



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

CONDITION:

DECEMBER 31, 2016

DATE OF REPORT:

SEPTEMBER 10, 2017

NEW YORK STATE DEPARTMENT OF FINANCIAL SERVICES

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OF THE

CATHOLIC MEDICAL MISSION BOARD, INC.

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EXAMINER:

HASAN AHMED

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NEW YORK STATE
DEPARTMENT *of*
FINANCIAL SERVICES

Andrew M. Cuomo
Governor

Maria T. Vullo
Superintendent

November 10, 2017

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

Madam:

In accordance with instructions contained in Appointment No. 31590, dated April 20th, 2017 and annexed hereto, an examination has been made into the condition and affairs of the Segregated Gift Annuity Fund of the Catholic Medical Mission Board, Inc. hereinafter referred to as the "Fund," at its home office located at 100 Wall Street, 9th Floor, New York, NY 10005.

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 strengthen the diversification of its investment holdings. If the trustee has determined that it is in the interests of the beneficiaries to deviate from such a recommendation, then it should memorialize the reasons for that determination in terms of the ISS's risk, return, and time horizon parameters. (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, 2011. This examination covers the period from January 1, 2012 through December 31, 2016. As necessary, the examiner reviewed transactions occurring subsequent to December 31, 2016 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, 2016 to determine whether the Fund's filed 2016 annual statement fairly presents its financial condition. The examiner reviewed the Fund's income and disbursements necessary to accomplish such verification. The examiner also reviewed the corrective actions taken by the Fund with respect to the recommendation contained in the prior report on examination. The results of such review are contained in item 6 of this report.

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

3. DESCRIPTION OF FUND

The Catholic Medical Mission Board, Inc. (“CMMB”) is organized for the purpose of: promoting health care interests and activities unilaterally and in cooperation with the Catholic Church, affiliated and non-sectarian humanitarian organizations; making available pharmaceuticals and medical equipment and supplies to health care facilities; coordinating the placement of professional and para-professional health care workers and students in mission settings; and promoting scholarships for the education of health care professionals and para-professionals in their native countries. The CMMB has been issuing gift annuity agreements since 1980. A special permit was granted to CMMB by the Department on February 5, 1997, 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.

State Street Bank and Trust Company (“State Street”) is the custodian of the Fund’s assets. State Street also performs investment management, benefit payments to annuitants and accounting services, including preparation of the annual statements and calculation of the required annuity reserves.

The management of CMMB and the Fund and all of its affairs and property are entrusted to a board of directors. The number of directors is limited to a minimum of 14 and a maximum of 21 elected directors. As of December 31, 2016, the board consisted of 18 elected directors. The directors elect a Chairman, Vice-Chairman, President, Treasurer, Secretary, an Assistant Treasurer, and an Assistant Secretary. The nomination and election procedures of the directors and their term of office are set by the by-laws.

4. SIGNIFICANT FINANCIAL INFORMATION

The following summary table indicates the growth in various categories of the Fund's assets, liabilities, and fund balance during the period under review:

| | <u>December 31,</u> <u>2011</u> | <u>December 31,</u> <u>2016</u> | <u>Increase</u> |
|--|------------------------------------|------------------------------------|-------------------|
| Admitted assets | \$ <u>2,662,094</u> | \$ <u>3,507,802</u> | \$ <u>845,708</u> |
| Liabilities | \$ <u>2,216,421</u> | \$ <u>2,518,781</u> | \$ <u>302,360</u> |
| Minimum required fund balance | \$ 221,642 | \$ 251,878 | \$ 30,236 |
| Excess fund balance (surplus) | <u>224,031</u> | <u>737,143</u> | <u>513,112</u> |
| Total annuity fund balance | \$ <u>445,673</u> | \$ <u>989,021</u> | \$ <u>543,348</u> |
| Total liabilities and annuity fund balance | \$ <u>2,662,094</u> | \$ <u>3,507,802</u> | \$ <u>845,708</u> |

Assets, liabilities and annuity fund balance increased despite a decrease in the total number of annuities in force. Annuities decreased from 288 with annual payment amounts of \$349,515 as of December 31, 2011 to a total of 251 with annual payment amounts of \$290,225 as of December 31, 2016.

The increase in assets, liability and annuity fund balance is attributable to substantially higher gift amounts received in 2012 (\$1,173,000) and 2013 (\$740,914).

The Fund's admitted assets, as of December 31, 2016, were invested mainly in common stocks (98.82%).

According to the 2016 annual statement, the Fund reported 18.3% of its admitted assets invested in the securities of SPDR S&P 500 ETF and 20.24% of its admitted assets invested in the securities of Vanguard Total Bond Mkt Index-ADM. The Fund's current concentration in these holdings makes it highly unlikely that the Fund's other assets could provide a variability to offset the risks inherent in these investments.

The examiner recommends that the Fund strengthen the diversification of its investment holdings. If the trustee has determined that it is in the interests of the beneficiaries to deviate from such a recommendation, then it should memorialize the reasons for that determination in terms of

the ISS's risk, return, and time horizon parameters. 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 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.

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. PRIOR REPORT SUMMARY AND CONCLUSIONS

Following is the recommendation contained in the prior report on examination and the subsequent action taken by the Fund in response:

| <u>Item</u> | <u>Description</u> |
|-------------|---|
| A | <p>The examiner recommends that the Board of Directors, or a committee thereof, review the purchases and sales of investments at least quarterly to ensure that the quarterly asset allocation is in the tolerable range of the Fund's strategic allocation and note such reviews in the minutes</p> <p>The minutes of the finance committee of the board of directors meeting shows that the finance committee reviews the sale and purchase of the investments.</p> |

7. SUMMARY AND CONCLUSIONS

Following is the recommendation contained in this report:

| <u>Item</u> | <u>Description</u> | <u>Page No(s).</u> |
|-------------|---|--------------------|
| A | The examiner recommends that the Fund strengthen the diversification of its investment holdings. If the trustee has determined that it is in the interests of the beneficiaries to deviate from such a recommendation, then it should memorialize the reasons for that determination in terms of the ISS's risk, return, and time horizon parameters. | 6 |

Respectfully submitted,

_____/s/
Hasan Ahmed
Senior Insurance Examiner

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

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

_____/s/
Hasan Ahmed

Subscribed and sworn to before me
this _____ day of _____

APPOINTMENT NO. 31590

NEW YORK STATE

DEPARTMENT OF FINANCIAL SERVICES

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

HASAN AHMED

as a proper person to examine the affairs of the

*SEGREGATED GIFT ANNUITY FUND OF THE
CATHOLIC MEDICAL MISSION BOARD, 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 20th day of April, 2017

*MARIA T. VULLO
Superintendent of Financial Services*

By:

Mark McLeod

*MARK MCLEOD
DEPUTY CHIEF - LIFE BUREAU*

