



NEW YORK STATE DEPARTMENT OF FINANCIAL SERVICES
REPORT ON EXAMINATION
OF THE
SEGREGATED GIFT ANNUITY FUND
OF THE
FRIENDS OF THE ISRAEL DEFENSE FORCES

CONDITION:

DECEMBER 31, 2015

DATE OF REPORT:

SEPTEMBER 9, 2016

NEW YORK STATE DEPARTMENT OF FINANCIAL SERVICES

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EXAMINER:

MOSHE STEMPEL

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NEW YORK STATE
DEPARTMENT *of*
FINANCIAL SERVICES

Andrew M. Cuomo
Governor

Maria T. Vullo
Superintendent

December 28, 2016

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

Madam:

In accordance with instructions contained in Appointment No. 31456, dated April 25, 2016 and annexed hereto, an examination has been made into the condition and affairs of the Segregated Gift Annuity Fund of the Friends of the Israel Defense Forces, hereinafter referred to as the "Fund," at its home office located at 60 East 42nd Street, New York, NY 10165.

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 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 utilize broker's advices or other supporting documentation for its investment transactions to reconcile such advices to the monthly statements provided by the custodian. (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 not exceed the maximum rates recommended by the American Council on Gift Annuities. (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)

The examiner recommends that the Fund exercise due care in the preparation of its filed annual statements. (See item 7 of this report)

2. SCOPE OF EXAMINATION

This is the first examination of the Fund since it received its special permit to issue gift annuity agreements in 2011. This examination covers the period from September 1, 2011 through December 31, 2015. As necessary, the examiner reviewed transactions occurring subsequent to December 31, 2015 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, 2015 to determine whether the Fund's filed 2015 annual statement fairly presents its financial condition. The examiner reviewed the Fund's income and disbursements necessary to accomplish such verification.

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 Friends of the Israel Defense Forces (the “Corporation”) is organized for the purpose of offering education, cultural, recreational, and social services programs and facilities that provide hope, purpose, and life-changing support for the soldiers who protect Israel and Jews worldwide. Under the provisions of its by-laws, the Corporation is permitted to issue gift annuity agreements and it has done so since 2011. A special permit was granted to the Fund by the Department on September 1, 2011, authorizing it to issue gift annuity agreements as specified in Section 1110 of the New York Insurance Law.

Comerica Bank and State Street Bank administer the gift annuity program by receiving funds directly from annuitants or via the Fund, receiving copies of annuity contracts from the Fund, recording the annuities in their recordkeeping system, making annuity payments to annuitants, sending 1099 tax form to annuitants, investing annuity funds and performing related functions.

The Fund performs marketing of the program, receives gift annuity contributions and forwards the contributions to the bank, prepares annuity illustrations and contracts for annuitants, and sends signed contracts to the bank. The Fund contracts with vendors such as the banks for the disbursement of payments to annuitants. The Fund has purchased a license to use software prepared by PG Calc, and the Fund uses that software to calculate annuity benefits, produce annuity illustrations, and provide other supporting material. Until 2015, Comerica Bank prepared the illustrations and contracts for the Fund, and the Fund sent the illustrations and contracts to the annuitants.

State Street Bank is the current custodian of the Fund’s assets.

The management of the Corporation and the Fund and all of its affairs and property are entrusted to a board of trustees. The number of trustees shall be limited to not less than three (3) but not more than seventy-one (71) regular voting trustees. As of December 31, 2015, the board consisted of 70 trustees. The trustees elect a Chairman, a President, a Secretary, a Treasurer, and one or more Vice Presidents. The nomination and election procedures of the trustees and their terms of office are set by the by-laws.

4. CORPORATE GOVERNANCE

The examiner's review of board of trustees' minutes for the examination period revealed that the minutes did not reference the approval of the purchases and sales of the Fund's investments.

The examiner recommends that the board of trustees, 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 utilize 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 utilize broker's advices or other supporting documentation for its investment transactions to reconcile such advices to the monthly statements provided by the custodian.

5. SIGNIFICANT FINANCIAL INFORMATION

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

	<u>December 31,</u> <u>2011</u>	<u>December 31,</u> <u>2015</u>	<u>Increase</u>
Admitted assets	<u>\$3,506,010</u>	<u>\$7,912,533</u>	<u>\$4,406,523</u>
Liabilities	<u>\$2,673,181</u>	<u>\$5,781,386</u>	<u>\$3,108,205</u>
Minimum required fund balance	\$ 267,318	\$ 578,139	\$ 310,821
Excess fund balance (surplus)	<u>565,511</u>	<u>1,553,008</u>	<u>987,497</u>
Total annuity fund balance	<u>\$ 832,829</u>	<u>\$2,131,147</u>	<u>\$1,298,318</u>
Total liabilities and annuity fund balance	<u>\$3,506,010</u>	<u>\$7,912,533</u>	<u>\$4,406,523</u>

Note: Any differences are due to rounding.

The increase in assets, liabilities and annuity fund balance reflects an increase in the total number of annuities in force. Annuities increased from 77 with annual payment amounts of \$309,153 as of December 31, 2011 to a total of 137 with annual payment amounts of \$818,193 as of December 31, 2015.

The Fund's admitted assets, as of December 31, 2015, were invested mainly in common stocks (95.90%).

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 2015 annual statement on file, the Fund reported: 16.75% invested in the securities of EAFE Index Common Trust Fund (“CTF”); 17.86% invested in the securities of Passive Bond Market Index CTF; and 20.77% invested in the securities of S&P 500 CTF. The

Fund's current concentration in the three CTFs makes it highly unlikely that the Fund's other assets could provide a variability to offset the risks inherent in the CTFs.

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.

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.

The examiner's review of a sample of 10 gift annuity agreements issued in New York during the examination period revealed that in all instances the Fund credited rates that exceeded the maximum rates recommended by the American Council on Gift Annuities.

The examiner recommends that the Fund not exceed the maximum rates recommended by the American Council on Gift Annuities.

7. ANNUAL STATEMENT REPORTING

The Department's General Instructions for Completing the New York State Segregated Gift Annuity Fund Annual Statement for the year ended December 31, 2015 state, in part:

(10) All amounts are to be reported based upon annuities issued in all states, except for states that mandate a legally required segregated and distinct trust account for that particular state's annuitants (e.g., California).

The Instructions for the Exhibit of Annuities In Force section of the New York State Segregated Gift Annuity Fund Annual Statement for the year ended December 31, 2015 state, in part:

IMPORTANT NOTE: For all calendar years (Columns 1 through 9), the number, annualized amount of payments on annuities in force, and reserve thereon should exclude California business and business from any state(s) that mandate a legally required segregated and distinct trust account for that particular state's annuitants.

The examiner's review of the Fund's reserve listing provided in conjunction with its 2015 Annual Statement revealed that the Fund included 15 annuities issued in California with total reserves of \$154,202.42 as of December 31, 2015. The examiner determined that the Fund failed to adhere to the Department's annual statement instructions which state that the Fund is required to report any amounts for its annuity program, exclusive of annuities issued in states such as California that mandate a legally required segregated and distinct trust account.

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

The examiner's review of the Fund's annual statements filed during the examination period (January 1, 2011 through December 31, 2015) revealed a number of errors:

1. The Fund failed to report any information for the beginning number and amount of annuities in-force and the number and amount of annuities terminated for the year ended December 31, 2011 in the exhibit of annuities in-force in all of the Fund's annual statements filed during the examination period.

2. The Fund erroneously reported one termination for 2013 as a negative number in the exhibit of annuities in-force in the Fund's 2013 Annual Statement.
3. The Fund failed to report the last two terminations for 2015 that should have been included in the exhibit of annuities in-force in the Fund's 2015 Annual Statement.

The examiner recommends that the Fund exercise due care in the preparation of its filed annual statements.

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 board of trustees, 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 utilize broker's advices or other supporting documentation for its investment transactions to reconcile such advices to the monthly statements provided by the custodian.	5
C	The examiner recommends that the Fund diversify its investment holdings.	7
D	The examiner recommends that the Fund not exceed the maximum rates recommended by the American Council on Gift Annuities.	8
E	The examiner recommends that the Fund prepare its annual statements according to the Department's instructions.	9
F	The examiner recommends that the Fund exercise due care in the preparation of its filed annual statements.	10

Respectfully submitted,

_____/s/
Moshe Stempel
Insurance Examiner

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

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

_____/s/
Moshe Stempel

Subscribed and sworn to before me
this _____ day of _____

APPOINTMENT NO. 31456

NEW YORK STATE

DEPARTMENT OF FINANCIAL SERVICES

I, MARIA T. VULLO, 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:

MOSHE STEMPEL

as a proper person to examine the affairs of the

**SEGREGATED GIFT ANNUITY FUND OF THE
FRIENDS OF THE ISRAEL DEFENSE FORCES**

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 25th day of April, 2016

MARIA T. VULLO

Acting Superintendent of Financial Services

By:

Mark McLeod

MARK MCLEOD

DEPUTY CHIEF - LIFE BUREAU

