of book values, similar freely traded securities, and yield to maturity.

Security Transactions and Investment Income

Securities transactions are recorded on the trade date (the date the order to buy or sell is executed). Dividend income is recorded on the ex-dividend date. The cost of investments sold and the corresponding capital gains and losses are determined on a specific identification basis. Net investment income (loss) and net realized gains (losses) and unrealized appreciation (depreciation) on investments are allocated to the policies on each valuation date based on each policy's pro rata share of the assets of the fund as of the beginning of the valuation date.

Accumulation Unit Valuation

On each day the New York Stock Exchange (NYSE) is open for trading, the accumulation unit value is determined as of the earlier of 3:00 PM Central time or the close of the Exchange by dividing the policy owners' share of the value of each fund's investments and other assets, less liabilities, by the number of policy owner accumulation units outstanding in the respective fund.

The Net Asset Value (NAV) for each Fund is determined as of the time of the close of regular session trading on the NYSE, on each day when the NYSE is open for business. Shares of the Funds will not be priced on days when the NYSE is closed.

Each Fund values its assets at their current market value when market quotations are readily available. Securities for which readily available market quotations are not available, or for those quotations deemed not to be representative of market values, are valued by a method that the Board of Trustees believes will reflect a fair value. Fair value pricing typically is used when trading for a portfolio security is halted during the day and does not resume prior to the Fund's NAV calculation or when a portfolio security has limited liquidity resulting in no market derived price. Securities also may be fair valued as a result of significant events that occur after the close of trading in markets within which the securities trade, but before the time at which the securities are valued for NAV calculation.

Federal Income Taxes

The operations of the Separate Account are included in the federal income tax return of the Company. Under existing federal income tax law, investment income and realized capital gains and losses of the Separate Account affect liabilities under the policies and are, therefore, not taxed. Thus, the Separate Account may realize net investment income and capital gains and losses without federal income tax consequences.

Net transfers (to) from fixed account

Net transfers (to) from fixed account include transfers of all or part of the policy owners' interest to or from another eligible subaccount from or to the general account of the Company.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that could affect the amounts reported therein, as well as the disclosure of any contingent assets and liabilities. Actual results reported could differ from the estimates reported in the accompanying financial statements.

3. Expenses and Related Party Transactions

A mortality and expense risk charge, which includes a death benefit guarantee risk charge, is deducted by the Company from the Separate Account on a daily basis, which is equal, on an annual basis, to 0.8% of the daily net asset value of the policy owners' portion of assets in the Separate Account. The charge may be adjusted after policy issue, but is guaranteed not to exceed 0.9% of net assets. The death benefit guarantee covers the risk that the policy would remain in force if the required minimum premiums were satisfied, even if the policy cash surrender value were to drop below zero. This could result from a decline in the value of the subaccounts due to market performance. These charges compensate the Company for assuming these risks under the variable life policy. The disbursements for mortality and expense risk charges amounted to $75,939 and $84,548 during 2008 and 2007, respectively.

At the beginning of each policy month, the Company makes a deduction from the cash value of the policy, which consists of the cost of insurance for the policy and any additional benefits provided by the rider, if any, for the policy month. In addition, the cost of insurance and monthly expense charge of $6 is deducted from policies issued prior to July 1, 2004 and an $8 cost of insurance and monthly expense charge is deducted from policies issued from July 1, 2004. This expense charge is subject to a maximum of $8. These deductions reimburse the Company for administrative expenses relating to the issuance and maintenance of the policy. The total amount of monthly deductions was $854,639 and $819,876 during 2008 and 2007, respectively. These deductions are included in the line item labeled "Payments for surrenders and other redemptions" in the Statements of Changes in Policy Owners' Equity.

A surrender charge may be deducted in the event of a surrender to reimburse the Company for expenses incurred in connection with issuing the policy. The full surrender charge will be increased monthly during the first two policy years, stay constant during the third through sixth year and is reduced each year after the sixth year until it reaches zero in the tenth policy year. The surrender charges were $35,833 and $45,111 during 2008 and 2007, respectively. These charges are included in the line item labeled "Payments for surrenders and other redemptions" in the Statements of Changes in Policy Owners' Equity.

A withdrawal fee is assessed upon the partial withdrawal of funds which is equal to the lesser of $25 or 2% of the amount withdrawn. Withdrawal fees amounted to $592 and $961 during 2008 and 2007, respectively. These fees are included in the line item labeled "Payments for surrenders and other redemptions" in the Statements of Changes in Policy Owners' Equity.

The Company reserves the right to deduct a $25 transfer processing fee for each subaccount transfer in excess of 12 during a policy year. In addition, the Company deducts a 5% charge from each premium before allocating the resulting premium to the unit value.

4. Changes in Units Outstanding

The changes in units outstanding for the years ended December 31, 2008 and 2007 are as follows:

	December 31, 2008			December 31, 2007		
Subaccount	**Units Issued**	**Units Redeemed**	**Net Increase (Decrease)**	**Units Issued**	**Units Redeemed**	**Net Increase (Decrease)**
Large Cap Equity Index	78,266	51,875	26,391	65,341	53,344	11,997
Small Cap Equity Index	34,200	23,480	10,720	23,447	17,649	5,798
Bond	11,699	13,963	(2,264)	16,497	9,880	6,617
Money Market	3,488	3,481	7	4,183	2,583	1,600
International Equity Index	30,895	19,049	11,846	22,894	18,186	4,708
Stock and Bond Balanced	6,637	6,099	538	6,601	5,088	1,513
Large Cap Equity	9,398	2,182	7,216	4,886	1,002	3,884
Small/Mid Cap Equity	5,237	1,416	3,821	4,918	583	4,335
International Equity	3,838	1,562	2,276	2,281	2,021	260

5. Purchases and Sales of Investments

The cost of purchases and proceeds from sales of investments for the year ended December 31, 2008 by each subaccount are shown below:

	December 31, 2008	
	Purchases	**Sales**
Large Cap Equity Index	$ 533,108	$148,832
Small Cap Equity Index	408,882	132,640
Bond	103,136	106,227
Money Market	23,071	20,492
International Equity Index	319,046	87,971
Stock and Bond Balanced	62,064	39,390
Large Cap Equity	64,571	2,754
Small/Mid Cap Equity	35,039	2,497
International Equity	31,805	8,605
Total	$1,580,722	$549,408

6. Unit Values and Financial Highlights

A summary of unit values and units outstanding for each subaccount of the Separate Account, net investment income ratios and the expense ratios, excluding expenses of the underlying funds, for each of the five years in the period ended December 31, 2008 are shown below.

	At December 31, 2008			For the Year Ended December 31, 2008		
Subaccount	Units	Average Net Assets	Unit Fair Value	Net Investment Income Ratio*	Expense Ratio**	Total Return***
Large Cap Equity Index	329,571	$3,908,639	$ 9.59	1.58%	0.8%	(37.61)%
Small Cap Equity Index	133,177	$1,836,005	$11.46	6.69%	0.8%	(34.59)%
Bond	51,602	$ 803,303	$15.25	3.88%	0.8%	0.20%
Money Market	15,026	$ 195,929	$13.12	1.27%	0.8%	1.23%
International Equity Index	132,957	$1,871,761	$10.89	3.32%	0.8%	(42.56)%
Stock and Bond Balanced	34,817	$ 466,808	$11.70	3.23%	0.8%	(23.78)%
Large Cap Equity	12,796	$ 71,579	$ 6.40	2.80%	0.8%	(41.61)%
Small/Mid Cap Equity*****	8,975	$ 62,977	$ 6.81	1.28%	0.8%	(45.82)%
International Equity	5,428	$ 44,849	$ 7.84	2.53%	0.8%	(47.49)%

	At December 31, 2007			For the Year Ended December 31, 2007		
Subaccount	Units	Average Net Assets	Unit Fair Value	Net Investment Income Ratio*	Expense Ratio**	Total Return***
Large Cap Equity Index	303,180	$4,474,846	$15.37	1.16%	0.8%	4.34%
Small Cap Equity Index	122,458	$2,126,124	$17.52	7.90%	0.8%	(2.99)%
Bond	53,866	$ 750,872	$15.22	3.78%	0.8%	5.47%
Money Market	15,020	$ 181,047	$12.96	3.84%	0.8%	3.93%
International Equity Index	121,111	$2,159,332	$18.96	4.41%	0.8%	9.15%
Stock and Bond Balanced	34,279	$ 502,731	$15.35	2.06%	0.8%	4.92%
Large Cap Equity	5,580	$ 40,622	$10.96	10.14%	0.8%	(7.35)%
Small/Mid Cap Equity*****	5,155	$ 36,893	$12.57	14.00%	0.8%	14.90%
International Equity	3,152	$ 43,170	$14.93	10.44%	0.8%	10.18%

	At December 31, 2006			For the Year Ended December 31, 2006		
Subaccount	Units	Average Net Assets	Unit Fair Value	Net Investment Income Ratio*	Expense Ratio**	Total Return***
Large Cap Equity Index	291,307	$3,945,941	$14.73	0.82%	0.8%	14.63%
Small Cap Equity Index	116,652	$1,959,614	$18.06	7.90%	0.8%	16.82%
Bond	47,239	$ 636,019	$14.43	3.67%	0.8%	3.52%
Money Market	13,430	$ 165,946	$12.47	3.73%	0.8%	3.74%
International Equity Index	116,391	$1,812,416	$17.37	3.61%	0.8%	24.43%
Stock and Bond Balanced	32,763	$ 442,452	$14.63	1.72%	0.8%	10.17%
Large Cap Equity	1,696	$ 10,106	$11.83	8.41%	0.8%	14.97%
Small/Mid Cap Equity*****	820	$ 4,767	$10.94	3.80%	0.8%	13.60%
International Equity	2,893	$ 30,195	$13.55	8.03%	0.8%	18.55%

	At December 31, 2005			For the Year Ended December 31, 2005		
Subaccount	Units	Average Net Assets	Unit Fair Value	Net Investment Income Ratio*	Expense Ratio**	Total Return***
Large Cap Equity Index	279,361	$3,372,395	$12.85	0.81%	0.8%	3.71%
Small Cap Equity Index	117,244	$1,736,909	$15.46	6.44%	0.8%	3.41%
Bond	42,377	$ 555,771	$13.94	3.50%	0.8%	0.22%
Money Market	13,686	$ 162,973	$12.02	1.85%	0.8%	1.95%
International Equity Index	114,778	$1,455,469	$13.96	2.07%	0.8%	12.49%
Stock and Bond Balanced	30,526	$ 371,032	$13.28	1.67%	0.8%	2.39%
Large Cap Equity****	13	$ 71	$10.29	(2.82)%	0.8%	— %
Small Cap Equity*****	58	$ 281	$ 9.63	0.71%	0.8%	— %
International Equity****	1,849	$ 10,582	$11.43	1.29%	0.8%	— %

Notes to Financial Statements, Continued

	At December 31, 2004			For the Year Ended December 31, 2004		
Subaccount	Units	Average Net Assets	Unit Fair Value	Net Investment Income Ratio*	Expense Ratio**	Total Return***
Large Cap Equity Index	252,810	$2,819,838	$12.39	0.92%	0.8%	9.55%
Small Cap Equity Index	111,133	$1,453,057	$14.95	2.93%	0.8%	16.98%
Bond	37,469	$ 473,996	$13.91	3.41%	0.8%	1.61%
Money Market	13,701	$ 157,504	$11.79	0.07%	0.8%	0.08%
International Equity Index	105,452	$1,161,290	$12.41	1.40%	0.8%	18.30%
Stock and Bond Balanced	25,946	$ 291,612	$12.97	1.37%	0.8%	6.40%

* This ratio represents net investment income, as presented in the Statement of Operations, divided by the average net assets. Dividend income, as presented in the Statement of Operations, includes capital gain distributions recorded by the subaccount from the underlying mutual fund.

** This ratio represents the annualized contract expenses of the separate account, resulting in a direct reduction of unit values, consisting primarily of mortality and expense charges. Charges that require redemption of policy owner units are excluded. There is no fluctuation in the annualized mortality and expense charge. Refer to Note 3.

*** The total return is calculated using the beginning and ending unit value, which reflects the changes in the underlying fund values and reductions related to the Expense Ratio, for the period indicated.

**** Subaccount effective August 1, 2005

***** Small Cap Equity fund renamed to Small/Mid Cap Equity fund effective December 1, 2006