



NEW YORK STATE DEPARTMENT OF FINANCIAL SERVICES
REPORT ON EXAMINATION
OF THE
SEGREGATED GIFT ANNUITY FUND
OF THE
TEACHERS COLLEGE, COLUMBIA UNIVERSITY

CONDITION:

DECEMBER 31, 2016

DATE OF REPORT:

SEPTEMBER 11, 2017

NEW YORK STATE DEPARTMENT OF FINANCIAL SERVICES

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TEACHERS COLLEGE, COLUMBIA UNIVERSITY

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EXAMINER:

ELKIN WOODS

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NEW YORK STATE
DEPARTMENT *of*
FINANCIAL SERVICES

Andrew M. Cuomo
Governor

Maria T. Vullo
Superintendent

December 4, 2017

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

Madam:

In accordance with instructions contained in Appointment No. 31616, 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 Teachers College, Columbia University, herein after referred to as “the Fund,” at its home office located at 525 West 120th Street, New York NY 10027.

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 maintain signed statements from the board members indicating that they 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 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 board of trustees, 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 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 Fund violated Section 1110(a) of the New York Insurance Law by using gift annuity agreement forms that were not filed with the Superintendent. The examiner recommends that the Fund submit to the Superintendent any gift annuity agreement forms used during the examination period that have not been previously approved by the Superintendent. (See item 6 of this report)

The examiner recommends that, upon the death of an annuitant, the Fund obtain and maintain a death certificate or other reliable documentary evidence that supports such information terminating an annuity contract. (See item 6 of this report)

The examiner recommends that the Fund prepare and maintain a trial balance, general ledger, and transaction registers that reconcile to its filed annual statements. (See item 7 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 violations and recommendations contained in the prior report on examination. The results of such review are contained in item 8 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

Teachers College, Columbia University (the “College”) is organized for the purpose of preparing students for professions of education, psychology and health. The College has been affiliated with Columbia University since 1898. It remains a separate corporation with its own endowment and its own board of trustees that is responsible for the general oversight of its affairs and for its financial support. The College has been issuing gift annuity agreements since 1993. A special permit was granted to the College by the Department on November 17, 2003, 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 Global Advisors (“SSGA”) is the custodian of the Fund's assets. SSGA also performs investment management, annuity calculations and benefit payments to annuitants. The Fund has an agreement with OSGroup, who prepares the annual statements.

The management of the College and the Fund and all of its affairs and property are entrusted to a board of trustees. The number of trustees is limited to 40 regular voting trustees. As of December 31, 2016, the board consisted of 36 trustees. The trustees elect a chair (or co-chairs), one or more vice chairs, a president, one or more vice presidents and a secretary. The nomination and election procedures of the trustees 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 Fund failed to maintain statements signed by each board member indicating that they received and read the prior report on examination.

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

The examiner requested the minutes of the meetings of the board of directors and all committees thereof, pertaining to the Fund for the examination period. The examiner noted that the Fund provided only one meeting of the board of directors during the examination period in which the Fund’s investment transactions were addressed. The Fund stated that there were no additional board of directors’ meeting that addressed the Fund’s investments during the examination period.

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

5. SIGNIFICANT FINANCIAL INFORMATION

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

	December 31, <u>2011</u>	December 31, <u>2016</u>	<u>Increase</u>
Admitted assets	\$ <u>992,589</u>	\$ <u>1,381,648</u>	\$ <u>389,059</u>
Liabilities	\$ <u>750,641</u>	\$ <u>982,353</u>	\$ <u>231,712</u>
Minimum required fund balance	\$ 75,064	\$ 98,235	\$ 23,171
Excess fund balance (surplus)	<u>166,884</u>	<u>301,060</u>	<u>134,176</u>
Total annuity fund balance	\$ <u>241,948</u>	\$ <u>399,295</u>	\$ <u>157,347</u>
Total liabilities and annuity fund balance	\$ <u>992,589</u>	\$ <u>1,381,648</u>	\$ <u>389,059</u>

The increase in assets, liabilities and annuity fund balance reflects an increase in the total number of annuities in force. Annuities increased from 47 with an annual payment amount of \$90,888 as of December 31, 2011 to a total of 54 with an annual payment amount of \$115,647 as of December 31, 2016.

The Fund's admitted assets, as of December 31, 2016, were mainly invested in common stocks (99.5%).

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 23.49% of its admitted assets invested in the securities of the S&P 500 Common Trust Fund. The Fund's current concentration in the S&P 500 Common Trust Fund could make it less likely that the Fund's other assets can provide a variability to offset the risks inherent in the S&P 500 Common Trust Fund.

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 ("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.

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.

Section 1110(a) of the New York Insurance Law states, in part:

“(a)...Every such corporation or association shall, before making such agreement file with the superintendent copies of its forms or agreements with annuitants...”

The examiner’s review of the policy forms that the Fund used in New York during the examination period noted that during the exam period the Fund used policy forms that were not filed with the Superintendent.

The Fund violated Section 1110(a) of the New York Insurance Law by using gift annuity agreement forms that were not filed with the Superintendent.

The Fund did not take any action in response to the prior examination’s recommendation that it submit to the Superintendent any gift annuity agreement forms used during the prior examination period that had not been previously filed with the Superintendent.

The examiner recommends that the Fund submit to the Superintendent any gift annuity agreement forms used during the examination period that have not been previously approved by the Superintendent.

During the examination period the Fund terminated one annuity issued to a New York resident and 11 annuities issued to out of state residents. The examiner reviewed the one New York annuity as well as a sample of 2 out of state annuities. In all three cases the Fund did not obtain a copy of the death certificate to confirm termination of the annuity contract.

The examiner recommends that, upon the death of an annuitant, the Fund obtain and maintain a death certificate or other reliable documentary evidence that supports such information terminating an annuity contract.

7. ANNUAL STATEMENT WORKPAPERS

The examiner requested a copy of the Fund's trial balance, general ledger, and transaction registers. The Fund was unable to produce a copy of the Fund's trial balance, general ledger, and transaction registers for the 2016 annual statement period or for any annual statements filed during the period under examination.

The examiner recommends that the Fund prepare and maintain a trial balance, general ledger, and transaction registers that reconcile to its filed annual statements.

8. PRIOR REPORT SUMMARY AND CONCLUSIONS

Following are the violations and recommendations contained in the prior report on examination and the subsequent actions taken by the Fund in response to each citation:

<u>Item</u>	<u>Description</u>
A	<p>The Fund violated Section 312(b) of the New York Insurance Law by failing to maintain signed statements from the board members indicating that they received and read the prior report on examination.</p> <p>The Fund failed to take corrective action in response to this prior report violation. (See item 4 of this report)</p>
B	<p>The examiner recommends that the Fund comply with Section 312(b) of the New York Insurance Law by obtaining the signature of each board member indicating that they received and read the prior report on examination and maintain the signature for the examiner's review during the ensuing examination.</p> <p>The Fund failed to take corrective action in response to this prior report recommendation. (See item 4 of this report)</p>
C	<p>The examiner recommends that the board of trustees, or a committee thereof, review the Fund's investments and approve the purchase and sale of all investments at least annually, and note such approvals in the minutes. This is a repeat recommendation.</p> <p>The Fund failed to take corrective action in response to this prior report recommendation. (See item 4 of this report)</p>
D	<p>The Fund violated Section 1110(a) of the New York Insurance Law by using gift annuity agreement forms that were not filed with the Superintendent. This is a repeat violation.</p> <p>The Fund failed to take corrective action in response to this prior report violation. (See item 6 of this report)</p>
E	<p>The examiner recommends that the Fund file all annuity agreement forms that are in use in New York with the Superintendent. This is a repeat recommendation.</p> <p>The Fund failed to take corrective action in response to this prior report recommendation. (See item 4 of this report)</p>

9. SUMMARY AND CONCLUSIONS

Following are the violations and recommendations 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 maintain signed statements from the board members indicating that they received and read the prior report on examination. This is a repeat violation	5
B	The examiner recommends that the Fund comply with Section 312(b) of the New York Insurance Law by obtaining the signature of each board member indicating that they received and read the prior report on examination. This is a repeat recommendation	5
C	The examiner recommends that the board of trustees, or a committee thereof, approve the purchases and sales of all investments and note such approvals in the minutes. This is a repeat recommendation.	5
D	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.	7
E	The Fund violated Section 1110(a) of the New York Insurance Law by using gift annuity agreement forms that were not filed with the Superintendent. This is a repeat violation.	8
F	The examiner recommends that the Fund submit to the Superintendent any gift annuity agreement forms used during the examination period that have not been approved by the Superintendent. This is a repeat recommendation.	8
G	The examiner recommends that, upon the death of an annuitant, the Fund obtain and maintain a death certificate or other reliable documentary evidence that supports such information terminating an annuity contract.	8

<u>Item</u>	<u>Description</u>	<u>Page No(s).</u>
H	The examiner recommends that the Fund prepare and maintain a trial balance, general ledger, and transaction registers that reconcile to its filed annual statements.	9

Respectfully submitted,

_____/s/
Elkin Woods
Senior Insurance Examiner

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

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

_____/s/
Elkin Woods

Subscribed and sworn to before me
this _____ day of _____

APPOINTMENT NO. 31616

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:

ELKIN WOODS

as a proper person to examine the affairs of the

***SEGREGATED GIFT ANNUITY FUND OF THE
TEACHERS COLLEGE, COLUMBIA UNIVERSITY***

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*

