



NEW YORK STATE DEPARTMENT OF FINANCIAL SERVICES  
REPORT ON EXAMINATION  
OF THE  
SEGREGATED GIFT ANNUITY FUND  
OF THE  
NORTH SHORE-LONG ISLAND JEWISH HEALTH SYSTEM FOUNDATION

CONDITION:

DECEMBER 31, 2014

DATE OF REPORT:

JULY 17, 2015

NEW YORK STATE DEPARTMENT OF FINANCIAL SERVICES  
REPORT ON EXAMINATION  
OF THE  
SEGREGATED GIFT ANNUITY FUND  
OF THE  
NORTH SHORE-LONG ISLAND JEWISH HEALTH SYSTEM FOUNDATION  
AS OF  
DECEMBER 31, 2014

DATE OF REPORT:

JULY 17, 2015

EXAMINER:

ELKIN WOODS

## 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.	Significant financial information	5
5.	Treatment of annuitants	7
6.	Summary and conclusions	8



NEW YORK STATE  
DEPARTMENT *of*  
FINANCIAL SERVICES

Andrew M. Cuomo  
Governor

Maria T. Vullo  
Superintendent

December 1, 2016

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

Madam:

In accordance with instructions contained in Appointment No. 31322, dated June 26, 2015 and annexed hereto, an examination has been made into the condition and affairs of the Segregated Gift Annuity Fund of the North Shore-Long Island Jewish Health System Foundation, hereinafter referred to as the "Fund." The Fund's home office is located at 125 Community Drive, Great Neck, NY 11021.

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 (“ISS”). Such a Statement should refer 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 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)

## 2. SCOPE OF EXAMINATION

This is the first examination of the Fund since it received its special permit to issue gift annuity agreements in 2010. This examination covers the period from April 2, 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 North Shore-Long Island Jewish Health System Foundation (the “Foundation”) is organized for the purpose of accepting, administering and disbursing funds for the exclusive use and benefit of North Shore-Long Island Jewish Health System and to solicit funds from the general public, public and private foundations and federal, state and local government to be used exclusively for such purposes. Under the provisions of its by-laws, the Foundation is permitted to issue gift annuity agreements and it has done so since 1999. A special permit was granted to the Foundation by the Department on April 2, 2010, authorizing it to issue gift annuity agreements as specified in Section 1110 of the New York Insurance Law. The Foundation outsources the following functions to PNC Institutional Asset Management: gift annuitant recording, issuance of gift annuity payments, gift annuity tax reporting, gift annuity reserve calculations, Financial Accounting Standards Board (“FASB”) calculations and cash management. The Foundation hires a C.P.A. to prepare the Fund’s annual statements.

The Fund is responsible for marketing the gift annuity program (prospect research, solicitations by mail, telephone and website) and consultations with prospective donors, developing relationships with members of the foundation board, the boards of its affiliated hospitals, the professional staff in the hospitals, the members of its auxiliary organizations and grateful patients. The Fund actively participates in and makes presentations to professional organizations of lawyers, accountants, investment advisors, insurance specialists, financial planners and other allied professionals. The Fund prepares illustrations, describes and shares the illustrations with professional donors and their advisers, and prepares the gift annuity contracts.

PNC Institutional Asset Management provides custodial services under an agreement the Fund executed with Mercantile-Safe Deposit and Trust Company (“Mercantile-Safe”) on May 2, 2003. Mercantile-Safe was subsequently acquired by PNC Bank, National Association on September 14, 2007.

The management of the Foundation and the Fund and all of its affairs and property are entrusted to a board of trustees. The number of trustees is flexible depending on a vote by the board of trustees. As of December 31, 2014, the board consisted of 117 trustees. The trustees elect a Chairman, President, Treasurer and Secretary. The nomination and election procedures of the trustees and their terms 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>2010</u>	December 31, <u>2014</u>	<u>Increase</u>
Admitted assets	<u>\$4,209,498</u>	<u>\$8,576,067</u>	<u>\$4,366,569</u>
Liabilities	<u>\$2,729,598</u>	<u>\$4,909,533</u>	<u>\$2,179,935</u>
Minimum required fund balance	\$ 272,960	\$ 490,953	\$ 217,993
Excess fund balance (surplus)	<u>1,206,940</u>	<u>3,175,581</u>	<u>1,968,641</u>
Total annuity fund balance	<u>\$1,479,900</u>	<u>\$3,666,534</u>	<u>\$2,186,634</u>
Total liabilities and annuity fund balance	<u>\$4,209,498</u>	<u>\$8,576,067</u>	<u>\$4,366,569</u>

The increase in assets, liabilities and annuity fund balance reflects an increase in the total number of annuities in force. Annuities increased from 45 with annual payment amounts of \$320,571 as of December 31, 2010 to a total of 68 with annual payment amounts of \$449,830 as of December 31, 2014.

The Fund's admitted assets, as of December 31, 2014, were invested mainly in common stocks (97.84%).

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 96.74% invested in the securities of TIFF Multi Asset Fund - Principal mutual fund. The Fund's current concentration in this mutual fund makes it highly unlikely that the Fund's other assets could provide a variability to offset the risks inherent in this fund.

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. Such a Statement should refer 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.

## 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 eight annuity contracts terminated revealed that in all eight cases reviewed, the Fund did not obtain a copy of the death certificate to confirm termination of the annuity contract.

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

## 6. 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. Such a Statement should refer 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
C	The examiner recommends that the Fund obtain copies of the death certificates of annuitants for annuity contracts terminated.	7

Respectfully submitted,

\_\_\_\_\_/s/  
Elkin Woods  
Senior Insurance Examiner

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

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

\_\_\_\_\_/s/  
Elkin Woods

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

APPOINTMENT NO. 31322

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:

**ELKIN WOODS**

as a proper person to examine the affairs of the

**SEGREGATED GIFT ANNUITY FUND OF THE**

**NORTH SHORE-LONG ISLAND JEWISH HEALTH SYSTEM FOUNDATION**

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 26th day of June, 2015

ANTHONY J. ALBANESE  
Acting Superintendent of Financial Services

By:



MARK MCLEOD  
ASSISTANT CHIEF - LIFE BUREAU

