



NEW YORK STATE DEPARTMENT OF FINANCIAL SERVICES
REPORT ON EXAMINATION
OF THE
SEGREGATED GIFT ANNUITY FUND
OF THE
CATHOLIC CHARITIES, DIOCESE OF BROOKLYN

CONDITION:

DECEMBER 31, 2017

DATE OF REPORT:

AUGUST 7, 2018

NEW YORK STATE DEPARTMENT OF FINANCIAL SERVICES

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EXAMINER:

MANISH GERA

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NEW YORK STATE
DEPARTMENT *of*
FINANCIAL SERVICES

Andrew M. Cuomo
Governor

Maria T. Vullo
Superintendent

October 26, 2018

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

Madam:

In accordance with instructions contained in Appointment No. 31724, dated June 25, 2018 and annexed hereto, an examination has been made into the condition and affairs of the Segregated Gift Annuity Fund of the Catholic Charities Diocese of Brooklyn, hereinafter referred to as “the Fund,” at its home office located at 191 Joralemon Street, Brooklyn, NY 11201.

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 3C of this report)

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. (See item 4 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 5 of this report)

2. SCOPE OF EXAMINATION

The prior examination was conducted as of December 31, 2012. This examination covers the period from January 1, 2013 through December 31, 2017. As necessary, the examiner reviewed transactions occurring subsequent to December 31, 2017 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, 2017 to determine whether the Fund's filed 2017 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 violations and recommendations contained in the prior report on examination. The results of such review are contained in item 6 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

A. History

The Catholic Charities, Diocese of Brooklyn (“Diocese” or “Organization”) is organized to promote the unity of all persons through the development of caring communities, to alleviate individual misery and change the forces which cause such misery, and to advocate for justice and systemic change where needed. The Diocese established a program to issue gift annuity agreements in return for gifts from donors, and it has done so since 1994. A permit was granted to the Diocese, by the Department on August 25, 1997, for the purpose of issuing gift annuity agreements as specified in Section 1110 of the New York Insurance Law.

B. Services

The Organization is responsible for the recordkeeping of the Fund’s contracts including the processing of deceased annuitants, including death certificates.

The Fund’s custodian is Fiduciary Trust Company International (“Fiduciary”). Fiduciary manages the majority of the functions of the Fund, including investment management, the intake of gifts, including stocks, preparation of the Fund’s income tax returns, and generation and distribution of annuity payments to annuitants.

OS Group, a third party accountant, prepares the charitable gift annuity annual statements as required by New York State. OS Group is also responsible for the preparation of the bookkeeping and tabulation sections of each report.

C. Corporate Governance

The management of the Catholic Charities, Diocese of Brooklyn and the Fund and all of its affairs and property are entrusted to a board of trustees. The number of trustees is limited to between ten (10) and twenty-five (25) regular voting trustees. As of December 31, 2017, the board consisted of 21 trustees. The trustees elect the chair, vice chair, secretary and treasurer. The nomination and election procedures of the trustees and their terms of office are set by the by-laws. In addition, the trustees appoint the chief executive officer of the Organization.

The examiner reviewed the board of trustees' minutes to determine whether 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 sales of investments during the 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.

4. SIGNIFICANT FINANCIAL INFORMATION

The following summary table indicates the decline in various categories of the Fund's assets, liabilities, and fund balance during the period under review:

	December 31, <u>2012</u>	December 31, <u>2017</u>	Increase (Decrease)
Admitted assets	<u>\$1,511,800</u>	<u>\$1,074,319</u>	<u>\$(437,481)</u>
Liabilities	<u>\$ 812,615</u>	<u>\$ 504,546</u>	<u>\$(308,068)</u>
Minimum required fund balance	\$ 81,261	\$ 50,455	\$ (30,807)
Excess fund balance (surplus)	<u>617,924</u>	<u>519,318</u>	<u>(98,606)</u>
Total annuity fund balance	<u>\$ 699,185</u>	<u>\$ 569,773</u>	<u>\$(129,412)</u>
Total liabilities and annuity fund balance	<u>\$1,511,800</u>	<u>\$1,074,319</u>	<u>\$(437,481)</u>

The decrease in assets, liabilities and annuity fund balance reflects a decrease in the total number of annuities in force. Annuities decreased from 44 with annual payment amounts of \$96,004 as of December 31, 2012 to a total of 16 with annual payment amounts of \$46,947 as of December 31, 2017.

The Fund's admitted assets, as of December 31, 2017, were invested mainly in bonds (7.06%) and common stocks (87.06%). All bonds held were investment grade.

The examiner requested a copy of the Fund's Investment Strategy Statement, but was not provided with one.

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.

Based upon the sample reviewed, no significant findings were noted.

6. PRIOR REPORT SUMMARY AND CONCLUSIONS

Following are the violations and 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 Fund violated Section 1110(a) of the New York Insurance Law by using gift annuity forms that were not filed with the Superintendent.</p> <p>The examiner determined that the Fund did not issue any new annuities during the examination period.</p>
B	<p>The examiner recommends that the Fund submit to the Superintendent all gift annuity agreement forms that were used during the examination period that have not been previously filed with the Superintendent.</p> <p>The examiner determined that the Fund did not issue any new annuities during the examination period.</p>
C	<p>The examiner recommends that the Fund utilize the Social Security Death Master File Index, in cases where a death certificate has not been received within a reasonable period of time following a person's death, to independently verify the death of an annuitant.</p> <p>The Fund has complied with the recommendation.</p>
D	<p>The Fund violated Section 312(b) of the New York Insurance Law by failing to maintain statements signed by its board members indicating that they received and read the prior report on examination.</p> <p>The examiner determined that the Fund obtained the signatures of its board members indicating that they have received and read the prior report on examination. The Fund has complied with the recommendation.</p>
E	<p>The examiner recommends that the board of trustees, or a committee thereof, approve the purchase and sale of all investments and that such approvals be noted in respective minutes.</p> <p>The Fund's Finance Committee failed to approve the purchase and sale of investments. A similar recommendation appears in this report on examination. (See item 3C of this report).</p>

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 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

Respectfully submitted,

_____/s/
Manish Gera
Insurance Examiner

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

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

_____/s/
Manish Gera

Subscribed and sworn to before me
this _____ day of _____

APPOINTMENT NO. 31724

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:

MANISH GERA

as a proper person to examine the affairs of the

**SEGREGATED GIFT ANNUITY FUND OF THE
CATHOLIC CHARITIES DIOCESE OF BROOKLYN**

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 25th day of June, 2018

MARIA T. VULLO
Superintendent of Financial Services

By:

Mark McLeod

MARK MCLEOD
DEPUTY CHIEF - LIFE BUREAU

