



NEW YORK STATE DEPARTMENT OF FINANCIAL SERVICES
REPORT ON EXAMINATION
OF THE
SEGREGATED GIFT ANNUITY FUND
OF THE
METROPOLITAN MUSEUM OF ART

CONDITION:

DECEMBER 31, 2014

DATE OF REPORT:

JUNE 15, 2015

NEW YORK STATE DEPARTMENT OF FINANCIAL SERVICES

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OF THE

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EXAMINER:

JAMES WANG

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NEW YORK STATE
DEPARTMENT *of*
FINANCIAL SERVICES

Andrew M. Cuomo
Governor

Maria T. Vullo
Superintendent

June 20, 2016

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

Madam:

In accordance with instructions contained in Appointment No. 31318, dated May 14, 2015 and annexed hereto, an examination has been made into the condition and affairs of the Segregated Gift Annuity Fund of the Metropolitan Museum of Art, hereinafter referred to as the “Fund,” at its home office located at 1000 Fifth Avenue, New York, New York 10028.

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 obtain copies of the death certificates of annuitants for annuity contracts terminated. (See item 5 of this report)

2. SCOPE OF EXAMINATION

The prior examination was conducted as of December 31, 2009. This examination covers the period from January 1, 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. The examiner reviewed the prior report on examination which did not contain any violations, recommendations or comments.

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 Metropolitan Museum of Art (the “Museum”) is organized for the purpose of: establishing and maintaining in the city of New York a museum and library of art; encouraging and developing the study of the fine arts; and the application of arts to manufacture and practical life, of advancing the general knowledge of kindred subjects, and to that end, of furnishing popular instruction. Under the provisions of its by-laws, the Museum is permitted to issue gift annuity agreements and it has done so since 1994. A special permit was granted to the Museum by the Department on September 29, 1995, 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. Bank of New York - Mellon N.A. (“BNY Mellon”) is the custodian of the Fund’s assets and the Fund’s investment manager as of December 31, 2014.

The management of the Museum and the Fund and all of its affairs and property are entrusted to a board of trustees. The number of trustees is limited to 40 regular voting trustees. As of December 31, 2014, the board consisted of 37 trustees. The trustees elect a chairman and one or more vice chairmen. In accordance with the Museum’s by-laws, the President is a staff member hired by the board of trustees who reports to the Director and Chief Executive Officer. The Chief Executive Officer is designated by the Board of Trustees. The nomination and election procedures of the trustees and their term 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>2009</u>	December 31, <u>2014</u>	<u>Increase</u>
Admitted assets	\$ <u>12,471,728</u>	\$ <u>15,641,345</u>	\$ <u>3,169,617</u>
Liabilities	\$ <u>8,571,906</u>	\$ <u>10,703,563</u>	\$ <u>2,131,657</u>
Minimum required fund balance	\$ 857,191	\$ 1,070,356	\$ 213,165
Excess fund balance (surplus)	<u>3,042,631</u>	<u>3,867,426</u>	<u>824,795</u>
Total annuity fund balance	\$ <u>3,899,822</u>	\$ <u>4,937,782</u>	\$ <u>1,037,960</u>
Total liabilities and annuity fund balance	\$ <u>12,471,728</u>	\$ <u>15,641,345</u>	\$ <u>3,169,617</u>

Note: Any differences are due to rounding.

The increase in assets, liabilities and annuity fund balance reflects an increase in the total number of annuities in force. Annuities increased from 287 with annual payment amounts of \$1,062,541 as of December 31, 2009 to a total of 355 with annual payment amounts of \$1,378,176 as of December 31, 2014.

The Fund's admitted assets, as of December 31, 2014, were mainly invested in bonds (58.50%) and common stocks (38.29%). 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 15.51% invested in the securities of Dreyfus Basic S&P 500 Stock Index 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.

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 nine annuity contracts terminated revealed that in only one out of the nine terminations reviewed, the Fund obtained a copy of the death certificate to confirm termination of the annuity contract. In the remaining eight terminations, the Fund obtained copies of obituaries or public notices, in lieu of proper proof in the form of a death certificate. Five of the nine annuity contracts terminated were issued to a single annuitant; another two of the annuity contracts terminated were also issued to a single annuitant; and the remaining two annuity contracts terminated were issued to two distinct annuitants.

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 obtain copies of the death certificates of annuitants for annuity contracts terminated.	7

Respectfully submitted,

_____/s/
James Wang
Insurance Examiner

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

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

_____/s/
James Wang

Subscribed and sworn to before me
this _____ day of _____

APPOINTMENT NO. 31318

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:

JAMES WANG

as a proper person to examine the affairs of the

**SEGREGATED GIFT ANNUITY FUND OF THE
METROPOLITAN MUSEUM OF ART**

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 14th day of May, 2015

BENJAMIN M. LAWSKY
Superintendent of Financial Services

By:

Mark McLeod

MARK MCLEOD
ASSISTANT CHIEF - LIFE BUREAU

