



NEW YORK STATE DEPARTMENT OF FINANCIAL SERVICES  
REPORT ON EXAMINATION  
OF THE  
SEGREGATED GIFT ANNUITY FUND  
OF THE  
NEW YORK AND PRESBYTERIAN HOSPITAL

CONDITION:

DECEMBER 31, 2015

DATE OF REPORT:

OCTOBER 7, 2016

NEW YORK STATE DEPARTMENT OF FINANCIAL SERVICES

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OF THE

SEGREGATED GIFT ANNUITY FUND

OF THE

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EXAMINER:

PHILIP YOUSSEF

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NEW YORK STATE  
DEPARTMENT *of*  
FINANCIAL SERVICES

Andrew M. Cuomo  
Governor

Maria T. Vullo  
Superintendent

December 2, 2016

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

Madam:

In accordance with instructions contained in Appointment No. 31463, dated April 25, 2016 and annexed hereto, an examination has been made into the condition and affairs of the Segregated Gift Annuity Fund of the New York and Presbyterian Hospital, hereinafter referred to as the “Fund,” at its home office located at 525 East 68<sup>th</sup> Street, New York, 10065.

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 statements signed by its 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 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 diversify its investment holdings. (See item 5 of this report).

The examiner recommends that the Fund obtain copies of the death certificates of annuitants for annuity contracts terminated. (See item 6 of this report)

## 2. SCOPE OF EXAMINATION

The prior examination was conducted as of December 31, 2010. This examination covers the period from January 1, 2011 through December 31, 2015. As necessary, the examiner reviewed transactions occurring subsequent to December 31, 2015 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, 2015 to determine whether the Fund's filed 2015 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 violation and recommendation contained in the prior report on examination. The results of such review are contained in item 7 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 New York and Presbyterian Hospital (the “Hospital”) is organized for the purpose of fostering the hospital’s mission and value and to encourage an environment where there is respect for the rights and safety of the patients and staff. Under the provisions of its by-laws, the Hospital is permitted to issue gift annuity agreements and it has done so since October, 2006. A special permit was granted to the Hospital by the Department on October 3, 2006, authorizing it to issue gift annuity agreements as specified in Section 1110 of the New York Insurance Law.

The Fund issues annuity agreements, calculates annuity benefit payments and retains the original individual agreements at its home office. All other operations related to the maintenance and settlement of annuities are handled by BNY Mellon (“BNY”), which also serves as the Fund’s custodian. BNY Mellon Wealth Management performs the investment management function on behalf of the Fund.

The management of the Hospital and the Fund and all of its affairs and property are entrusted to a board of trustees. The number of trustees is 85 regular voting trustees. As of December 31, 2015, the board consisted of 85 trustees. The trustees elect a President, a Secretary and a Treasurer. The nomination and election procedures of the trustees and their terms of office are set by the by-laws.

#### 4. CORPORATE GOVERNANCE

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

“(a) The superintendent shall forward to every insurer or other person examined a copy of the report on examination as filed for public inspection . . . (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 statements signed by its 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 and maintaining the signature of each board member indicating that they received and read the prior report on examination.

## 5. SIGNIFICANT FINANCIAL INFORMATION

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

	December 31, <u>2010</u>	December 31, <u>2015</u>	<u>Increase</u>
Admitted assets	<u>\$1,948,988</u>	<u>\$6,110,562</u>	<u>\$4,161,574</u>
Liabilities	<u>\$1,364,045</u>	<u>\$3,837,594</u>	<u>\$2,473,549</u>
Minimum required fund balance	\$ 136,405	\$ 383,759	\$ 247,354
Excess fund balance (surplus)	<u>448,538</u>	<u>1,889,209</u>	<u>1,440,671</u>
Total annuity fund balance	<u>\$ 584,943</u>	<u>\$2,272,968</u>	<u>\$1,688,025</u>
Total liabilities and annuity fund balance	<u>\$1,948,988</u>	<u>\$6,110,562</u>	<u>\$4,161,574</u>

The increase in assets, liabilities and annuity fund balance reflects an increase in the total number of annuities in force. Annuities increased from 42 with annual payment amounts of \$160,621 as of December 31, 2010 to a total of 64 with annual payment amounts of \$436,633 as of December 31, 2015.

The Fund's admitted assets, as of December 31, 2015 were invested mainly in common stocks (94.39%).

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 2015 annual statement on file, the Fund reported 11.85% of its admitted assets invested in the securities of Dreyfus Yield Enhancement Strategy Fund and 11.20% invested in the securities of BNY Mellon Bond Fund. The Fund's current concentration in the two mutual

funds make it highly unlikely that the Fund's other assets could provide a variability to offset the risks inherent in the mutual 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.

## 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 a sample of six annuity contracts terminated during the examination period revealed that in three cases reviewed, the Fund did not obtain a copy of the death certificate to confirm termination of the annuity contract. In two of the cases, the Fund obtained copies of the obituaries; in the other case, the Fund obtained a notice from the attorney of the deceased annuitant's estate.

The examiner recommends that the Fund obtain copies of the death certificates of annuitants for annuity contracts terminated.

## 7. PRIOR REPORT SUMMARY AND CONCLUSIONS

Following are the violation and recommendation 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 1110(a) of the New York Insurance Law by using annuity agreement forms that were not filed with the Superintendent.</p> <p>The examiner reviewed a sample of annuity contracts issued during the examination period and noted that the Fund used annuity agreement forms that were filed with and approved by the Superintendent.</p>
B	<p>The Examiner recommends that the Fund use the annuity agreement forms that were submitted and approved by the Superintendent.</p> <p>The examiner reviewed a sample of annuity contracts issued during the examination period and noted that the Fund used annuity agreement forms that were filed with and approved by the Superintendent.</p>

## 8. SUMMARY AND CONCLUSIONS

Following are the violation 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 statements signed by its board members indicating that they received and read the prior report on examination.	5
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.	5
C	The examiner recommends that the Fund diversify its investment holdings.	7
D	The examiner recommends that the Fund obtain copies of the death certificates of annuitants for annuity contracts terminated.	8

Respectfully submitted,

\_\_\_\_\_/s/  
Philip Youssef  
Insurance Examiner

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

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

\_\_\_\_\_/s/  
Philip Youssef

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

APPOINTMENT NO. 31463

NEW YORK STATE

**DEPARTMENT OF FINANCIAL SERVICES**

I, MARIA T. VULLO, Acting 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:

**PHILIP YOUSSEF**

as a proper person to examine the affairs of the

**SEGREGATED GIFT ANNUITY FUND OF THE  
NEW YORK AND PRESBYTERIAN HOSPITAL**

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

**FUND**

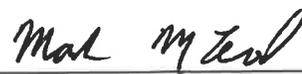
with such other information as he shall deem requisite.

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

this 25th day of April, 2016

MARIA T. VULLO  
Acting Superintendent of Financial Services

By:



MARK MCLEOD  
DEPUTY CHIEF - LIFE BUREAU

