



NEW YORK STATE DEPARTMENT OF FINANCIAL SERVICES
REPORT ON EXAMINATION
OF THE
SEGREGATED GIFT ANNUITY FUND
OF THE
EMMA WILLARD SCHOOL

CONDITION:

DECEMBER 31, 2014

DATE OF REPORT:

JULY 30, 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
Superintendent

November 25, 2016

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

Madam:

In accordance with instructions contained in Appointment No. 31310, dated July 22, 2015 and annexed hereto, an examination has been made into the condition and affairs of the Segregated Gift Annuity Fund of the Emma Willard School, hereinafter referred to as the "Fund." The Fund's home office is located at 285 Pawling Avenue, Troy, NY 12180.

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 use the name it agreed to by board resolution as part of its permit application to the Department for a special permit to issue charitable gift annuities in New York, or a similar name acceptable to the Department, on its annuity benefit checks. (See item 6 of this report)

The examiner recommends that the Fund obtain copies of the death certificates of annuitants for annuity contracts terminated. (See item 6 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 8, 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.

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 Emma Willard School (the “School”) was founded in 1814 and is organized for the purpose of benefiting young women from as rigorous an education as the best available to young men. Under the provisions of its by-laws, the School is permitted to issue gift annuity agreements and it has done so since 2010. A special permit was granted to the School by the Department on April 8, 2010, authorizing it to issue gift annuity agreements as specified in Section 1110 of the New York Insurance Law. The School’s business office reconciles the account statements to its general ledger. The Development office keeps up with all of the donor relations with the annuitants. The School’s Investment Committee approves trades within the Fund’s portfolio.

KeyBank National Association (“KeyBank”) is the Fund’s custodian and investment manager. KeyBank performs several administrative functions on behalf of the Fund, including record keeping of donor data, tax reporting, production of all federal tax forms (1099), production of gift annuity reserve reports, Financial Accounting Standards Board (“FASB”) reports, and performance measurement and reporting on behalf of the Fund.

The management of the School and the Fund and all of its affairs and property are entrusted to a board of trustees. The number of trustees shall not be less than 11 but not more than 35 regular voting trustees. As of December 31, 2014, the board consisted of 29 trustees. The trustees elect a Chair, one or more Vice-Chair(s), Secretary, Treasurer, Parent Trustee(s), Faculty and Staff Trustee(s), and Ex-Officio Trustee(s). The nomination and election procedures of the trustees and their terms of office are set by the by-laws. The board of trustees appoint a Head of School who also serves as the Chief Executive Officer and President to manage the affairs of the School.

4. CORPORATE GOVERNANCE

The examiner reviewed the board of trustees' minutes to determine if the board approved the purchases and sales of investments during the examination period. The minutes contained indication that the board approved the purchases and sales of investments at one meeting held in 2013; however, the minutes did not contain any indication that the board approved the purchases and sales of investments during the entire 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 during the period under review:

	<u>December 31,</u> <u>2010</u>	<u>December 31,</u> <u>2014</u>	<u>Increase</u>
Admitted assets	<u>\$537,367</u>	<u>\$648,271</u>	<u>\$110,904</u>
Liabilities	<u>\$361,237</u>	<u>\$376,122</u>	<u>\$ 14,885</u>
Minimum required fund balance	\$ 36,124	\$ 37,612	\$ 1,488
Excess fund balance (surplus)	<u>140,006</u>	<u>234,537</u>	<u>94,531</u>
Total annuity fund balance	<u>\$176,130</u>	<u>\$272,149</u>	<u>\$ 96,019</u>
Total liabilities and annuity fund balance	<u>\$537,367</u>	<u>\$648,271</u>	<u>\$110,904</u>

The increase in assets, liabilities and annuity fund balance reflects an increase in the total number of annuities in force. Annuities increased from 30 with annual payment amounts of \$49,021 as of December 31, 2010 to a total of 31 with annual payment amounts of \$49,194 as of December 31, 2014.

The increase in assets and annuity fund balance is also attributable to 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 (96.13%).

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: 15.52% invested in the securities of JPMorgan US Equity Fund Open-end Fund Institutional mutual fund; 14.34% invested in the securities of Harbor International Fund Open-end Fund mutual fund; and 13.26%

invested in the securities of Principal MidCap Fund Open-end Fund Institutional mutual fund. The Fund's current concentration in the three 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.

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 annuity benefit payments made to annuitants during the examination period revealed that only the name of the custodian, not the Fund's name, appeared on the annuity benefit checks.

The examiner recommends that the Fund use the name it agreed to by board resolution as part of its permit application to the Department for a special permit to issue charitable gift annuities in New York, or a similar name acceptable to the Department, on its annuity benefit checks.

The examiner's review of a sample of four annuity contracts terminated revealed that in three out of the four cases reviewed, the Fund did not obtain a copy of the death certificate to confirm termination of the annuity contract. Instead, in the three cases the Fund obtained copies of the obituaries to confirm termination of each annuity contract.

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

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 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 use the name it agreed to by board resolution as part of its permit application to the Department for a special permit to issue charitable gift annuities in New York, or a similar name acceptable to the Department, on its annuity benefit checks.	8
D	The examiner recommends that the Fund obtain copies of the death certificates of annuitants for annuity contracts terminated.	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. 31310

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:

JUAN SOTO

as a proper person to examine the affairs of the

SEGREGATED GIFT ANNUITY FUND OF THE

EMMA WILLARD SCHOOL

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 22nd day of July, 2015

ANTHONY J. ALBANESE

Acting Superintendent of Financial Services

By:

Mark McLeod

MARK MCLEOD

ASSISTANT CHIEF - LIFE BUREAU

