



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

CONDITION:

DECEMBER 31, 2013

DATE OF REPORT:

JULY 15, 2015

NEW YORK STATE DEPARTMENT OF FINANCIAL SERVICES

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EXAMINER:

JUAN SOTO

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NEW YORK STATE  
DEPARTMENT *of*  
FINANCIAL SERVICES

Andrew M. Cuomo  
Governor

Maria T. Vullo  
Acting Superintendent

April 28, 2016

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

Madam:

In accordance with instructions contained in Appointment No. 31143, dated December 1, 2014 and annexed hereto, an examination has been made into the condition and affairs of the Segregated Gift Annuity Fund of the Columbia University, hereinafter referred to as “the Fund.” The Fund’s home office is located at 622 West 113<sup>th</sup> Street New York, NY 10025.

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 diversify its investment holdings. (See item 4 of this report)

The examiner recommends that the Fund adopt an Investment Strategy Statement. The Fund should exercise reasonable care, skill and caution to make and implement investment and management decisions as a prudent investor would for the entire portfolio. In doing so, the Fund should take into account present and future distributions to or for the beneficiaries and create a plan to meet the needs of those distributions to establish the ISS's risk, return, and time horizon objectives. (See item 4 of this report)

The examiner recommends that the Fund obtain copies of the death certificates of annuitants for annuity contracts terminated. (See item 5 of this report)

The examiner recommends that the Fund exercise due care in the preparation of its filed annual statement. This is a repeat recommendation. (See item 6 of this report)

## 2. SCOPE OF EXAMINATION

The prior examination was conducted as of December 31, 2008. This examination covers the period from January 1, 2009 through December 31, 2013. As necessary, the examiner reviewed transactions occurring subsequent to December 31, 2013 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, 2013 to determine whether the Fund's filed 2013 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 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

Columbia University (the “University”) is organized for the purpose of providing education in the Liberal Arts and Sciences. Under the provisions of its by-laws, the University is permitted to issue gift annuity agreements and it has done so since 1982. A special permit was granted to the University by the New York State Insurance Department on August 24, 1984, 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.

Bank of New York Mellon, North America (“BNY Mellon”) is the custodian of the Fund’s investments and investment manager. The BNY Mellon makes annuity benefit payments to annuitants and performs the accounting functions.

The management of the University and the Fund and all of its affairs and property are entrusted to a board of trustees. The number of trustees is limited to 24 regular voting trustees. As of December 31, 2013, the board consisted of 23 trustees. The trustees elect a chairman, one or more vice chairmen, a president and a clerk. The nomination and election procedures of the trustees and their term of office are set by the by-laws.

#### 4. SIGNIFICANT FINANCIAL INFORMATION

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

	December 31, <u>2008</u>	December 31, <u>2013</u>	<u>Increase</u>
Admitted assets	<u>\$13,516,666</u>	<u>\$25,935,008</u>	<u>\$12,418,342</u>
Liabilities	<u>\$10,194,173</u>	<u>\$14,827,275</u>	<u>\$ 4,633,102</u>
Minimum required annuity fund balance	\$ 1,019,417	\$ 1,482,727	\$ 463,310
Excess fund balance (surplus)	<u>2,303,076</u>	<u>9,625,006</u>	<u>7,321,930</u>
Total annuity fund balance	<u>\$ 3,322,493</u>	<u>\$11,107,733</u>	<u>\$ 7,785,240</u>
Total liabilities and annuity fund balance	<u>\$13,516,666</u>	<u>\$25,935,008</u>	<u>\$12,418,342</u>

The increase in assets, liabilities and annuity fund balance reflects \$10,000,000 in new gifts received during the examination period 2009 through 2013, and an increase in the total number of annuities in force. Annuities increased from 258 with annual payment amounts of \$1,372,510 as of December 31, 2008 to a total of 286 with annual payment amounts of \$1,707,166 as of December 31, 2013.

The Fund's admitted assets, as of December 31, 2013, were mainly invested in common stocks (98.12%).

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 2013 annual statement on file, the Fund reported: 35.5% invested in the securities of Dreyfus Basic S&P 500 Stock Index and 16.6% invested in the securities of Dreyfus Bond Market Index-Basic. The Fund's current concentration in the two securities makes it

highly unlikely that the Fund's other assets could provide a variability to offset the risks inherent in these 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.

The examiner recommends that the Fund adopt an Investment Strategy Statement. The Fund should exercise reasonable care, skill and caution to make and implement investment and management decisions as a prudent investor would for the entire portfolio. In doing so, the Fund should take into account present and future distributions to or for the beneficiaries and create a plan to meet the needs of those distributions to establish the ISS's risk, return, and time horizon objectives.

## 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.

The examiner's review of a sample of five annuity contracts terminated revealed that in all five cases reviewed, the Fund did not obtain a copy of the death certificate to confirm termination of the annuity contract. Instead, the Fund obtained copies of the obituaries for the annuity terminations selected for review.

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

## 6. ANNUAL STATEMENT REPORTING

The Department's Instructions for Completing the New York State Segregated Gift Annuity Fund Annual Statement for the year ended December 31, 2013, namely the Exhibit of Annuities in force in New York 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's Exhibit of Annuities in force in New York as expressed on page 3 of its 2013 Annual Statement is shown below:

1. Reserve	14,827,275
2. Number	286
3. Annualized amount of payments	1,707,166

By reporting the above inaccurate amounts, the Fund misstated the true figures for annuities, reserve amount and annualized amount of payments, in New York. Instead the Fund reported twice the same amounts and numbers that comprised line 1 of the “Exhibit of Annuities in Force,” which reflects figures for all states, not just New York. In the Exhibit shown above, the Fund should have reported only those annuities that were signed and delivered in New York or those agreements that can be allocated based on the mailing address of the annuitant in New York. The error in the preparation of the Fund's annual statement was identified during the examination and the Fund corrected the error for the 2014 annual statement filing.

The examiner recommends that the Fund exercise due care in the preparation of its filed annual statement. This is a repeat recommendation.

## 7. PRIOR REPORT SUMMARY AND CONCLUSIONS

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

<u>Item</u>	<u>Description</u>
A	The examiner recommends that the Fund exercise due care in the preparation of its filed annual statement.  A repeat recommendation is contained in this report.

## 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 Fund diversify its investment holdings.	6
B	The examiner recommends that the Fund adopt an Investment Strategy Statement. The Fund should exercise reasonable care, skill and caution to make and implement investment and management decisions as a prudent investor would for the entire portfolio. In doing so, the Fund should take into account present and future distributions to or for the beneficiaries and create a plan to meet the needs of those distributions to establish the ISS's risk, return, and time horizon objectives.	6
C	The examiner recommends that the Fund obtain copies of the death certificates of annuitants for annuity contracts terminated.	7
D	The examiner recommends that the Fund exercise due care in the preparation of its filed annual statement. This is a repeat recommendation.	8

Respectfully submitted,

\_\_\_\_\_/s/  
Juan Soto  
Senior Insurance Examiner

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

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

\_\_\_\_\_/s/  
Juan Soto

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

APPOINTMENT NO. 31143

NEW YORK STATE

**DEPARTMENT OF FINANCIAL SERVICES**

I, BENJAMIN M. LAWSKY, 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:

**JUAN SOTO**

as a proper person to examine the affairs of the

**SEGREGATED GIFT ANNUITY FUND OF THE  
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 1st day of December, 2014

BENJAMIN M. LAWSKY  
Superintendent of Financial Services

By:

  
\_\_\_\_\_  
MICHAEL MAFFEI  
ASSISTANT DEPUTY SUPERINTENDENT  
AND CHIEF OF THE LIFE BUREAU

