



NEW YORK STATE DEPARTMENT OF FINANCIAL SERVICES

REPORT ON EXAMINATION

OF THE

SEGREGATED GIFT ANNUITY FUND

OF THE

FELLOWSHIP OF RECONCILIATION, INC.

CONDITION:

DECEMBER 31, 2016

DATE OF REPORT:

OCTOBER 20, 2017

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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

July 12, 2018

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

Madam:

In accordance with instructions contained in Appointment No. 31599, 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 Fellowship of Reconciliation, Inc. hereinafter referred to as “the Fund.” The Fund’s home office is located at 521 North Broadway, Nyack, New York 10960.

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 National Council, 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 not to diversify, 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 examiner recommends that the Fund adopt an Investment Strategy Statement that refers to the prudent investor standard as defined in Section 11-2.3 of the Estates, Powers and Trusts Law, which standard, as specified in Section 1110(b) of the New York Insurance Law, governs the manner in which the required admitted assets of a segregated gift annuity fund shall be invested. 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 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 its filed annual statements in accordance with the instructions for completing the New York State Segregated Gift Annuity Fund Annual Statement. (See item 7 of this report)

The examiner recommends that the Fund exercise due care in the preparation of its filed annual statements. (See item 7 of this report)

The examiner recommends that the Fund prepare and maintain a complete set of Fund books and records, including a trial balance and general ledger. (See item 8 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 recommendations contained in the prior report on examination. The results of such review are contained in item 9 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 Fellowship of Reconciliation, Inc. (the “Fellowship”) is organized for the purpose of exploring the power of love and truth for resolving human conflict through nonviolent reconciliation, and to achieve a just and peaceful world community, with full dignity and freedom for every human being. The Fellowship has been issuing gift annuity agreements since 1968. A special permit was granted to the Fellowship of Reconciliation, Inc. by the Department on May 8, 1984, authorizing it to issue gift annuity agreements as specified in Section 1110 of the New York Insurance Law.

Wells Fargo is the Fund’s custodian and investment manager. Wells Fargo also performs accounting functions, administers annuity benefit payments to annuitants, and is responsible for the production of 1099-R tax forms. All other operations related to the issuance, maintenance and settlement of annuity agreements are handled by the Fund.

The management of the Fellowship and the Fund and all of its affairs and property are entrusted to a National Council. The number of Council members is comprised of 24 regular voting members. As of December 31, 2016, the board consisted of 16 members. The Council elects a chairperson, a vice chairperson, a treasurer and an assistant treasurer. The nomination and election procedures of the Council members and their terms of office are set by the by-laws.

#### 4. CORPORATE GOVERNANCE

The examiner reviewed the National Council minutes to determine whether the Council members approved the purchases and sales of investments during the examination period. The minutes did not contain any indication that the National Council members approved the purchases and sales of investments during the examination period.

The examiner recommends that the National Council, 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 summary table indicates the growth (decline) 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>	Increase (Decrease)
Admitted assets	<u>\$1,475,901</u>	<u>\$1,086,451</u>	<u>\$(389,450)</u>
Liabilities	<u>\$1,075,233</u>	<u>\$ 885,737</u>	<u>\$(189,496)</u>
Minimum required fund balance	\$ 107,523	\$ 88,574	\$ (18,949)
Excess fund balance (surplus)	<u>293,145</u>	<u>112,140</u>	<u>(181,005)</u>
Total annuity fund balance	<u>\$ 400,668</u>	<u>\$ 200,714</u>	<u>\$(199,954)</u>
Total liabilities and annuity fund balance	<u>\$1,475,901</u>	<u>\$1,086,451</u>	<u>\$(389,450)</u>

The decrease in assets, liabilities and annuity fund balance reflects a decrease in the total number of annuities in force. Annuities decreased from 157 with annual payment amounts of \$140,534 as of December 31, 2011 to a total of 104 with annual payment amounts of \$110,882 as of December 31, 2016.

The Fund's admitted assets, as of December 31, 2016, were invested mainly in common stocks (98.03%) and mutual funds (1.97%).

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: 28.61% of its admitted assets invested in VANGUARD INTERMEDIATE TERM B, 17.15% invested in ISHARES CORE S & P 500 ETF and 11.08% invested in VANGUARD INTERMEDIATE-TERM C. The Fund's current concentration in these funds could make it less likely that the Fund's other assets can provide a variability to offset the risks inherent in these funds.

Based upon the concentrations in the above funds, 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 not to diversify, 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 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.

The examiner's review of the Fund's Investment Strategy Statement revealed that it failed to refer to the prudent investor standard as defined in Section 11-2.3 of the Estates, Powers and Trusts Law.

The examiner recommends that the Fund adopt an Investment Strategy Statement that refers to the prudent investor standard as defined in Section 11-2.3 of the Estates, Powers and Trusts Law, which standard, as specified in Section 1110(b) of the New York Insurance Law, governs the manner in which the required admitted assets of a segregated gift annuity fund shall be invested. 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.

The examiner's review of a sample of 7 annuity contracts terminated revealed that in 2 of the 7 cases (28.57%) reviewed, 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 REPORTING

The Department's Instructions for Completing the New York State Segregated Gift Annuity Fund Annual Statement for the year ended December 31, 2014, 2015 and 2016, namely Exhibit 1, Verification of Investment Income, states the following:

“Line 1: Column 6 should equal the amount reported for Totals in Schedule A, Part 3, Column 9.”

In the Fund's filed 2014 annual statement, the Fund reported \$34,366 in interest and dividends received during the year for common stock, compared to \$27,936 in Schedule A, Part 3, Column 9. In the Fund's filed 2015 annual statement, the Fund listed \$32,279 as interest and dividends received during the year for common stock, compared to \$20,850 in Schedule A, Part 3, Column 9. In the Fund's filed 2016 annual statement, the Fund recorded \$30,511 in interest and dividends received during the year for common stock, compared to \$10,701 in Schedule A, Part 3, Column 9.

The Department's Instructions for Completing the New York State Segregated Gift Annuity Fund Annual Statement for the year ended December 31, 2014 and 2016, namely the Exhibit of Annuities in Force in New York, states the following:

“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.”

In the Fund's filed 2014 annual statement, the Fund reported 17 annuities in force in New York with a reserve of \$81,710 and annualized payments of \$29,478. The examiner's recalculation of New York reserves based on the reserve listing filed by the Fund noted that the Fund should have reported 17 annuities in force in New York with a reserve of \$178,783 and annualized payments of \$25,124.

In the Fund's filed 2016 annual statement, the Fund reported 17 annuities in force in New York with a reserve of \$146,455 and annualized payments of \$21,563. The examiner's recalculation of reserves based on the filed reserve listing indicated that the Fund should have reported 17 annuities in force in New York with a reserve of \$163,845 and annualized payments of \$25,124. This does not affect the overall reporting of the rest of the Fund's filed annual statements.

The examiner recommends that the Fund prepare its filed annual statements in accordance with the instructions for completing the New York State Segregated Gift Annuity Fund Annual Statement.

The examiner noted that, in the Fund's 2014 reserve listing, two (2) gifts conditioned upon annuity agreements were received by the Fund during 2014. The amount of the two gifts were \$175,000 and \$16,145, respectively. These gifts were reported as received during 2015 in the 2015 annual statement. Using the 2014 reserve listing information, these gifts should have been reported as received during 2014.

The examiner recommends that the Fund exercise due care in the preparation of its filed annual statements.

## 8. ANNUAL STATEMENT WORKPAPERS

The examiner requested a copy of the Fund's trial balance and general ledger as of December 31, 2016. The Fund was unable to provide a copy of the Fund's trial balance and general ledger for 2016 or for any other years during the period under examination.

The examiner recommends that the Fund prepare and maintain a complete set of Fund books and records, including a trial balance and general ledger.

## 9. 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 citation:

<u>Item</u>	<u>Description</u>
A	<p>The examiner recommends that the National Council or a committee thereof, approve the purchases and sales of all investments and note such approval in the minutes.</p> <p>The Fund failed to approve the purchases and sales of all investments and note such approvals in the minutes. A similar recommendation appears in this report on examination.</p>
B	<p>The examiner recommends that prospectively, the Fund treat annuitants fairly and equally by using pay out rates suggested by the American Council on Gift Annuities.</p> <p>The rates for the new annuities issued during the examination period were determined using the American Council on Gift Annuities tables.</p>
C	<p>The examiner recommends that the fund exercise due care in the preparation of the annual statements.</p> <p>A similar recommendation appears in this report on examination.</p>

## 10. 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 National Council, 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 strengthen the diversification of its investment holdings. 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.	7
C	The examiner recommends that the Fund adopt an Investment Strategy Statement that refers to the prudent investor standard as defined in Section 11-2.3 of the Estates, Powers and Trusts Law, which standard, as specified in Section 1110(b) of the New York Insurance Law, governs the manner in which the required admitted assets of a segregated gift annuity fund shall be invested. 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
D	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
E	The examiner recommends that the Fund prepare its filed annual statements in accordance with the instructions for completing the New York State Segregated Gift Annuity Fund Annual Statement.	10
F	The examiner recommends that the Fund exercise due care in the preparation of its filed annual statements.	10

<u>Item</u>	<u>Description</u>	<u>Page No(s).</u>
G	The examiner recommends that the Fund prepare and maintain a complete set of Fund books and records, including a trial balance and general ledger.	11

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 him knowledge and belief.

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

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

*APPOINTMENT NO. 31599*

**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:

**PHILIP YOUSSEF**

*as a proper person to examine the affairs of the*

**SEGREGATED GIFT ANNUITY FUND OF THE  
FELLOWSHIP OF RECONCILIATION, INC.**

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

**FUND**

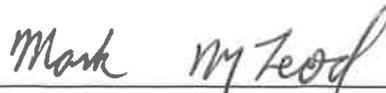
*with such other information as he shall deem requisite.*

*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  
DEPUTY CHIEF - LIFE BUREAU

