



NEW YORK STATE DEPARTMENT OF FINANCIAL SERVICES
REPORT ON EXAMINATION
OF THE
SEGREGATED GIFT ANNUITY FUND
OF THE
DEPARTMENT OF EDUCATION, ARCHDIOCESE OF NEW YORK

CONDITION:

DECEMBER 31, 2014

DATE OF REPORT:

AUGUST 17, 2015

NEW YORK STATE DEPARTMENT OF FINANCIAL SERVICES
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OF THE
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EXAMINER:

JAMES WANG

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NEW YORK STATE
DEPARTMENT *of*
FINANCIAL SERVICES

Andrew M. Cuomo
Governor

Maria T. Vullo
Acting Superintendent

June 14, 2016

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

Madam:

In accordance with instructions contained in Appointment No. 31307, dated June 17, 2015 and annexed hereto, an examination has been made into the condition and affairs of the Segregated Gift Annuity Fund of the Department of Education, Archdiocese of New York, hereinafter referred to as the “Fund,” at its home office located at 1011 First Avenue, New York, New York 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 Fund diversify its investment holdings. (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 Fund. (See item 5 of this report)

2. SCOPE OF EXAMINATION

The prior examination was conducted as of December 31, 2009. This examination covers the period from January 1, 2010 through December 31, 2014. As necessary, the examiner reviewed transactions occurring subsequent to December 31, 2014 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, 2014 to determine whether the Fund's filed 2014 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 violation and recommendations contained in the prior report on examination. The results of such review are contained in item 6 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 Department of Education, Archdiocese of New York (“the Department of Education”) was organized under the laws of the State of New York on October 23, 1970 to provide educational, supervisory, managerial and other forms of assistance, support and aid to the schools and other educational programs operated and supervised by or in connection with the Roman Catholic Archdiocese of New York, and to promote the objectives and purposes of such schools and programs. Under the provisions of its by-laws, the Department of Education is permitted to issue gift annuity agreements, which it has done since 1981. A special permit was granted to the Department of Education by the Department on November 2, 1995, authorizing it to issue gift annuity agreements as specified in Section 1110 of the New York Insurance Law.

The Fund handles the issuance of annuity agreements and maintains the accounting records and individual annuity files at its principal office. The Bank of New York Mellon (“BNY Mellon”) is the investment manager and acts as custodian to the Fund’s assets. Additionally, BNY Mellon: calculates the annuity amounts to be paid; issues all checks for annuity payments; and upon notification and receipt of a death certificate from the Fund, calculates the death payout and prepares the death payout check.

The management of the Department of Education and the Fund and all of the affairs and property are entrusted to a board of trustees. The number of trustees is limited to not less than 5 and not more than 25 regular voting trustees. As of December 31, 2014, the board consisted of 11 trustees. The trustees elect a chairman, president, vice president, treasurer, and a secretary. 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 table indicates the Fund's financial growth (decline) during the period under review:

	<u>December 31,</u> <u>2009</u>	<u>December 31,</u> <u>2014</u>	<u>Increase</u> <u>(Decrease)</u>
Admitted assets	<u>\$275,488</u>	<u>\$249,412</u>	<u>\$(26,076)</u>
Liabilities	<u>\$217,686*</u>	<u>\$180,800</u>	<u>\$(36,886)</u>
Minimum required fund balance	\$ 21,769*	\$ 18,080	\$ (3,689)
Excess fund balance (surplus)	<u>36,033*</u>	<u>50,532</u>	<u>14,499</u>
Total annuity fund balance	<u>\$ 57,802*</u>	<u>\$ 68,612</u>	<u>\$ 10,810</u>
Total liabilities and annuity fund balance	<u>\$275,488</u>	<u>\$249,412</u>	<u>\$(26,076)</u>

Note: The figures denoted with an asterisk were determined during the prior examination. Any differences are due to rounding.

The decrease in assets and liabilities reflects a decrease in the total number of annuities in force. Annuities decreased from 16 with annual payment amounts of \$27,301 as of December 31, 2009 to a total of 13 with annual payment amounts of \$19,653 as of December 31, 2014.

The increase in annuity fund balance reflects a significant reduction in the net present value of annuities. The net present value of annuities declined from \$197,896 as of December 31, 2009 to \$157,217 as of December 31, 2014.

The Fund's admitted assets, as of December 31, 2014, were invested mainly in common stocks (98.77%).

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 2014 annual statement on file, the Fund reported: 34.72% invested in the securities of Archdiocese of NY S&P 500 Collective Investment Fund (“CIF”) and 30.76% invested in the securities of Archdiocese of NY Core Fixed CIF. The Fund’s current concentration in the two collective investment funds makes it highly unlikely that the Fund’s other assets could provide a variability to offset the risks inherent in these funds.

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.

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. PRIOR REPORT SUMMARY AND CONCLUSIONS

Following are the violation and 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 correctly prepare all future annual statements, filed with the Department, in accordance with the instructions for completing annual statements.</p> <p>The Fund correctly prepared its annual statements during the examination period.</p>
B	<p>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. This is a repeat recommendation.</p> <p>The board of trustees, or a committee thereof, approved the purchase and sales of all investments.</p>
C	<p>The Fund violated Section 312(b) of the New York Insurance Law by failing to maintain signed statements from the board members indicating that they received and read the prior report on examination.</p> <p>The Fund maintains signed statements from the board members indicating that they received and read the prior report on examination.</p>

7. 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 diversify its investment holdings.	6

Respectfully submitted,

_____/s/
James Wang
Insurance Examiner

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

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

_____/s/
James Wang

Subscribed and sworn to before me
this _____ day of _____

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:

JAMES WANG

as a proper person to examine the affairs of the

**SEGREGATED GIFT ANNUITY FUND OF THE
DEPARTMENT OF EDUCATION, ARCHDIOCESE OF NEW YORK**

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 17th day of June, 2015

BENJAMIN M. LAWSKY
Superintendent of Financial Services

By:

Mark McLeod

MARK MCLEOD
ASSISTANT CHIEF - LIFE BUREAU

