



NEW YORK STATE DEPARTMENT OF FINANCIAL SERVICES

REPORT ON EXAMINATION

OF THE

SEGREGATED GIFT ANNUITY FUND

OF THE

INTERNATIONAL PLANNED PARENTHOOD FEDERATION,
WESTERN HEMISPHERE REGION, INC.

CONDITION:

DECEMBER 31, 2014

DATE OF REPORT:

AUGUST 14, 2015

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EXAMINER:

ELKIN WOODS

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NEW YORK STATE
DEPARTMENT *of*
FINANCIAL SERVICES

Andrew M. Cuomo
Governor

Maria T. Vullo
Superintendent

April 25, 2017

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

Madam:

In accordance with instructions contained in Appointment No. 31312, 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 International Planned Parenthood Federation, Western Hemisphere Region, Inc., hereinafter referred to as the "Fund." The Fund's home office is located at 120 Wall Street, New York, NY 10005.

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 obtain broker's advices or other supporting documentation for its investment transactions and reconcile such advices to the monthly statements provided by the custodian. (See item 4 of this report)

The examiner recommends that the Fund strengthen the diversification of its investment holdings. If the trustee has determined that it is in the interests of the beneficiaries to deviate from such a recommendation, then it should memorialize the reasons for that determination in terms of the ISS's risk, return, and time horizon parameters. (See item 5 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 5 of this report)

The Fund violated Section 1110(a) of the New York Insurance Law by utilizing gift annuity agreement forms that were not filed with the Superintendent. This is a repeat violation. The examiner recommends that the Fund file all gift annuity agreement forms that were not previously filed with the Superintendent. This is a repeat recommendation. (See item 6 of this report)

The examiner recommends that the Fund prepare its annual statements according to the Department's instructions. (See item 7 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 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 8 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

The International Planned Parenthood Federation, Western Hemisphere Region, Inc. (the “Corporation”) is organized for the purpose of: improving the quality of life of individuals by campaigning for sexual and reproductive health and rights through advocacy and services; defending the right of all young people to enjoy their sexual lives free from ill-health, unwanted pregnancy, violence and discrimination; supporting a woman’s right to choose to terminate her pregnancy legally and safely; and striving to eliminate sexually transmitted infections and to eradicate HIV/AIDS.

Under the provisions of its by-laws, the Corporation is permitted to issue gift annuity agreements and it has done so since 1998. A special permit was granted to the Corporation by the Department on February 10, 2000, 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 Wells Fargo Bank, National Association (“Wells Fargo”). The investment management and custodial functions are also performed by Wells Fargo.

The management of the Corporation and the Fund and all of its affairs and property are entrusted to a board of directors. The number of directors is limited to nine regular voting directors. As of December 31, 2014, the board consisted of nine directors. The Corporation’s Regional Council, which consists of three delegates from each full member organization and one delegate from each associate member organization, elects the following officers of the Corporation: a President, a Vice President, a Chairperson of the board of directors, a Vice Chairperson, 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 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 directors, or a committee thereof, approve the purchases and sales of all investments and note such approvals in the minutes.

The examiner reviewed the investment transactions for the period under examination and noted that the Fund did not obtain broker's advices or other supporting documentation for its investment transactions to reconcile such advices to the monthly statements furnished by the custodian.

The examiner recommends that the Fund obtain broker's advices or other supporting documentation for its investment transactions and reconcile such advices to the monthly statements provided by the custodian.

5. SIGNIFICANT FINANCIAL INFORMATION

The following table indicates the Fund's financial growth (decline) during the period under review:

	<u>December 31,</u> <u>2009</u>	<u>December 31,</u> <u>2014</u>	<u>Increase</u> <u>(Decrease)</u>
Admitted assets	\$ <u>1,199,257</u>	\$ <u>1,214,086</u>	\$ <u>14,829</u>
Liabilities	\$ <u>845,424</u>	\$ <u>785,989</u>	\$(<u>59,435</u>)
Minimum required fund balance	\$ 100,000	\$ 78,599*	\$(21,401)
Excess fund balance (surplus)	<u>253,833</u>	<u>349,498*</u>	<u>95,665</u>
Total annuity fund balance	\$ <u>353,833</u>	\$ <u>428,097</u>	\$ <u>74,264</u>
Total liabilities and annuity fund balance	\$ <u>1,199,257</u>	\$ <u>1,214,086</u>	\$ <u>14,829</u>

Note: Items with an asterisk were determined during the examination. See item 8 of this report.

The increase in assets and annuity fund balance is attributable to an increase in the market value of investments in common stocks.

The decrease in liabilities reflects a decrease in annual payments despite an increase in the total number of annuities in force. Annual payments decreased from \$121,901 as of December 31, 2009 to \$119,255 as of December 31, 2014; in contrast, annuities increased from 47 as of December 31, 2009 to a total of 53 as of December 31, 2014.

The Fund's admitted assets, as of December 31, 2014, were invested mainly in common stocks (97.10%).

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, the Fund reported 19.58% of its admitted assets invested in the securities of T. Rowe Price Blue Chip Growth Stock Fund and 13.95% invested in the securities of Dodge & Cox Index Fund. The Fund's current concentration in the two mutual funds could make it less likely that the Fund's other assets can provide a variability to offset the risks inherent in the two mutual funds.

The examiner recommends that the Fund strengthen the diversification of its investment holdings. If the trustee has determined that it is in the interests of the beneficiaries to deviate from such a recommendation, then it should memorialize the reasons for that determination in terms of the ISS's risk, return, and time horizon parameters. 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.

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. 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.

Section 1110(a) of the New York Insurance Law states, in part:

“...Every such corporation or association shall, before making such agreement file with the superintendent copies of its forms of agreements with annuitants...”

The examiner’s review of three gift annuity agreements issued in New York during the examination period revealed that in all three instances, the Fund utilized gift annuity agreement forms that were not filed with the Superintendent.

The Fund violated Section 1110(a) of the New York Insurance Law by utilizing gift annuity agreement forms that were not filed with the Superintendent. This is a repeat violation. The examiner recommends that the Fund file all gift annuity agreement forms that were not previously filed with the Superintendent. This is a repeat recommendation.

7. ANNUAL STATEMENT REPORTING

The Department's Instructions for Completing the Exhibit of Annuities in Force in the New York State Segregated Gift Annuity Fund Annual Statement for the year ended December 31, 2014 state, in part, that:

Column 1 'Reserve' - The amount reported on Line 1 (i.e., the current year) should agree with the amount reported at Page 2, Line 10b.

In the Fund's 2014 Annual Statement, the Fund reported total reserve of \$785,989 in line 10b in the Liabilities and Annuity Fund Balance section of the annual statement; however, the Fund failed to enter this amount in the Exhibit of Annuities in Force. As a result, the Fund failed to correctly report the amount of reserves in the Exhibit of Annuities in force.

The Department's Instructions for Completing Line 20.1 (Minimum required fund balance) in the Liabilities and Annuity Fund Balance section of the New York State Segregated Gift Annuity Fund Annual Statement for each of the years during the examination period (January 1, 2010 through December 31, 2014) state, in part, that:

“‘Current Year’ Column: A minimum required fund balance equal to 10% of the net reserve reported at Line 12 must be reported at this Line. Refer to Section 1110(b) of the New York Insurance Law. ‘Prior Year’ Column: Report prior year's minimum required fund balance.”

The Fund incorrectly reported \$100,000 for line 20.1, Minimum required fund balance, in the Assets and Liabilities page in each of its annual statements filed during the examination period. As a result, the examiner determined the discrepancies below:

The Fund overstated minimum required fund balance by \$21,401 and understated excess fund balance by the same amount in its 2014 Annual Statement. The Fund overstated minimum required fund balance by \$16,543 and understated excess fund balance by the same amount in its 2013 Annual Statement. The Fund overstated minimum required fund balance by \$14,748 and understated excess fund balance by the same amount in its 2012 Annual Statement. The Fund overstated minimum required fund balance by \$14,911 and understated excess fund balance by the same amount in its 2011 Annual Statement. The Fund overstated minimum required fund balance

by \$15,226 and understated excess fund balance by the same amount in its 2010 Annual Statement. The errors above did not have an impact on total annuity fund balance in each of its annual statements filed during the examination period.

The examiner recommends that the Fund prepare its annual statements according to the Department's instructions.

8. 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 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 Fund maintained statements signed by its board members indicating that they received and read the report on examination as of December 31, 2009.</p>
B	<p>The examiner recommends that the Fund comply with Section 312(b) of the New York Insurance Law by obtaining the signature of each board member indicating that they received and read the prior report on examination.</p> <p>The Fund maintained statements signed by its board members indicating that they received and read the report on examination as of December 31, 2009.</p>
C	<p>The examiner recommends that the board of directors or a committee thereof, review the Fund's investments at least once a year and note such review in the minutes. This is a repeat recommendation.</p> <p>The examiner's review of the board minutes provided by the Fund did not contain any indication that the board approved the purchases and sales of investments. Thus, a similar recommendation is contained in this report. (See item 4 of this report)</p>
D	<p>The Fund violated Section 1110(a) of the New York Insurance Law by utilizing gift annuity agreement forms that were not filed with the Superintendent. This is a repeat violation.</p> <p>The examiner's review of a sample of gift annuity agreement forms used during the examination period revealed that Fund did not use forms on file with the Superintendent. Thus, this is a repeat violation. (See item 6 of this report)</p>

<u>Item</u>	<u>Description</u>
E	<p>The examiner recommends that the Fund file all gift annuity agreement forms that were not previously filed with the Superintendent. This is a repeat recommendation.</p> <p>The examiner's review of a sample of gift annuity agreement forms used during the examination period revealed that Fund did not use forms on file with the Superintendent. Thus, this is a repeat recommendation. (See item 6 of this report)</p>
F	<p>The examiner recommends that the Fund correctly report the amount of annuities in Force and the amount of reserves in the Exhibit of Annuities in Force in its filed Annual Statements.</p> <p>The examiner's review of the Fund's annual statements filed during the examination period revealed several errors in the annual statements. Thus, a similar recommendation is contained in this report. (See item 8 of this report)</p>
G	<p>The examiner recommends that the Fund accurately prepare its filed annual statement.</p> <p>The Fund failed to correctly report the amount of reserves in the Exhibit of Annuities in force. Thus, a similar recommendation is contained in this report. (See item 8 of this report)</p>

9. SUMMARY AND CONCLUSIONS

Following are the violation and 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 obtain broker's advices or other supporting documentation for its investment transactions and reconcile such advices to the monthly statements provided by the custodian.	5
C	The examiner recommends that the Fund strengthen the diversification of its investment holdings. If the trustee has determined that it is in the interests of the beneficiaries to deviate from such a recommendation, then it should memorialize the reasons for that determination in terms of the ISS's risk, return, and time horizon parameters.	7
D	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.	7
E	The Fund violated Section 1110(a) of the New York Insurance Law by utilizing gift annuity agreement forms that were not filed with the Superintendent. This is a repeat violation.	8
F	The examiner recommends that the Fund file all gift annuity agreement forms that were not previously filed with the Superintendent. This is a repeat recommendation.	8

<u>Item</u>	<u>Description</u>	<u>Page No(s).</u>
G	The examiner recommends that the Fund prepare its annual statements according to the Department's instructions.	10

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. 31312

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
INTERNATIONAL PLANNED PARENTHOOD FEDERATION,
WESTERN HEMISPHERE REGION, INC.**

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

