



NEW YORK STATE DEPARTMENT OF FINANCIAL SERVICES
REPORT ON EXAMINATION
OF THE
SEGREGATED GIFT ANNUITY FUND
OF THE
CATHOLIC FOREIGN MISSION SOCIETY OF AMERICA, INC.

CONDITION:

DECEMBER 31, 2014

DATE OF REPORT:

JUNE 12, 2015

NEW YORK STATE DEPARTMENT OF FINANCIAL SERVICES

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OF THE

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AS OF

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EXAMINER:

HUGHROY MIGHTY

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NEW YORK STATE
DEPARTMENT *of*
FINANCIAL SERVICES

Andrew M. Cuomo
Governor

Maria T. Vullo
Superintendent

June 16, 2016

Honorable Maria T. Vullo
Superintendent of Financial Services
New York, New York 10004

Madam:

In accordance with instructions contained in Appointment No. 31306 dated June 3, 2015 and annexed hereto, an examination has been made into the condition and affairs of the Segregated Gift Annuity Fund of the Catholic Foreign Mission Society of America, Inc., hereinafter referred to as the “Fund.” The Fund’s home office is located at 77 Ryder Road, Maryknoll, New York 10545.

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

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

1. EXECUTIVE SUMMARY

The examiner recommends that the Fund diversify its investment holdings. (See item 4 of this report)

The examiner recommends that the Fund adopt an Investment Strategy Statement (“ISS”). The Fund should exercise reasonable care, skill and caution to make and implement investment and management decisions as a prudent investor would for the entire portfolio. In doing so, the Fund should take into account present and future distributions to or for the beneficiaries and create a plan to meet the needs of those distributions to establish the ISS’s risk, return, and time horizon objectives. (See item 4 of this report)

The examiner’s review of the Fund’s treatment of annuitants did not reveal significant instances which deviated from the New York Insurance Law, Department regulations and circular letters and the operating rules of the Fund. (See item 5 of this report)

2. SCOPE OF EXAMINATION

The prior examination was conducted as of December 31, 2009. This examination covers the period from January 1, 2010 through December 31, 2014. As necessary, the examiner reviewed transactions occurring subsequent to December 31, 2014 but prior to the date of this report (i.e., the completion date of the examination).

The examination comprised a verification of assets and liabilities as of December 31, 2014 to determine whether the Fund's filed 2014 annual statement fairly presents its financial condition. The examiner reviewed the Fund's income and disbursements necessary to accomplish such verification. The examiner reviewed the prior report on examination which did not contain any violations, recommendations or comments.

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

3. DESCRIPTION OF FUND

The Catholic Foreign Mission Society of America, Inc. (“the Society”) is organized, in part, to:

- a) enlist the services of ecclesiastics and laymen of the Roman Catholic Church to teach and preach, as missionaries, their faith in the United States, and other countries;
- b) enlist young men and to teach and train them for the religious state to act as missionaries in the United States and other countries;
- c) receive voluntary contributions and donations for the education, support and maintenance of such persons; and
- d) publish and distribute, or assist in the publication and distribution, of books and reading matter in connection with such missionary work.

Under the provisions of its by-laws, the Society is permitted to issue gift annuity agreements and it has done so since 1913. A special permit was granted to the Society by the Department on May 9, 1940, authorizing it to issue gift annuity agreements as specified in Section 1110 of the New York Insurance Law. All operations related to the issuance, maintenance and settlement of annuity agreements are handled by the Fund.

Bank of New York Mellon (“BNY Mellon”) is the Fund’s custodian and investment manager. BNY Mellon invests the Fund’s assets according to an agreed upon investment policy and prepares the Fund’s annual reports for the Department and other states that require annual statement reporting. The Fund maintains a checking account with M&T Bank designated for annuity payments. The Fund uses PG Calc to calculate the reserves for its annuities, prepare its actuarial reserve reports, and manage the annuity program.

The management of the Society and the Fund and all of its affairs and property are entrusted to a board of directors. The number of directors is limited to nine regular voting directors. As of December 31, 2014, the board consisted of eight directors. The directors elect a chairman, president, vice president, secretary, treasurer, and one or more assistant treasurers or secretaries. The nomination and election procedures of the directors and their terms of office are set by the by-laws.

4. SIGNIFICANT FINANCIAL INFORMATION

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

	December 31, <u>2009</u>	December 31, <u>2014</u>	<u>Increase</u>
Admitted assets	\$ <u>11,966,281</u>	\$ <u>13,788,401</u>	\$ <u>1,822,120</u>
Liabilities	\$ <u>10,508,688</u>	\$ <u>11,740,239</u>	\$ <u>1,231,551</u>
Minimum required fund balance	\$ 1,024,979	\$ 1,149,995	\$ 125,016
Excess fund balance (surplus)	<u>432,614</u>	<u>898,167</u>	<u>465,553</u>
Total annuity fund balance	\$ <u>1,457,593</u>	\$ <u>2,048,162</u>	\$ <u>590,569</u>
Total liabilities and annuity fund balance	\$ <u>11,966,281</u>	\$ <u>13,788,401</u>	\$ <u>1,822,120</u>

The increase in assets and annuity fund balance is attributable to the Fund's investment income. The increase in liabilities is attributable to net increases in actuarial reserves during the exam period: \$1,078,735 in 2010; \$78,972 in 2012; and \$608,631 in 2013. The increase in net actuarial reserves was offset by net decreases in actuarial reserves of \$142,148 in 2011 and \$374,034 in 2014. Annuities decreased from 1,397 with annual payment amounts of \$1,260,639 as of December 31, 2009 to a total of 1,155 with annual payment amounts of \$1,257,584 as of December 31, 2014.

The Fund's admitted assets, as of December 31, 2014, were invested mainly in common stocks (95.55%).

Section 1409(a) of the New York Insurance Law states,

“(a) Except as more specifically provided in this chapter, no domestic insurer shall have more than ten percent of its admitted assets as shown by its last statement on file with the superintendent invested in, or loaned upon, the securities (including for this purpose certificates of deposit, partnership interests and other equity interests) of any one institution.”

According to the 2014 annual statement, the Fund reported: 27.17% invested in the securities of Dreyfus Basic S&P 500 Stock Index mutual fund and 13.28% invested in the

securities of Dreyfus Bond Market Index-Basic mutual fund. The Fund's current concentration in the two mutual funds makes it highly unlikely that the Fund's other assets could provide a variability to offset the risks inherent in these funds.

The examiner recommends that the Fund diversify its investment holdings. A trustee using reasonable care, skill and caution should diversify the Fund's assets. A diversification is proper when it disperses the investments' risks consistent with the Investment Strategy Statement's ("ISS") risk, return, and time horizon objectives, and the various risks in the portfolio offset each other. Section 1409 of the New York Insurance Law is instructive. Limiting exposure to any assets of any one institution to ten percent of admitted assets would reasonably assure that the risks in the investment in that institution are offset by the rest of the portfolio. If the trustee has determined that it is in the interests of the beneficiaries not to diversify, then it should memorialize the reasons for that determination in terms of the ISS's risk, return, and time horizon parameters.

The examiner recommends that the Fund adopt an Investment Strategy Statement. The Fund should exercise reasonable care, skill and caution to make and implement investment and management decisions as a prudent investor would for the entire portfolio. In doing so, the Fund should take into account present and future distributions to or for the beneficiaries and create a plan to meet the needs of those distributions to establish the ISS's risk, return, and time horizon objectives.

5. TREATMENT OF ANNUITANTS

The examiner reviewed a sample of annuity files to determine whether the annuitants were treated fairly and in accordance with the provisions of the annuity agreements. The examination also consisted of a review of the various controls involved, a check of the accuracy of the computations and the tracing of accounting data to the books of account. Based upon the sample reviewed, no significant findings were noted.

6. SUMMARY AND CONCLUSIONS

Following are the recommendations contained in this report:

<u>Item</u>	<u>Description</u>	<u>Page No(s).</u>
A	The examiner recommends that the Fund diversify its investment holdings.	6
B	The examiner recommends that the Fund adopt an Investment Strategy Statement (“ISS”). The Fund should exercise reasonable care, skill and caution to make and implement investment and management decisions as a prudent investor would for the entire portfolio. In doing so, the Fund should take into account present and future distributions to or for the beneficiaries and create a plan to meet the needs of those distributions to establish the ISS’s risk, return, and time horizon objectives.	6

Respectfully submitted,

_____/s/
Hughroy Mighty
Insurance Examiner

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

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

_____/s/
Hughroy Mighty

Subscribed and sworn to before me
this _____ day of _____

APPOINTMENT NO. 31306

NEW YORK STATE

DEPARTMENT OF FINANCIAL SERVICES

I, BENJAMIN M. LAWSKY, Superintendent of Financial Services of the State of New York, pursuant to the provisions of the Financial Services Law and the Insurance Law, do hereby appoint:

HUGHROY MIGHTY

as a proper person to examine the affairs of the

**SEGREGATED GIFT ANNUITY FUND OF THE
CATHOLIC FOREIGN MISSION SOCIETY OF AMERICA, INC.**

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

FUND

with such other information as he shall deem requisite.

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

this 3rd day of June, 2015

BENJAMIN M. LAWSKY
Superintendent of Financial Services

By:


MARK MCLEOD

ASSISTANT CHIEF - LIFE BUREAU

