



**REPORT ON EXAMINATION
OF THE
SEGREGATED GIFT ANNUITY FUND
OF THE
EPISCOPAL CHURCH FOUNDATION
AS OF DECEMBER 31, 2021**

EXAMINER: Adelia Gbadamosi

DATE OF REPORT: October 13, 2022

NEW YORK STATE DEPARTMENT OF FINANCIAL SERVICES

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KATHY HOCHUL
Governor



ADRIENNE A. HARRIS
Superintendent

December 21, 2022

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

Madam:

In accordance with instructions contained in Appointment No. 32374, dated May 27, 2022 and annexed hereto, an examination has been made into the condition and affairs of the Segregated Gift Annuity Fund of the Episcopal Church Foundation. The Fund's home office is located at 475 Riverside Drive, Suite 750, New York, New York 10115.

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

1. EXECUTIVE SUMMARY

The Fund reported investment income from securities lending of \$1,276 in 2017; \$619 in 2018; \$603 in 2019; \$374 in 2020; and \$424 in 2021. (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

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

The prior examination was conducted as of December 31, 2016. This examination covers the period from January 1, 2017 through December 31, 2021. As necessary, the examiner reviewed transactions occurring subsequent to December 31, 2021 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 Foundation or Fund, in relation to their annuity activities, could have better satisfied statutory standards or to adhered to 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, 2021 to determine whether the Fund's filed 2021 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 6 of this report.

3. DESCRIPTION OF FUND

A. History

The Episcopal Church Foundation is organized for the purpose of fostering, developing, and contributing to the support of the religious, educational and charitable work of the Protestant Episcopal Church in the United States of America. The Foundation established the Fund to issue gift annuity agreements in return for gifts from donors in 1995. The Superintendent of Insurance granted to the Foundation a Charitable Annuity Society special permit on December 31, 1997.

B. Structure

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

C. Assets under the Board of Directors

As of the December 31, 2020 audited financial statement, the Foundation's Board of Directors oversaw an endowment comprising \$3,709,801 in total assets. The Foundation also held total investments of \$565,704,258. The Fund, as of December 31, 2021, held total admitted assets of \$13,127,260.

D. Third-Party Payment Service Provider

State Street Bank and Trust Company ("State Street") is the custodian of the Fund's assets and investment manager. State Street also provides administrative services, tracking, pooled accounting, and production of tax documents for the Fund's assets. The Fund also uses Milliman, Inc. to provide an evaluation of charitable gift annuities and to provide an actuarial opinion.

4. ASSETS AND LIABILITIES SUMMARY

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:

	<u>December 31,</u> <u>2016</u>	<u>December 31,</u> <u>2021</u>	<u>Increase</u> <u>(Decrease)</u>
Admitted assets	<u>\$14,499,117</u>	<u>\$13,127,260</u>	<u>\$(1,371,857)</u>
Liabilities	<u>\$11,180,565</u>	<u>\$ 8,212,360</u>	<u>\$(2,968,205)</u>
Minimum required fund balance	\$ 1,118,056	\$ 821,236	\$ (296,820)
Excess fund balance (surplus)	<u>2,200,496</u>	<u>4,093,664</u>	<u>1,893,168</u>
Total annuity fund balance	<u>\$ 3,318,553</u>	<u>\$ 4,914,900</u>	<u>\$ 1,596,348</u>
Total liabilities and annuity fund balance	<u>\$14,499,117</u>	<u>\$13,127,260</u>	<u>\$(1,371,857)</u>

The increase in annuity fund balance reflects strong market conditions that positively impacted the Fund. The decrease in assets and liabilities is attributable to a decline in annuities from a total of 584 with annual payment amounts of \$1,392,111 as of December 31, 2016 to 437 with annual payment amounts of \$941,572 as of December 31, 2021. The decrease during the examination period also reflects annuity terminations with their remaining balances paid out to designated charities.

The Fund's admitted assets, as of December 31, 2021, were invested mainly in equity securities (94.9%).

The Fund engaged in securities lending in all years during the examination period. The Fund reported investment income from securities lending of \$1,276 in 2017; \$619 in 2018; \$603 in 2019; \$374 in 2020; and \$424 in 2021.

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 12 annuity contracts terminated revealed that in 5 of the 12 cases (41.67%) reviewed, the Fund failed to 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. PRIOR REPORT SUMMARY AND CONCLUSIONS

Following are the violation, recommendations and comment 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 Fund violated Section 312(b) of the New York Insurance Law by failing to obtain and maintain signed statements from the board members indicating that each board member obtained and read the prior report on examination.</p> <p>The Fund obtained and maintained signed statements from the board members.</p>
B	<p>The examiner recommends that the board of directors comply with Section 312(b) of the New York Insurance Law by obtaining and maintaining the statement of each board member indicating that they received and read the prior report on examination.</p> <p>The board of directors complied with Section 312(b) of the New York Insurance Law.</p>
C	<p>The examiner recommends that the Fund obtain broker's advices or other supporting documentation for its investment transactions and that this documentation be reviewed on a timely basis and reconciled to the applicable custodial statements for the period.</p> <p>The Fund failed to obtain broker's advices or other supporting documentation for its investment transactions; however, the Fund obtained the SOC 1 report from its investment custodian.</p>
D	<p>The examiner recommends that the board of directors, or a committee thereof, approve the purchases and sales of all investments and note such approval in the board minutes.</p> <p>The board of directors approved the purchases and sales of all investments and noted such approval in the board minutes.</p>
E	<p>The Fund reported investment income from securities lending of \$1,061 in 2016; \$1,126 in 2015; \$1,460 in 2014; \$289 in 2013; and \$1,999 in 2012.</p> <p>The Fund reported income from securities lending of \$1,276 in 2017; \$619 in 2018; \$603 in 2019; \$374 in 2020; and \$424 in 2021.</p>

<u>Item</u>	<u>Description</u>
F	<p>The examiner recommends that the Fund strengthen the diversification of its investment holdings.</p> <p>The Department no longer provides specific guidance for investment diversification.</p>
G	<p>The examiner recommends that the Fund ensure that all gift annuity agreement forms have the appropriate form number as approved by the Superintendent printed on each form issued.</p> <p>The Fund placed the appropriate form number on all annuity agreement forms issued during the examination period.</p>
H	<p>The examiner recommends that the Fund prepare its annual statements according to the Department's instructions.</p> <p>The examiner noted no new discrepancies during her review.</p>
I	<p>The examiner recommends that the Fund maintain detailed general ledger accounts, transaction registers, and annual statement workpapers that support its filed annual statement.</p> <p>The Fund maintained detailed general ledger accounts, transaction registers, and annual statement workpapers that support its filed annual statement.</p>
J	<p>The examiner recommends that the Fund prepare and maintain a reconciliation of its books of account to the Fund's bank statement.</p> <p>The Fund failed to prepare and maintain a reconciliation of its books of account because of its limited resources and the number of transactions that occurred. The Fund relied on its investment manager's detailed maintenance of transactions in its propriety accounting system and the Fund regularly reviewed them to ensure that transactions were completely reported. Hence, the Fund reconciled the transactions registers to its bank statements.</p>

7. SUMMARY AND CONCLUSIONS

Following are the recommendation and comment contained in this report:

<u>Item</u>	<u>Description</u>	<u>Page No(s).</u>
A	The Fund reported investment income from securities lending of \$1,276 in 2017; \$619 in 2018; \$603 in 2019; \$374 in 2020; and \$424 in 2021.	5
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.	6

APPOINTMENT NO. 32374

NEW YORK STATE

DEPARTMENT OF FINANCIAL SERVICES

I, ADRIENNE A. HARRIS, 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:

ADELIA GBADAMOSI

as a proper person to examine the affairs of the

***SEGREGATED GIFT ANNUITY FUND OF THE
EPISCOPAL CHURCH FOUNDATION***

and to make a report to me in writing of the condition of said

FUND

with such other information as she 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 27th day of May, 2022

*ADRIENNE A. HARRIS
Superintendent of Financial Services*

By:



***MARK MCLEOD
DEPUTY CHIEF - LIFE BUREAU***

