



NEW YORK STATE DEPARTMENT OF FINANCIAL SERVICES  
REPORT ON EXAMINATION  
OF THE  
SEGREGATED GIFT ANNUITY FUND  
OF THE  
AMERICAN BAPTIST FOREIGN MISSION SOCIETY

CONDITION:

DECEMBER 31, 2015

DATE OF REPORT:

JULY 20, 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:

ASHOK REDDY

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NEW YORK STATE  
DEPARTMENT *of*  
FINANCIAL SERVICES

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Andrew M. Cuomo  
Governor

Maria T. Vullo  
Superintendent

October 3, 2016

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

Madam:

In accordance with instructions contained in Appointment No. 31445, 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 American Baptist Foreign Mission Society, hereinafter referred to as the "Fund." The Fund's home office is located at 588 N. Gulph Road, King of Prussia, Pennsylvania 19406.

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 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 examiner recommends that the Fund obtain broker's advices or other supporting documentation for its investment transactions and reconcile such advices to the monthly statements provided by the custodian. (See item 4 of this report)

The examiner's review of a sample of transactions did not reveal any differences which materially affected the Fund's financial condition as presented in its financial statements contained in the December 31, 2015 filed annual statement. (See item 5 of this report)

The examiner recommends that the Fund use the name it agreed to by board resolution as part of its permit application to the Department for a special permit to issue charitable gift annuities in New York. (See item 6 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 recommendations 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 American Baptist Foreign Mission Society (“the Society”) was organized by an act of the Assembly of the Commonwealth of Pennsylvania on June 15, 1821. The Society was organized for the purpose of performing ministry in the fields of education, development, health and the propagation of religion in foreign areas. The Society was incorporated in New York by an act of the Legislature on May 10, 1894, under the name of “American Baptist Missionary Union.” On January 18, 1910, this name was changed to its current name by an Order of the Supreme Court of the State of New York. The Society is also organized under the laws of the Commonwealth of Massachusetts.

Under the provisions of its by-laws, the Society is permitted to issue gift annuity agreements and it has done so since 1873. A special permit was granted to the Society by the Department on March 25, 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, with the exception of the administration of annuity benefit payments which are handled by the American Baptist Foundation (“ABF”). Custodial accounts and investments are managed by J.P. Morgan Private Banking.

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 board members consists of at least 17 persons. As of December 31, 2015, the board consisted of 21 members. The board elects the president and vice-president of the Fund. The nomination and election procedures of the board members and their terms of office are set by the by-laws.

#### 4. CORPORATE GOVERNANCE

The examiner reviewed the board of directors' minutes to determine if the board approved the purchases and sales of investments during the examination period. The minutes did not contain any indication that the board 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.

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 reconcile such advices to the monthly statements provided by the custodian.



## 5. SIGNIFICANT FINANCIAL INFORMATION

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

	December 31, <u>2010</u>	December 31, <u>2015</u>	<u>(Decrease)</u>
Admitted assets	\$ <u>1,061,554</u>	\$ <u>368,134</u>	\$( <u>693,420</u> )
Liabilities	\$ <u>320,814</u>	\$ <u>222,303</u>	\$ <u>(98,511)</u>
Minimum required fund balance	\$ 32,081	\$ 17,432	\$ (14,649)
Excess fund balance (surplus)	<u>708,659</u>	<u>128,399</u>	<u>(580,260)</u>
Total annuity fund balance	\$ <u>740,740</u>	\$ <u>145,831</u>	\$( <u>594,909</u> )
Total liabilities and annuity fund balance	\$ <u>1,061,554</u>	\$ <u>368,134</u>	\$( <u>693,420</u> )

The decrease in assets, liabilities and annuity fund balance reflects a decline in the total number of annuities in force. Annuities decreased from 124 with annual payment amounts of \$48,083 as of December 31, 2010 to a total of 66 with annual payment amounts of \$32,753 as of December 31, 2015.

The Fund's admitted assets, as of December 31, 2015, were invested mainly in bonds (84.16%) and cash and money market accounts (15.14%). All bonds held were investment grade.

## 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 benefit payments made to annuitants during the examination period revealed that the Fund's name did not appear on the annuity benefit checks issued to annuitants. Instead, the name of the Fund's administrator, American Baptist Foundation, is noted on the checks.

The examiner recommends that the Fund use the name it agreed to by board resolution as part of its permit application to the Department for a special permit to issue charitable gift annuities in New York.

The examiner's review of a sample of 57 annuity contracts terminated revealed that in 28 cases reviewed (49.12%), the Fund failed to obtain a copy of the death certificate or social security death index search result to confirm termination of the annuity contract. Instead, in 15 cases the Fund obtained notice from a cemetery or funeral home from a website; in five cases the Fund obtained copies of the obituaries from a website; in four cases the Fund obtained copies of the notices from the cemetery or funeral home from a website; in three cases the Fund obtained copies of a "Find A Grave" search result from a website; and in one instance the Fund obtained a copy of the obituary.

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 recommendations contained in the prior report on examination and the subsequent actions taken by the Fund in response to each recommendation:

<u>Item</u>	<u>Description</u>
A	<p>The examiner recommends that the Fund’s name, “American Baptist Foreign Mission Society Gift Annuity Fund” be included on all annuity benefit checks issued to annuitants.</p> <p>The examiner’s review of a sample of annuity benefit checks issued to annuitants revealed that the checks failed to contain the Fund’s name. Instead, the checks are issued in the name of American Baptist Foundation, the Fund’s administrator for the distribution of annuity benefit checks. Thus, a similar recommendation is contained in this report.</p>
B	<p>The examiner recommends that the Fund prepare its annual statements in accordance with the Department’s instructions for completing the New York state segregated gift annuity fund annual statements.</p> <p>The examiner’s review of the Fund’s annual statements during the examination period revealed recurring errors in the 2011 through 2013 statements. There were no recurrences of the errors noted, in the preparation of the 2014 and 2015 annual statements, with the exception of the prior year 2013 amounts reported in the 2014 statement.</p>

## 8. 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 board of directors, or a committee thereof, approve the purchases and sales of all investments and note such approvals in the minutes.	5
B	The examiner recommends that the Fund obtain broker's advices or other supporting documentation for its investment transactions and reconcile such advices to the monthly statements provided by the custodian.	5
C	The examiner recommends that the Fund use the name it agreed to by board resolution as part of its permit application to the Department for a special permit to issue charitable gift annuities in New York.	7
D	The examiner recommends that the Fund obtain copies of the death certificates of annuitants for annuity contracts terminated.	7

Respectfully submitted,

\_\_\_\_\_/s/  
Ashok Reddy  
Insurance Examiner

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

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

\_\_\_\_\_/s/  
Ashok Reddy

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

APPOINTMENT NO. 31445

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:

**ASHOK REDDY**

as a proper person to examine the affairs of the

**SEGREGATED GIFT ANNUITY FUND OF THE  
AMERICAN BAPTIST FOREIGN MISSION SOCIETY**

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

