



NEW YORK STATE DEPARTMENT OF FINANCIAL SERVICES

REPORT ON EXAMINATION

OF THE

SEGREGATED GIFT ANNUITY FUND

OF THE

AMERICAN COMMITTEE FOR SHAARE ZEDEK HOSPITAL IN

JERUSALEM, INC.

CONDITION:

DECEMBER 31, 2014

DATE OF REPORT:

AUGUST 31, 2015

NEW YORK STATE DEPARTMENT OF FINANCIAL SERVICES

REPORT ON EXAMINATION

OF THE

SEGREGATED GIFT ANNUITY FUND

OF THE

AMERICAN COMMITTEE FOR SHAARE ZEDEK HOSPITAL IN JERUSALEM, INC.

AS OF

DECEMBER 31, 2014

DATE OF REPORT:

AUGUST 31, 2015

EXAMINER:

CHRISTINE D. MAVOUR

## 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.	Summary and conclusions	9



NEW YORK STATE  
DEPARTMENT *of*  
FINANCIAL SERVICES

Andrew M. Cuomo  
Governor

Maria T. Vullo  
Superintendent

September 28, 2016

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

Madam:

In accordance with instructions contained in Appointment No. 31299, dated July 27, 2015, and annexed hereto, an examination has been made into the condition and affairs of the Segregated Gift Annuity Fund of the American Committee for Shaare Zedek Hospital in Jerusalem, Inc., hereinafter referred to as the “Fund.” The Fund’s home office is located at 55 West 39 Street, 4<sup>th</sup> Floor, New York, New York 10018.

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

The examiner recommends that the Fund adopt an Investment Strategy Statement (“ISS”). 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

This is the first examination of the Fund since it received its special permit in 2010 to issue gift annuity agreements in New York. This examination covers the period from February 26, 2010 through December 31, 2014. As necessary, the examiner reviewed transactions occurring subsequent to December 31, 2014 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, 2014 to determine whether the Fund's filed 2014 annual statement fairly presents its financial condition. The examiner reviewed the Fund's income and disbursements necessary to accomplish such verification.

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 Committee for Shaare Zedek Hospital in Jerusalem, Inc. (the “Hospital”) is organized for the purpose of providing financial support to fund services, capital projects, research and the purchase of equipment for Shaare Zedek Medical Center in Jerusalem. Under the provisions of its by-laws, the Hospital is permitted to issue gift annuity agreements and it has done so since July 26, 1999. A special permit was granted to the Hospital by the Department on February 26, 2010, 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.

Comerica Bank & Trust, North America is the custodian of the Fund’s investments. Alliance Bernstein LP provides investment management services for the sales and purchases of investments.

The management of the Hospital and the Fund and all of its affairs and property are entrusted to a board of directors. The number of directors is limited to no more than 20 regular voting directors. As of December 31, 2014, the board consisted of 20 directors. The directors elect a chairperson, a vice chairperson, a president, one or more vice presidents, a secretary and a treasurer. The nomination and election procedures of the directors 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 sale of investments during the examination period.

The examiner recommends that the board of directors, or a committee thereof, approve the purchase 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>2010</u>	<u>December 31,</u> <u>2014</u>	<u>Increase</u> <u>(Decrease)</u>
Admitted assets	<u>\$3,620,723</u>	<u>\$3,450,118</u>	<u>\$(170,605)</u>
Liabilities	<u>\$2,765,463</u>	<u>\$2,132,115</u>	<u>\$(633,348)</u>
Minimum required fund balance	\$ 276,546	\$ 213,212	\$ (63,334)
Excess fund balance (surplus)	<u>578,714</u>	<u>1,104,791</u>	<u>526,077</u>
Total annuity fund balance	<u>\$ 855,260</u>	<u>\$1,318,003</u>	<u>\$ 462,743</u>
Total liabilities and annuity fund balance	<u>\$3,620,723</u>	<u>\$3,450,118</u>	<u>\$(170,605)</u>

The decrease in assets and liabilities reflects a decrease in annuities in force. Annuities increased from 75 with annual payment amounts of \$380,325 as of December 31, 2010 to a total of 81 with annual payment amounts of \$388,065 as of December 31, 2014.

The increase in annuity fund balance is attributable to the decrease in liabilities due to the decrease in annuities in force along with an increase in the market value of investments in common stocks.

The Fund's admitted assets, as of December 31, 2014, were invested mainly in common stocks (84.03%) and bonds (15.89%). 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 2014 annual statement on file, the Fund reported 29.05% of its admitted assets invested in the securities of Alliance Bernstein Inter Duration Portfolio mutual fund and 11.83% invested in the securities of Alliance Bernstein Intl Portfolio mutual fund. 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. 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 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/  
Christine D. Mavour  
Senior Insurance Examiner

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

Christine D. Mavour, being duly sworn, deposes and says that the foregoing report, subscribed by her, is true to the best of her knowledge and belief.

\_\_\_\_\_/s/  
Christine D. Mavour

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

APPOINTMENT NO. 31299

NEW YORK STATE

**DEPARTMENT OF FINANCIAL SERVICES**

I, ANTHONY J. ALBANESE, 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:

**CHRISTINE MAVOUR**

as a proper person to examine the affairs of the

**SEGREGATED GIFT ANNUITY FUND OF THE  
AMERICAN COMMITTEE FOR SHAARE ZEDEK HOSPITAL IN JERUSALEM, INC.**

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

**FUND**

with such other information as she 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 27th day of July, 2015

ANTHONY J. ALBANESE  
Acting Superintendent of Financial Services

By:



MARK MCLEOD  
ASSISTANT CHIEF - LIFE BUREAU

