



**REPORT ON EXAMINATION
OF THE
SEGREGATED GIFT ANNUITY FUND
OF THE
METROPOLITAN MUSEUM OF ART**

AS OF December 31, 2019

EXAMINER: Ashok Reddy

DATE OF REPORT: October 20, 2020

NEW YORK STATE DEPARTMENT OF FINANCIAL SERVICES

REPORT ON EXAMINATION

OF THE

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KATHY HOCHUL
Governor

ADRIENNE A. HARRIS
Superintendent

August 2, 2022

Honorable Adrienne A. Harris
Superintendent of Financial Services
New York, New York 10004

Madam:

In accordance with instructions contained in Appointment No.32112, dated September 10, 2020 and annexed hereto, an examination has been made into the condition and affairs of the Segregated Gift Annuity Fund of the Metropolitan Museum of Art. The Fund's home office is located at 1000 Fifth Avenue, New York, New York 10028.

The report indicating the results of this examination is respectfully submitted.

1. EXECUTIVE SUMMARY

The examiner recommends that the Investment Strategy Statement be approved by the board of directors. (See item 4A 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 and maintain a trial balance, general ledger, and transaction registers that reconcile to its filed annual statements. (See item 7 of this report)

2. SCOPE OF EXAMINATION

This Scope of Examination summarizes the nature of the Superintendent of the Department of Financial Services' ("Department" or "DFS") examination and assessment of the Metropolitan Museum of Art Segregated Annuity Fund (the "Fund") through which Metropolitan Museum of Art (the "Museum") provides annuity benefits.

The prior examination was conducted as of December 31, 2014. This examination covers the period from January 1, 2015 through December 31, 2019. As necessary, the examiner reviewed transactions occurring subsequent to December 31, 2019 but prior to the date of this report (i.e., the completion date of the examination).

This report outlines DFS's supervisory expectations or priorities and articulates DFS's general views regarding the exceptional circumstances where the Museum or Fund, in relation to their annuity activities, could have better adhered to statutory standards and guidance or practices or methods of dealing that are regularly observed among similar circumstances.

The Fund is subject to the solvency and examination requirements of New York Insurance Law § 1110 and of New York Insurance Law articles 1, 2, 3, 25, and 74.

The investment of the Fund's required admitted assets is subject to N.Y. Estates, Powers and Trust Law § 11-2.3. The investment of the remainder of the Fund's admitted assets is subject to N.Y. Not-for-Profit Corporation Law Article 5-a. Both establish that the trustees are to invest the assets consistent with prudent person standards.

The examination comprised a verification of assets and liabilities as of December 31, 2019 to determine whether the Fund's filed 2019 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 violations, recommendations and/or comments contained in the prior report on examination. The results of such review are contained in item 8 of this report.

3. DESCRIPTION OF FUND

A. History

The Metropolitan Museum of Art was chartered in 1870 and is organized for the purpose of: establishing and maintaining in the City of New York a museum and library of art; encouraging and developing the study of the fine arts; and the application of arts to manufacture and practical life, of advancing the general knowledge of kindred subjects, and to that end, of furnishing popular instruction. The Museum established the Fund to issue gift annuity agreements in return for gifts from donors in 1994. The Superintendent of Insurance granted to the Museum a Charitable Annuity Society special permit on September 29, 1995.

B. Structure

The management of the Museum and the Fund and all of its affairs and property are entrusted to a board of trustees. All operations related to the issuance, maintenance and settlement of annuity agreements are handled by the Fund.

C. Assets under the Board of Trustees

As of the June 30, 2019, IRS Form 990, the Museum's Board of Trustees oversaw an endowment comprising \$3,256,389,064 in total assets. The Fund, as of December 31, 2019, held total admitted assets of \$10,392,461.

D. Third Party Payment Service Provider

Bank of New York Mellon N.A. ("BNY Mellon") is the custodian of the Fund's assets and the Fund's investment manager as of December 31, 2019. BNY Mellon makes annuity payments, tax filings, and provides state filings to review, sign, and file.

4. INVESTMENT REVIEW

A. Investment Policy Statement

New York Estate Powers and Trust Law § 11-2.3(b)(3)(A) requires trustees to “pursue an overall investment strategy to enable the trustee[s] to make appropriate present and future distributions to or for the benefit of the beneficiaries under the governing instrument, in accordance with risk and return objectives reasonably suited to the entire portfolio.”

New York Not-for-Profit Corporation Law § 552(e)(2) requires institutions to adopt “an overall investment strategy having risk and return objectives reasonably suited to the fund and to the institution.” New York Not-for-Profit Corporation Law § 552(f) provides that each “institution shall adopt a written investment policy setting forth guidelines on investments ... and delegation of management and investment functions in accord with the standards of this article.”

The examiner’s review of the Fund’s Investment Strategy Statement (“ISS”) revealed that the board did not approve the ISS.

The examiner recommends that the Investment Strategy Statement be approved by the board of directors.

5. ASSETS AND LIABILITIES SUMMARY

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

	December 31, <u>2014</u>	December 31, <u>2019</u>	<u>(Decrease)</u>
Admitted assets	<u>\$15,641,265</u>	<u>\$10,392,461</u>	<u>\$(5,248,804)</u>
Liabilities	<u>\$10,703,563</u>	<u>\$ 6,838,792</u>	<u>\$(3,864,771)</u>
Minimum required fund balance	\$ 1,070,356	\$ 683,879	\$ (386,477)
Excess fund balance (surplus)	<u>3,867,346</u>	<u>2,869,790</u>	<u>(997,556)</u>
Total annuity fund balance	<u>\$ 4,937,703</u>	<u>\$ 3,553,669</u>	<u>\$(1,384,034)</u>
Total liabilities and annuity fund balance	<u>\$15,641,265</u>	<u>\$10,392,461</u>	<u>\$(5,248,804)</u>

Note: Any differences are due to rounding.

The decrease in assets, liabilities and annuity fund balance reflects a decrease in the total amount of annuities in force. Annuities decreased from 349 with annual payment amounts of \$1,378,176 as of December 31, 2014 to a total of 327 with annual payment amounts of \$904,687 as of December 31, 2019.

The Fund's admitted assets, as of December 31, 2019, were mainly invested in bonds (48.25%) and common stocks (49.58%). 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 WORKPAPERS

The examiner requested a copy of the Fund's trial balance, general ledger, and transaction registers for the Fund's 2019 annual statement. The Fund was unable to produce a copy of the Fund's trial balance, general ledger, and transaction registers for the 2019 annual statement or for any annual statements filed during the period under examination.

The examiner recommends that the Fund prepare and maintain a trial balance, general ledger, and transaction registers that reconcile to its filed annual statements.

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 citation:

<u>Item</u>	<u>Description</u>
A	<p>The examiner recommends that the Fund diversify its investment holdings.</p> <p>The Department no longer provides guidance for diversification.</p>
B	<p>The examiner recommends that the Fund obtain copies of the death certificates of annuitants for annuity contracts terminated.</p> <p>The Fund obtained death certificates or Social Security Death Index listings for its deceased annuitants.</p>

9. 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 Investment Strategy Statement be approved by the board of directors.	5
B	The examiner recommends that the Fund prepare and maintain a trial balance, general ledger, and transaction registers that reconcile to its filed annual statements.	8

Respectfully submitted,

_____/s/
Ashok Reddy
Senior Examiner

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

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

_____/s/
Ashok Reddy

Subscribed and sworn to before me
this _____ day of _____

APPOINTMENT NO. 32112

NEW YORK STATE

DEPARTMENT OF FINANCIAL SERVICES

*I, **LINDA A. LACEWELL**, 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:*

ASHOK REDDY

as a proper person to examine the affairs of the

***SEGREGATED GIFT ANNUITY FUND OF THE
METROPOLITAN MUSEUM OF ART***

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 September, 2020

LINDA A. LACEWELL
Superintendent of Financial Services

By:



MARK MCLEOD
DEPUTY CHIEF - LIFE BUREAU

