



NEW YORK STATE DEPARTMENT OF FINANCIAL SERVICES
REPORT ON EXAMINATION
OF THE
SEGREGATED GIFT ANNUITY FUND
OF THE
COVENANT HOUSE

CONDITION:

DECEMBER 31, 2013

DATE OF REPORT:

FEBRUARY 3, 2015

NEW YORK STATE DEPARTMENT OF FINANCIAL SERVICES

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OF THE

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EXAMINER:

AHMED SALEH

TABLE OF CONTENTS

<u>ITEM</u>		<u>PAGE NO.</u>
1.	Executive summary	2
2.	Scope of examination	3
3.	Description of Fund	4
4.	Corporate governance	5
5.	Significant financial information	6
6.	Treatment of annuitants	8
7.	Prior report summary and conclusions	9
8.	Summary and conclusions	10



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. 31145, dated April 8, 2014 and annexed hereto, an examination has been made into the condition and affairs of the Segregated Gift Annuity Fund of the Covenant House, hereinafter referred to as “the Fund.” The Fund’s home office is located at 5 Penn Plaza, 3rd Floor, New York, NY 10001.

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

The examiner's review of the Fund's treatment of annuitants did not reveal significant instances which deviated from the New York Insurance Law, Department regulations and circular letters and the operating rules of the Fund. (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 violation 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 Covenant House (the “Organization”) is organized for the purpose of providing shelter and services to homeless and runaway youths. In addition to shelter, food, clothing and crisis care, the Organization provides health care, education, vocational preparation, recreation, legal services, drug abuse treatment, prevention programs, mother and child programs, transitional living programs, street outreach and aftercare. Under the provisions of its by-laws, the Organization is permitted to issue gift annuity agreements and it has done so since 1992. A special permit was granted to the Organization by the Department on October 24, 1994, 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.

Custodial and investment services are provided by Comerica Bank & Trust, N.A., a financial services company headquartered in Dallas, TX. Administrative services, including preparation of the Fund’s annual statements, are provided by Hemmenway & Reinhardt, Inc. (“H&R”). H&R prepares quarterly annuity payments for annuitants, calculates required and excess reserves, and prepares the Fund’s annual statements.

The management of the Organization and the Fund and all of its affairs and property are entrusted to a board of trustees. The number of trustees is limited to no less than six regular voting trustees. As of December 31, 2013, the board consisted of 25 trustees. The trustees elect a president, vice presidents, a secretary, and a treasurer of the Organization and one or more vice-chairperson of the board. The nomination and election procedures of the trustees and their terms of office are set by the by-laws.

4. CORPORATE GOVERNANCE

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

5. SIGNIFICANT FINANCIAL INFORMATION

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

	<u>December 31,</u> <u>2008</u>	<u>December 31,</u> <u>2013</u>	<u>Increase</u> <u>(Decrease)</u>
Admitted assets	<u>\$4,040,793</u>	<u>\$3,724,226</u>	<u>\$(316,567)</u>
Liabilities	<u>\$3,384,496</u>	<u>\$2,876,815</u>	<u>\$(507,681)</u>
Minimum required annuity fund balance	\$ 338,450	\$ 287,682	\$ (50,768)
Excess fund balance (surplus)	<u>317,847</u>	<u>559,729</u>	<u>241,882</u>
Total annuity fund balance	<u>\$ 656,297</u>	<u>\$ 847,411</u>	<u>\$191,114</u>
Total liabilities and annuity fund balance	<u>\$4,040,793</u>	<u>\$3,724,226</u>	<u>\$(316,567)</u>

The decrease in assets and liabilities reflects a decrease in the total number of annuities in force. Annuities decreased from 446 with annual payment amounts of \$502,700 as of December 31, 2008 to a total of 426 with annual payment amounts of \$397,195 as of December 31, 2013.

The increase in annuity fund balance is attributable to realized capital gains of \$99,469 in 2009; \$19,809 in 2011; \$202,910 in 2012; and \$10,639 in 2013.

The Fund's admitted assets, as of December 31, 2013, were invested mainly in common stocks (57.64%) and bonds (38.47%). All bonds held were investment grade.

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: 16.42% invested in the securities of Blackrock Bond Allocation Target SHS (CUSIP 092480102) and 13.77% invested in the securities of Blackrock Bond Allocation Target SHS (CUSIP 092480201). The

Fund's current concentration in the two mutual funds 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.

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. Based upon the sample reviewed, no significant findings were noted.

7. PRIOR REPORT SUMMARY AND CONCLUSIONS

Following is the violation contained in the prior report on examination and the subsequent action taken by the Fund in response to the 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 statements signed by its board members indicating that they received and read the prior report on examination.</p> <p>The Fund maintains statements signed by each board member indicating that each board member received and read the prior report on examination.</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 trustees, 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 diversify its investment holdings.	7
C	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.	7

Respectfully submitted,

_____/s/
Ahmed Saleh
Senior Insurance Examiner

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

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

_____/s/
Ahmed Saleh

Subscribed and sworn to before me
this _____ day of _____

APPOINTMENT NO. 31145

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:

AHMED SALEH

as a proper person to examine the affairs of the

**SEGREGATED GIFT ANNUITY FUND OF THE
COVENANT HOUSE**

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 8th day of April, 2014

BENJAMIN M. LAWSKY
Superintendent of Financial Services

By:



MICHAEL MAFFEI
ASSISTANT DEPUTY SUPERINTENDENT
AND CHIEF OF THE LIFE BUREAU

