



NEW YORK STATE DEPARTMENT OF FINANCIAL SERVICES
REPORT ON EXAMINATION
OF THE
SEGREGATED GIFT ANNUITY FUND
OF THE
CATHOLIC NEAR EAST WELFARE ASSOCIATION

CONDITION:

DECMEBER 31, 2013

DATE OF REPORT:

JULY 18, 2014

NEW YORK STATE DEPARTMENT OF FINANCIAL SERVICES

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SEGREGATED GIFT ANNUITY FUND

OF THE

CATHOLIC NEAR EAST WELFARE ASSOCIATION

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EXAMINER:

IKENNA ONYEGWARA

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NEW YORK STATE
DEPARTMENT *of*
FINANCIAL SERVICES

Andrew M. Cuomo
Governor

Shirin Emami
Acting Superintendent

February 5, 2016

Honorable Shirin Emami
Acting Superintendent of Financial Services
New York, New York 10004

Madam:

In accordance with instructions contained in Appointment No. 31137, dated April 8, 2014 and annexed hereto, an examination has been made into the condition and affairs of the Segregated Gift Annuity Fund of the Catholic Near East Welfare Association, hereinafter referred to as “the Fund,” at its home office located at 1011 First Avenue, New York, NY 10022.

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 purchase and sale of all investments and that such approvals be noted in the board minutes. This is repeat recommendation. (See item 4 of this report)

The examiner's review of a sample of transactions did not reveal any differences which materially affected the Fund's financial condition as presented in its financial statements contained in the December 31, 2013 filed annual statement. (See item 5 of this report)

During 2013, the Fund in coordination with its custodian and investment manager, Merrill Lynch Trust Company, decided to change the asset allocation model from individual stocks and bonds to exchange traded funds ("ETFs") holding baskets of stocks and bonds in order to diversify the Fund's investment portfolio and make transactions simpler and more cost effective. The asset allocation of the ETFs consists of 2% invested in cash, 48% invested in fixed income, and 50% invested in equities. (See item 5 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 6 of this report)

The examiner recommends that the Fund prepare the exhibit of annuities in its annual statements in accordance with the Department's annual statement instructions. (See item 7 of this report)

2. SCOPE OF EXAMINATION

The prior examination was conducted as of December 31, 2008. This examination covers the period from January 1, 2009 through December 31, 2013. As necessary, the examiner reviewed transactions occurring subsequent to December 31, 2013 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, 2013 to determine whether the Fund's filed 2013 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 recommendation contained in the prior report on examination. The result of such review is 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 Catholic Near East Welfare Association (the “Association”) is organized for the purpose of supporting the pastoral mission and institutions of the Eastern Catholic churches, to provide humanitarian assistance to those in need without regard to nationality or creed, to promote Christian unity and inter-religious understanding and collaboration and to educate people in the West about the history, cultures, peoples and churches of the East. Under the provisions of its by-laws, the Association is permitted to issue gift annuity agreements and it has done so since 1967. A special permit was granted to the Association by the Department on December 11, 1973 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. Merrill Lynch Trust Company (“Merrill Lynch”) is the Fund’s custodian and investment manager.

The management of the Association and the Fund and all of its affairs and property are entrusted to a board of trustees. The number of trustees is limited to nine regular voting trustees. As of December 31, 2013, the board consisted of five trustees. The Archbishop of New York shall, ex officio, be president and treasurer to coincide with the term of his office as Archbishop of New York. The trustees elect a vice-president, secretary general and associate secretary general. The nomination and election procedures of the trustees and their terms of office are set by the by-laws.

4. CORPORATE GOVERNANCE

The examiner requested the board of trustees and investment committee minutes for the period under examination (January 1, 2009 through December 31, 2013). The examiner reviewed the minutes provided by the Fund and noted that the Fund's 2012 and 2013 board minutes do not contain evidence of the board's approval of the purchases and sales of the Fund's investments. The Fund provided the examiner with copies of the June 16, 2014 board minutes in which the examiner confirmed that the board approved the Fund's purchases and sales of investments.

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 the board minutes. This is repeat recommendation.

5. SIGNIFICANT FINANCIAL INFORMATION

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

	December 31, <u>2008</u>	December 31, <u>2013</u>	Increase (Decrease)
Admitted assets	<u>\$7,662,471</u>	<u>\$8,168,982</u>	<u>\$506,511</u>
Liabilities	<u>\$6,748,541</u>	<u>\$6,663,735</u>	<u>\$(84,806)</u>
Minimum required surplus	\$ 672,618	\$ 649,551	\$ (23,067)
Unassigned funds (surplus)	<u>241,312</u>	<u>855,697</u>	<u>614,385</u>
Total surplus	<u>\$ 913,930</u>	<u>\$1,505,247</u>	<u>\$591,317</u>
Total liabilities and surplus	<u>\$7,662,471</u>	<u>\$8,168,982</u>	<u>\$506,509</u>

Note: Any minor differences are due to rounding.

The increase in assets and surplus reflects the better market conditions since 2008 and the resulting increase in value of the Fund's investments. The decrease in liabilities reflects a decrease in the total number of annuities in force. Annuities decreased from 861 with annual payment amounts of \$892,530 as of December 31, 2008 to a total of 740 with annual payment amounts of \$801,968 as of December 31, 2013.

During 2013, the Fund in coordination with its custodian and investment manager, Merrill Lynch Trust Company, decided to change the asset allocation model from individual stocks and bonds to exchange traded funds ("ETFs") holding baskets of stocks and bonds in order to diversify the Fund's investment portfolio and make transactions simpler and more cost effective. The asset allocation of the ETFs consists of 2% invested in cash, 48% invested in fixed income, and 50% invested in equities.

The Fund's admitted assets, as of December 31, 2013, were invested mainly in common stocks (including exchange traded funds) (79.58%) and cash and money market mutual funds (19.59%). All bonds held were investment grade.

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

7. ANNUAL STATEMENT REPORTING

The Department's Instructions for Completing the New York State Segregated Gift Annuity Fund Annual Statement, the Exhibit of Annuities in-force, for 2012 and 2013 state, in part:

“‘At End of Year – Amount’: Report the annualized amount of annuity payments payable under contracts outstanding at year-end. Do not report the annuity considerations or reserve amounts in this column.

Equals the sum of Columns 3 plus 5 minus 7.”

The Exhibit of Annuities in-force (partial) as shown in the 2013 Annual Statement:

At December 31, Year Ending		1 Reserve	NUMBER AND ANNUALIZED AMOUNT OF ANNUITIES IN FORCE (OMIT CENTS)							
			At Beginning of Year		Written During Year		Terminated During Year		At End of Year	
			2 No.	3 Amount	4 No.	5 Amount	6 No.	7 Amount	8 No.	9 Amount
1	2013	5,648,266	741	819,325	32	56,380	33	73,797	740	811,188
2	2012	5,767,015	764	848,172	23	36,814	46	65,601	741	819,325

The examiner reviewed the exhibits of annuities for the 2013 and 2012 annual statements and noted inaccuracies in the Fund's calculation of end of year annualized amount of annuities in force for 2013 and 2012. For 2013, the Fund reported annualized amount of annuities in force of \$811,188 at end of year; however, the examiner's recalculation revealed that the Fund should have instead reported that amount as \$801,908 (column 3 of \$819,325 plus column 5 of \$56,380 less column 7 of \$73,797), a variance of \$9,280. For 2012, the Fund reported annualized amount of annuities in force of \$819,325 at end of year; however, the examiner's recalculation revealed that the Fund should have instead reported that amount as \$819,385 (column 3 of \$848,172 plus column 5 of \$36,814 less \$65,601), a variance of \$60.

The examiner recommends that the Fund prepare the exhibit of annuities in its annual statements in accordance with the Department's annual statement instructions.

8. PRIOR REPORT SUMMARY AND CONCLUSIONS

Following is the recommendation contained in the prior report on examination and the subsequent action taken by the Fund in response to the recommendation:

<u>Item</u>	<u>Description</u>
A	The examiner recommended that the board of trustees, or a committee thereof, approve the purchase and sale of all investments and that such approvals be noted in the board minutes. This is a repeat recommendation.

9. SUMMARY AND CONCLUSIONS

Following are the recommendations and comment contained in this report:

<u>Item</u>	<u>Description</u>	<u>Page No.</u>
A	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 the board minutes. This is repeat recommendation.	5
B	During 2013, the Fund in coordination with its custodian and investment manager, Merrill Lynch Trust Company, decided to change the asset allocation model from individual stocks and bonds to exchange traded funds (“ETFs”) holding baskets of stocks and bonds in order to diversify the Fund’s investment portfolio and make transactions simpler and more cost effective. The asset allocation of the ETFs consists of 2% invested in cash, 48% invested in fixed income, and 50% invested in equities.	6
C	The examiner recommends that the Fund prepare the exhibit of annuities in its annual statements in accordance with the Department’s annual statement instructions.	8

Respectfully submitted,

_____/s/
Ikenna Onyegwara
Insurance Examiner

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

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

_____/s/
Ikenna Onyegwara

Subscribed and sworn to before me
this _____ day of _____

APPOINTMENT NO. 31137

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:

IKENNA ONYEGWARA

as a proper person to examine the affairs of the

**SEGREGATED GIFT ANNUITY FUND OF THE
CATHOLIC NEAR EAST WELFARE ASSOCIATION**

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 8th day of April, 2014

BENJAMIN M. LAWSKY
Superintendent of Financial Services

By:


MICHAEL MAFFEI

ASSISTANT DEPUTY SUPERINTENDENT
AND CHIEF OF THE LIFE BUREAU

