



NEW YORK STATE DEPARTMENT OF FINANCIAL SERVICES  
REPORT ON EXAMINATION  
OF THE  
SEGREGATED GIFT ANNUITY FUND  
OF THE  
SALVATION ARMY

CONDITION:

DECEMBER 31, 2016

DATE OF REPORT:

OCTOBER 20, 2017

NEW YORK STATE DEPARTMENT OF FINANCIAL SERVICES

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EXAMINER:

KINGS ANKRAH

## 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.	Summary and conclusions	8



NEW YORK STATE  
DEPARTMENT *of*  
FINANCIAL SERVICES

Andrew M. Cuomo  
Governor

Maria T. Vullo  
Superintendent

January 5, 2018

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

Madam:

In accordance with instructions contained in Appointment No. 31613, dated August 10, 2017 and annexed hereto, an examination has been made into the condition and affairs of the Segregated Gift Annuity Fund of the Salvation Army, hereinafter referred to as the “Fund.” The Fund’s home office is located at 440 West Nyack Road, West Nyack, NY 10994.

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 recommends that upon the death of an annuitant, the Fund obtain and maintain a death certificate or other reliable documentary evidence that supports such information terminating an annuity contract. (See item 5 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 reviewed the prior report on examination which did not contain any violations, recommendations or comments.

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 Salvation Army (“the Corporation”) is organized for benevolent, religious and philanthropic purposes. The Corporation has been issuing gift annuity agreements since 1911. A permit was granted to the Corporation by the Department on January 31, 1941, 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.

State Street Bank and Trust Company is the Fund’s custodian, administrator and investment advisor.

The management of the Corporation and the Fund and all its affairs and property are entrusted to a board of trustees. The number of trustees is set at ten regular voting trustees. As of December 31, 2016, the board consisted of 10 trustees. The General of the branch of the Christian Church known as The Salvation Army appoints three ex-officio trustees to the offices of national commander, territorial commander and territorial chief secretary of the eastern territory in the United States. Each of them serves as a trustee for as long as they hold the office to which they were appointed by the General. The ex-officio trustees, or a majority of them, then appoint seven trustees from among the officers and lay members of the Corporation for a term of one year. 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 (decline) 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>	Increase (Decrease)
Admitted assets	<u>\$69,464,303</u>	<u>\$72,664,005</u>	<u>\$ 3,199,702</u>
Liabilities	<u>\$56,503,650</u>	<u>\$48,736,085</u>	<u>\$ (7,767,565)</u>
Minimum required fund balance	\$ 5,650,366	\$ 4,873,608	\$ (776,758)
Excess fund balance (surplus)	<u>7,310,287</u>	<u>19,054,312</u>	<u>11,744,025</u>
Total annuity fund balance	<u>\$12,960,653</u>	<u>\$23,927,920</u>	<u>\$10,967,267</u>
Total liabilities and annuity fund balance	<u>\$69,464,303</u>	<u>\$72,664,005</u>	<u>\$ 3,199,702</u>

The increase in assets reflects significant gains in the investment income during the examination period; the increase in annuity fund balance reflects the release of reserves due to the termination of a substantial number of annuities. The decrease in liabilities reflects a decrease in the number of annuities in force. Annuities decreased from 3,907 with annual payment amounts of \$7,333,248 as of December 31, 2011 to a total of 3,253 with annual payment amounts of \$6,044,006 as of December 31, 2016.

The Fund's admitted assets, as of December 31, 2016, were invested mainly in stocks (97%), consisting primarily of a mix of equity common trust funds and fixed income common trust funds.

According to the 2016 annual statement on file, the Fund reported the following: 29.4% of its admitted assets invested in the securities of the S&P 500 CTF, 16.7% in the securities of Passive Bond Mkt IDX CTF, and 14.9% in the securities of Internat Alpha CTF, respectively. The Fund's current concentration in these holdings could make it less likely that the Fund's other assets can provide a variability to offset the risks inherent in these investments.

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 the 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.

## 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.

The examiner's review of a sample of 20 annuity contracts terminated revealed that in 15 of the 20 cases (75%) reviewed, the Fund did not obtain a copy of the death certificate to confirm termination of the annuity contract.

The examiner recommends that upon the death of an annuitant, the Fund obtain and maintain a death certificate or other reliable documentary evidence that supports such information terminating an annuity contract.

## 6. 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 Investment Strategy Statement's risk, return, and time horizon parameters.	6
B	The examiner recommends that upon the death of an annuitant, the Fund obtain and maintain a death certificate or other reliable documentary evidence that supports such information terminating an annuity contract.	7

Respectfully submitted,

\_\_\_\_\_/s/  
Kings Ankrah  
Senior Insurance Examiner

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

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

\_\_\_\_\_/s/  
Kings Ankrah

Subscribed and sworn to before me  
this \_\_\_\_\_ day of \_\_\_\_\_

*APPOINTMENT NO. 31613*

*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:*

***KINGS ANKRAH***

*as a proper person to examine the affairs of the*

***SEGREGATED GIFT ANNUITY FUND OF THE  
SALVATION ARMY***

*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 10th day of August, 2017*

*MARIA T. VULLO  
Superintendent of Financial Services*

*By:*

*Mark McLeod*

**MARK MCLEOD  
DEPUTY CHIEF - LIFE BUREAU**

