



NEW YORK STATE DEPARTMENT OF FINANCIAL SERVICES
REPORT ON EXAMINATION
OF THE
SEGREGATED GIFT ANNUITY FUND
OF THE
AMIT CHILDREN, INC.

CONDITION:

DECEMBER 31, 2014

DATE OF REPORT:

DECEMBER 23, 2015

NEW YORK STATE DEPARTMENT OF FINANCIAL SERVICES

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OF THE

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OF THE

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EXAMINER:

HASAN AHMED

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NEW YORK STATE
DEPARTMENT *of*
FINANCIAL SERVICES

Andrew M. Cuomo
Governor

Maria T. Vullo
Superintendent

August 1, 2016

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

Madam:

In accordance with instructions contained in Appointment No. 31303, dated August 14, 2015 and annexed hereto, an examination has been made into the condition and affairs of the Segregated Gift Annuity Fund of the Amit Children, Inc., hereinafter referred to as the “Fund,” at its home office located at 817 Broadway, New York, New York 10003.

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 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. The examiner recommends that the Fund maintain statements signed by each member indicating that they received and read the prior report on examination. (See item 4 of this report)

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. This is a repeat recommendation. (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 adopt an Investment Strategy Statement (“ISS”). 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 examiner recommends that the Fund adhere to the rates recommended by the American Council on Gift Annuities. (See item 6 of this report)

The examiner recommends that the Fund contract with a licensed bank or trust company to serve as custodian for the Fund’s securities. (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 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

Amit Children, Inc. (the “Society”) was organized to enable Israel’s youth to realize their potential and to strengthen Israeli society by educating and nurturing children from diverse backgrounds within a framework of academic excellence, Jewish values and Zionist ideals. The Organization has undergone a number of name changes. The Organization was formed on October 2, 1930 under the name of Mizrachi Women’s Organization of America, Inc. In 1984, the Organization filed a certificate of amendment with the Department of State and received approval to change its name to Amit Women, Inc. In February 2009, the organization filed a certificate of amendment with the Department of State and received approval to change its name to Amit Children, Inc. Under the provisions of its by-laws, the Fund is permitted to issue gift annuity agreements and it has done so since 2005. A special permit was granted to the Fund by the Department on April 27, 2005 authorizing it to issue gift annuity agreement as specified in Section 1110 of the New York Insurance Law.

Charles Schwab is the Fund’s custodian. Cornerstone Advisors Asset Management (“Cornerstone”) is the Fund’s investment manager. Cornerstone performs accounting functions on behalf of the Fund, issues annual filings, and administers annuity benefit payments to annuitants. The Fund utilized the services of the Bookkeeping Agency for the preparation of annual reports that are submitted to the Department. All other operations related to the issuance and maintenance of annuity agreements are handled by the Fund.

The management of the Society and the Fund and all of its affairs and property are entrusted to a board of directors. The number of directors is limited to not less than 14 nor more than 40 regular voting directors. Past presidents automatically become members of the board, and not included in the count of 40 regular voting directors. As of December 31, 2014, the board consisted of 47 members, of which 7 are past presidents. The board of directors elect a President, Chairperson of the Board of Directors, Chairperson of the Board of Governors, Chairperson of the New Generation Board, one or more Vice Presidents, one or more Regional Vice Presidents, Treasurer, Secretary, Vice Chairperson of the Amutah, and Associate Treasurer. The nomination and election procedures of the directors and their term of office are set by the by-laws.

4. CORPORATE GOVERNANCE

Section 312 of the New York Insurance Law states, in part:

“(a) The superintendent shall forward to every insurer or other person examined a copy of the report on examination . . . (b) A copy of the report shall be furnished by such insurer or other person to each member of its board of directors and each such member shall sign a statement which shall be retained in the insurer’s files confirming that such member has received and read such report . . .”

The examiner’s review revealed that the Fund failed to maintain statements signed by each board member indicating that they received and read the prior report on examination.

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. The examiner recommends that the Fund maintain statements signed by each member indicating that they received and read the prior report on examination.

The examiner reviewed the Investment Committee (the “Committee”) minutes to determine if the Committee approved the purchases and sales of investments during the examination period. The minutes did not contain any indication that the Committee 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. This is a repeat recommendation.

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>1,137,546</u>	\$ <u>1,026,179</u>	\$ <u>(111,367)</u>
Liabilities	\$ <u>944,322</u>	\$ <u>692,844</u>	\$ <u>(251,478)</u>
Minimum required fund balance	\$ 94,432	\$ 69,284	\$ (25,148)
Excess fund balance (surplus)	<u>98,792</u>	<u>264,051</u>	<u>165,259</u>
Total annuity fund balance	\$ <u>193,224</u>	\$ <u>333,335</u>	\$ <u>140,111</u>
Total liabilities and annuity fund balance	\$ <u>1,137,546</u>	\$ <u>1,026,179</u>	\$ <u>(111,367)</u>

Note: Any differences are due to rounding.

The decrease in assets and liabilities reflects a decrease in the total number of annuities in force. Annuities decreased from 58 with annual payment amounts of \$177,819 as of December 31, 2009 to a total of 48 with annual payment amounts of \$81,953 as of December 31, 2014.

The increase in annuity fund balance is attributable to an increase in the market value of the Fund's investments. Specifically, the Fund reported realized capital gains of: \$11,499 in 2010; \$27,871 in 2011; \$49,393 in 2012; \$30,564 in 2013; and \$33,075 in 2014.

The Fund's admitted assets, as of December 31, 2014, were mainly invested in common stocks (95.79%).

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: 29.21% invested in the securities of Schwab S&P 500 Index Fund mutual fund; 25.75% invested in the securities of Ridgeworth Total Return Bond Cl I mutual fund; and 12.80% invested in the securities of John Hancock (2) Global Absolute Return 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 the three mutual 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.

The examiner recommends that the Fund adopt an Investment Strategy Statement. 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.

During the examiner's review of a sample of five annuities issued by the Fund during the examination period revealed that the Fund used payout rates that differed from the rates recommended by the American Council on Gift Annuities ("ACGA"). The examiner compared the pay-out rates from the selected annuities to the rates recommended by the ACGA. The examiner's review revealed that the payout rates used by the Fund significantly differed from the rates adopted by the ACGA in two out of the five annuities selected for review. Consequently, the examiner determined that a series of annuitants were paid higher rates than the rates recommended by the ACGA and other annuitants were paid with lower rates than the rates recommended by the ACGA.

The examiner recommends that the Fund adhere to the rates recommended by the American Council on Gift Annuities.

7. CUSTODIAN

Charles Schwab is the Fund's custodian. The examiner determined that Charles Schwab is not a licensed bank or trust company.

The examiner recommends that the Fund contract with a licensed bank or trust company to serve as custodian for the Fund's securities.

8. PRIOR REPORT SUMMARY AND CONCLUSIONS

Following are the recommendations contained in the prior report on examination and the subsequent actions taken by the Fund in response to each recommendation:

<u>Item</u>	<u>Description</u>
A	<p>The examiner recommends that the organization either comply with or amend its by-laws to reflect the appropriate number of elected directors.</p> <p>The Fund amended its by-laws to reflect that the number of members of the board shall be no more than 40, not less than 14. In addition, the by-laws state that past presidents will automatically become members of the board, not included in the count of 40.</p>
B	<p>The examiner recommends that the board directors, or a committee thereof, approve all investment transactions and note such approvals in the minutes.</p> <p>The examiner's review noted no evidence that the board directors, or a committee thereof, voted to approve all investment transactions and note such approvals in the minutes. A similar recommendation is contained in this report.</p>
C	<p>The examiner recommends that the organization amend its by-laws to reflect the proper legal name of the organization.</p> <p>The Organization amended its by-laws to reflect the proper legal name of the Organization.</p>
D	<p>The examiner recommends that the Fund comply with OGC Opinion No. 96-50 by contracting with a licensed bank or trust company to serve as the Fund's custodian for the Fund's securities.</p> <p>The examiner's review revealed that the Fund failed to use a licensed bank or trust company as its custodian. A similar recommendation is contained in this report.</p>
E	<p>The examiner recommends that the organization exercise due care in the preparation of its annual statements.</p> <p>The examiner's review of the annual statements revealed no recurrence of the errors detected in the previous examination.</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 Fund violated Section 312(b) of the New York Insurance Law by failing to maintain signed statements from the board members indicating that they received and read the prior report on examination.	5
B	The examiner recommends that the Fund maintain statements signed by each member indicating that they received and read the prior report on examination.	5
C	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. This is a repeat recommendation.	5
D	The examiner recommends that the Fund diversify its investment holdings.	7
E	The examiner recommends that the Fund adopt an Investment Strategy Statement. 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
F	The examiner recommends that the Fund adhere to the rates recommended by the American Council on Gift Annuities.	8
G	The examiner recommends that the Fund contract with a licensed bank or trust company to serve as custodian for the Fund's securities.	9

Respectfully submitted,

_____/s/
Hasan Ahmed
Insurance Examiner

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

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

_____/s/
Hasan Ahmed

Subscribed and sworn to before me
this _____ day of _____

APPOINTMENT NO. 31303

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:

HASAN AHMED

as a proper person to examine the affairs of the

SEGREGATED GIFT ANNUITY FUND OF THE

AMIT CHILDREN, 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 14th day of August, 2015

ANTHONY J. ALBANESE
Acting Superintendent of Financial Services

By:

Mark McLeod

MARK MCLEOD
ASSISTANT CHIEF - LIFE BUREAU

