



NEW YORK STATE DEPARTMENT OF FINANCIAL SERVICES  
REPORT ON EXAMINATION  
OF THE  
SEGREGATED GIFT ANNUITY FUND  
OF THE  
EPISCOPAL CHURCH FOUNDATION

CONDITION:

DECEMBER 31, 2016

DATE OF REPORT:

AUGUST 9, 2017

NEW YORK STATE DEPARTMENT OF FINANCIAL SERVICES

REPORT ON EXAMINATION

OF THE

SEGREGATED GIFT ANNUITY FUND

OF THE

EPISCOPAL CHURCH FOUNDATION

AS OF

DECEMBER 31, 2016

DATE OF REPORT:

AUGUST 9, 2017

EXAMINER:

ANN MARIE THOMPSON

## TABLE OF CONTENTS

<u>ITEM</u>		<u>PAGE NO.</u>
1.	Executive summary	2
2.	Scope of examination	4
3.	Description of Fund	5
4.	Corporate governance	6
5.	Significant financial information	8
6.	Treatment of annuitants	10
7.	Annual statement reporting	11
8.	Annual statement workpapers	13
9.	Summary and conclusions	14



NEW YORK STATE  
DEPARTMENT *of*  
FINANCIAL SERVICES

Andrew M. Cuomo  
Governor

Maria T. Vullo  
Superintendent

August 29, 2018

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

Madam:

In accordance with instructions contained in Appointment No. 31598, dated April 20, 2017, and annexed hereto, an examination has been made into the condition and affairs of the Segregated Gift Annuity Fund of the Episcopal Church Foundation, hereinafter referred to as “the Fund.” The Fund’s home office is located at 475 Riverside Drive, Suite 750, New York, NY 10115.

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 Fund violated Section 312(b) of the New York Insurance Law by failing to obtain and maintain signed statements from the board members indicating that each board member received and read the prior report on examination. The examiner recommends that the Fund comply with Section 312(b) of the New York Insurance Law by obtaining and maintaining the signature of each board member indicating that they received and read the prior report on examination. (See item 4 of this report)

The examiner recommends that the Fund obtain broker's advices or other supporting documentation for its investment transactions and that this documentation be reviewed on a timely basis and reconciled to the applicable custodial statements for that period. (See item 4 of this report)

The examiner recommends that the board of directors, or a committee thereof, approve the purchases and sales of all investments and note such approvals in the minutes. (See item 4 of this report)

The Fund reported investment income from securities lending of \$1,061 in 2016; \$1,126 in 2015; \$1,460 in 2014; \$289 in 2013; and \$1,999 in 2012. (See item 5 of this report)

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 Investment Strategy Statement's ("ISS") risk, return, and time horizon parameters. (See item 5 of this report)

The examiner recommends that the Fund ensure that all gift annuity agreement forms have the appropriate form number as approved by the Superintendent printed on each form issued. (See item 6 of this report)

The examiner recommends that the Fund prepare its annual statements according to the Department's instructions. (See item 7 of this report)

The examiner recommends that the Fund maintain detailed general ledger accounts, transaction registers, and annual statement workpapers that support its filed annual statements. (See item 8 of this report)

The examiner recommends that the Fund prepare and maintain a detailed reconciliation of its books of account to the Fund's bank statement. (See item 8 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 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 Episcopal Church Foundation (the “Foundation”) is organized for the purpose of fostering, developing, and contributing to the support of the religious, educational and charitable work of the Protestant Episcopal Church in the United States of America. The Foundation has been issuing gift annuity agreements since 1995. A special permit was granted to the Foundation by the Department on December 31, 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 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 provides administrative, tracking, pooled accounting, tax and investment services.

The management of the Foundation and the Fund and all of its affairs and property are entrusted to a board of directors. The number of directors of The Episcopal Church Foundation shall be such number as shall be established by the board of directors from time to time. As of December 31, 2016, the board consisted of 16 directors. The directors elect a Chairperson, a Vice Chairperson, a President, a Secretary and a Treasurer. The nomination and election procedures of the directors and their terms of office are set by the by-laws.

#### 4. CORPORATE GOVERNANCE

Section 312(b) of the New York Insurance Law states, in part:

“(b) A copy of the report shall be furnished by such insurer or other person to each member of its board of directors and each such member shall sign a statement which shall be retained in the insurer’s files confirming that such member has received and read such report . . .”

The examiner’s review noted that the Fund’s board of directors passed a resolution stating that they had received and read the prior report on examination. However, the Fund failed to obtain statements signed by each board member individually, as required by Section 312(b) of the New York Insurance Law, indicating that they had received and read the prior report on examination.

The Fund violated Section 312(b) of the New York Insurance Law by failing to obtain and maintain signed statements from the board members indicating that each board member received and read the prior report on examination. The examiner recommends that the Fund comply with Section 312(b) of the New York Insurance Law by obtaining and maintaining the signature of each board member indicating that they received and read the prior report on examination.

The examiner reviewed the investment transactions for the period under examination and noted that the Fund did not obtain broker’s advices or other supporting documentation for its investment transactions to reconcile such advices to the monthly statements furnished by the custodian.

The examiner recommends that the Fund obtain broker’s advices or other supporting documentation for its investment transactions and that this documentation be reviewed on a timely basis and reconciled to the applicable custodial statements for that period.

The examiner reviewed the minutes of the board and the Finance Committee to determine whether there was approval of the purchases and sales of investments during the examination period. The minutes did not contain any indication that the board or any committee approved the purchases and sales of investments during the examination period.

The examiner recommends that the board of directors, or a committee thereof, approve the purchases and sales of all investments and note such approvals in the minutes.

## 5. SIGNIFICANT FINANCIAL INFORMATION

The following summary table indicates the growth (decline) 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> <u>(Decrease)</u>
Admitted assets	\$ <u>14,291,051</u>	\$ <u>14,499,117</u>	\$ <u>208,066</u>
Liabilities	\$ <u>12,648,173</u>	\$ <u>11,180,565</u>	\$( <u>1,467,608</u> )
Minimum required fund balance	\$ 1,264,817	\$ 1,118,056	\$ (146,761)
Excess fund balance (surplus)	<u>378,061</u>	<u>2,200,496</u>	<u>1,822,435</u>
Total annuity fund balance	\$ <u>1,642,878</u>	\$ <u>3,318,553</u>	\$ <u>1,675,674</u>
Total liabilities and annuity fund balance	\$ <u>14,291,051</u>	\$ <u>14,499,117</u>	\$ <u>208,066</u>

The increase in assets and surplus reflects an increase in value of investments. The decrease in liabilities is attributable to a decline in annuities from a total of 634 with annual payment amounts of \$1,549,975 at December 31, 2011 to 584 with annual payment amounts of \$1,392,111 at December 31, 2016, which reflect annuity terminations during the exam period.

The Fund's admitted assets, as of December 31, 2016, were invested mainly in stocks (98.07%).

The Fund engaged in securities lending in all years during the examination period. The Fund reported investment income from securities lending of \$1,061 in 2016; \$1,126 in 2015; \$1,460 in 2014; \$289 in 2013; and \$1,999 in 2012.

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 2016 annual statement, the Fund reported: 24.88% of its admitted assets invested in the securities of S&P 500 Common Trust Fund (“CTF”) and 12.77% invested in the securities of International Alpha Select-CTF. The Fund’s current concentration in the two CTFs makes it highly unlikely that the Fund’s other assets could provide a variability to offset the risks inherent in the CTFs.

Based upon the concentrations in the above common trust funds, 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 Investment Strategy Statement’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 ISS’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.

## 6. 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.

The examiner's review of 6 gift annuity agreement forms used by the fund for gift annuities issued in New York during the examination period noted that in 4 instances, the Fund used gift annuity agreement forms that differed from the gift annuity agreements filed with the Superintendent, by missing the form number part of each approved form.

The examiner recommends that the Fund ensure that all gift annuity agreement forms have the appropriate form number as approved by the Superintendent printed on each form issued.

## 7. ANNUAL STATEMENT REPORTING

The instructions for the Exhibit of Annuities in Force in New York section of the New York State Segregated Gift Annuity Fund Annual Statement for the years ended December 31, 2014, 2015 and 2016 state, in part:

“Line 1: Report the reserve amount included in the Exhibit of Annuities in Force, Line 1, Column 1, that pertains to New York annuitants.

Line 2: Report the number of annuities, included in the Exhibit of Annuities in Force, Line 1, Column 8, in force at the end of the current year on New York annuitants.

Line 3: Report the annualized amount of annuity payments, included in the Exhibit of Annuities in Force, Line 1, Column 9, payable under contracts that are in force at the end of the current year on New York annuitants.”

The Fund reported 34 New York annuities in force, with a reserve of \$286,628 and annualized payments of \$42,038 as of December 31, 2014. The Fund should have reported 50 New York annuities in force, with a reserve of \$447,886 and annualized payments of \$66,921, as of December 31, 2014., based upon the examiner’s recalculation of New York reserves and annuity payments.

The Fund reported 54 New York annuities in force, with a reserve of \$608,968 and annualized payments of \$72,087 as of December 31, 2015. The Fund should have reported 48 New York annuities in force, with a reserve of \$423,605 and annualized payments of \$65,264, as of December 31, 2015, based upon the examiner’s recalculation of New York reserves and annuity payments.

The Fund reported 40 New York annuities in force, with a reserve of \$404,528 and annualized payments of \$53,733 as of December 31, 2016. The Fund should have reported 46 New York annuities in force, with a reserve of \$405,389 and annualized payments of \$63,916, as of December 31, 2016, based upon the examiner’s recalculation of New York reserves and annuity payments.

The instructions for the Exhibit of Annuities in Force section of the New York State Segregated Gift Annuity Fund Annual Statement for the year ended December 31, 2016 state, in part:

**IMPORTANT NOTE:** For all calendar years (Columns 1 through 9), the number, annualized amount of payments on annuities in force, and reserve thereon should exclude California business and business from any state(s) that mandate a legally required segregated and distinct trust account for that particular state's annuitants.

The examiner's review of the reserve listing provided with its 2016 Annual Statement filing revealed that the Fund included 1 annuity issued in California with total reserves of \$29,193 as of December 31, 2016. The examiner determined that the Fund failed to adhere to the Department's annual statement instructions which state that the Fund is required to report any amounts for its annuity program, exclusive of annuities issued in states such as California that mandate a legally required segregated and distinct trust account.

The examiner recommends that the Fund prepare its annual statements according to the Department's instructions.

## 8. ANNUAL STATEMENT WORKPAPERS

The examiner requested a copy of the Fund's general ledger, transaction registers, and annual statement workpapers supporting the Fund's 2016 annual statement. The Fund was unable to provide a detailed set of such books and records for 2016 or for any other year during the period under examination. The examiner's review revealed that it does not maintain a detailed general ledger and that its transaction register is maintained by State Street, its service provider (see item 3 of this report). For a sample of annuities issued, annuity payments, and annuity terminations selected for review, the examiner was unable, due to unavailability of the necessary detail, to trace samples of receipts of annuities issued, cancelled checks and EFT/ACH wire transfers for annuity distribution payments and transfers of remainders for annuity terminations, to any Fund transaction register.

The examiner recommends that the Fund maintain detailed general ledger accounts, transaction registers, and annual statement workpapers that support its filed annual statements.

The examiner requested a reconciliation of the Fund's books of account to its bank statement as of December 31, 2016. In response, the Fund provided a simplified reconciliation instead of a detailed reconciliation. The reconciliation provided failed to include detailed information supporting income, fees, receipts, disbursements, and annuity terminations.

The examiner recommends that the Fund prepare and maintain a detailed reconciliation of its books of account to the Fund's bank statement.

## 9. SUMMARY AND CONCLUSIONS

Following are the violation, recommendations and comment contained in this report:

<u>Item</u>	<u>Description</u>	<u>Page No(s).</u>
A	The Fund violated Section 312(b) of the New York Insurance Law by failing to obtain and maintain signed statements from the board members indicating that each board member received and read the prior report on examination.	6
B	The examiner recommends that the Fund comply with Section 312(b) of the New York Insurance Law by obtaining and maintaining the signature of each board member indicating that they received and read the prior report on examination.	6
C	The examiner recommends that the Fund obtain broker's advices or other supporting documentation for its investment transactions and that this documentation be reviewed on a timely basis and reconciled to the applicable custodial statements for that period.	6
D	The examiner recommends that the board of directors, or a committee thereof, approve the purchases and sales of all investments and note such approvals in the minutes.	7
E	The Fund reported investment income from securities lending of \$1,061 in 2016; \$1,126 in 2015; \$1,460 in 2014; \$289 in 2013; and \$1,999 in 2012.	7
F	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 Investment Strategy Statement's risk, return, and time horizon parameters.	9
G	The examiner recommends that the Fund ensure that all gift annuity agreement forms have the appropriate form number as approved by the Superintendent printed on each form issued.	10
H	The examiner recommends that the Fund prepare its annual statements according to the Department's instructions.	12

<u>Item</u>	<u>Description</u>	<u>Page No(s).</u>
I	The examiner recommends that the Fund maintain detailed general ledger accounts, transaction registers, and annual statement workpapers that support its filed annual statements.	13
J	The examiner recommends that the Fund prepare and maintain a detailed reconciliation of its books of accounts to the Fund's bank statement.	13

Respectfully submitted,

\_\_\_\_\_/s/  
AnnMarie Thompson  
Senior Insurance Examiner

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

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

\_\_\_\_\_/s/  
AnnMarie Thompson

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

*APPOINTMENT NO. 31598*

*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:*

***ANN MARIE THOMPSON***

*as a proper person to examine the affairs of the*

***SEGREGATED GIFT ANNUITY FUND OF THE  
EPISCOPAL CHURCH FOUNDATION***

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

***FUND***

*with such other information as she shall deem requisite.*

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

*this 20th day of April, 2017*

*MARIA T. VULLO  
Superintendent of Financial Services*

*By:*

*Mark McLeod*

*MARK MCLEOD  
DEPUTY CHIEF - LIFE BUREAU*

