



NEW YORK STATE DEPARTMENT OF FINANCIAL SERVICES
REPORT ON EXAMINATION
OF THE
SEGREGATED GIFT ANNUITY FUND
OF THE
RENSSELAER POLYTECHNIC INSTITUTE

CONDITION:

DECEMBER 31, 2016

DATE OF REPORT:

SEPTEMBER 18, 2017

NEW YORK STATE DEPARTMENT OF FINANCIAL SERVICES

REPORT ON EXAMINATION

OF THE

SEGREGATED GIFT ANNUITY FUND

OF THE

RENSSELAER POLYTECHNIC INSTITUTE

AS OF

DECEMBER 31, 2016

DATE OF REPORT:

SEPTEMBER 18, 2017

EXAMINER:

MANISH GERA

TABLE OF CONTENTS

<u>ITEM</u>		<u>PAGE NO.</u>
1.	Executive summary	2
2.	Scope of examination	3
3.	Description of Fund	4
4.	Significant financial information	5
5.	Treatment of annuitants	7
6.	Custodians	8
7.	Prior report summary and conclusions	9
8.	Summary and conclusions	10



NEW YORK STATE
DEPARTMENT *of*
FINANCIAL SERVICES

Andrew M. Cuomo
Governor

Maria T. Vullo
Superintendent

December 27, 2017

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

Madam:

In accordance with instructions contained in Appointment No. 31611, dated April 20, 2017, and annexed hereto, an examination has been made into the condition and affairs of the Segregated Gift Annuity Fund of the Rensselaer Polytechnic Institute, hereinafter referred to as “the Fund.” The Fund’s home office is located at 110 Eighth Street, Troy, New York 12180.

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 strengthen the diversification of its investment holdings. 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 Investment Strategy Statement's ("ISS") risk, return, and time horizon parameters. (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 Foundation. (See item 5 of this report)

The examiner recommends that the Fund contract with a licensed bank or trust company to serve as the Fund's custodian for the Fund's securities. (See item 6 of this report)

2. SCOPE OF EXAMINATION

The prior examination was conducted as of December 31, 2011. This examination covers the period from January 1, 2012, through December 31, 2016. As necessary, the examiner reviewed transactions occurring subsequent to December 31, 2016, 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, 2016, to determine whether the Fund's filed 2016 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 7 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 Rensselaer Polytechnic Institute (“the Institute”) is organized to provide an education which recognizes the individual potential of each student, drawing upon the heritage of the past to meet the needs of the present and to prepare for the future. The Institute has been issuing gift annuity agreements since 1998. A special permit was granted to the Institute by the Department on May 31, 2007, 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.

The Fund’s primary custodian is TIAA-CREF Trust Company FSB (“TIAA-CREF”), with Charles Schwab & Company (“Charles Schwab”) serving as sub-custodian for a portion of the investments. The Fund has a service agreement with Kaspick & Company, LLC (“Kaspick”) for investment management and certain administrative services. TIAA-CREF and Kaspick are both members of the TIAA-CREF group of companies. Kaspick performs the Fund’s accounting functions, prepares the Fund’s 1099R statement, and administers the disbursement of annuitants’ checks.

The management of the Institute and the Fund and all of its affairs and property are entrusted to a board of trustees. According to the by-laws, the number of trustees is limited to 35 active voting trustees. As of December 31, 2016, the board consisted of 24 active trustees and one active ex-officio trustee, Patrick Madden, the Mayor of Troy, New York. In addition to the active voting trustees, there were 12 trustees’ emeriti and 3 honorary trustees as of December 31, 2016. The active trustees elect the President, the Provost, various vice presidents, a Secretary and a Treasurer. The nomination and election procedures of the trustees and their terms of office are set by the by-laws.

4. SIGNIFICANT FINANCIAL INFORMATION

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

	December 31, <u>2011</u>	December 31, <u>2016</u>	<u>Increase</u>
Admitted assets	<u>\$3,451,613</u>	<u>\$6,251,338</u>	<u>\$2,799,725</u>
Liabilities	<u>\$2,524,181</u>	<u>\$4,147,156</u>	<u>\$1,622,975</u>
Minimum required fund balance	\$ 252,418	\$ 414,716	\$ 162,298
Excess funds balance (surplus)	<u>675,014</u>	<u>1,689,466</u>	<u>1,014,452</u>
Total annuity fund balance	<u>\$ 927,432</u>	<u>\$2,104,182</u>	<u>\$1,176,750</u>
Total liabilities and annuity fund balance	<u>\$3,451,613</u>	<u>\$6,251,338</u>	<u>\$2,799,725</u>

The increase in assets, liabilities and surplus reflects an increase in the total number of annuities in force. Annuities increased from 113 with annual payment amounts of \$299,639 as of December 31, 2011, to a total of 131 with annual payment amounts of \$485,159 as of December 31, 2016.

The Fund's admitted assets, as of December 31, 2016, were invested mainly in common stock (97.68%).

According to the 2016 annual statement on file, the Fund reported 16.70% of its admitted assets invested in the securities of the PIMCO Total Return Fund Inst'l. The Fund's current concentration in the above investment could make it less likely that the Fund's other assets can provide a variability to offset the risks inherent in the security.

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 not to diversify, 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 ISS's 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.

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. CUSTODIANS

The Fund's custodian is TIAA-CREF. TIAA-CREF in turn uses Charles Schwab as a sub-custodian of the Fund's assets. Part of the Fund's admitted assets are held by Charles Schwab. The examiner determined that Charles Schwab is a brokerage firm, not a licensed bank or trust company.

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

7. PRIOR REPORT SUMMARY AND CONCLUSIONS

Following are the recommendations 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	<p>The examiner recommends that the number of the policy form appear on each annuity agreement.</p> <p>The Fund has complied with the recommendation.</p>
B	<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 Fund has not complied with the recommendation. A similar recommendation appears in this report on examination.</p>

8. 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 strengthen the diversification of its investment holdings. 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
B	The examiner recommends that the Fund contract with a licensed bank or trust company to serve as the Fund's custodian for the Fund's securities.	8

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. 31611

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
RENSSELAER POLYTECHNIC INSTITUTE***

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 20th day of April, 2017

*MARIA T. VULLO
Superintendent of Financial Services*

By:



*MARK MCLEOD
DEPUTY CHIEF - LIFE BUREAU*

