



NEW YORK STATE DEPARTMENT OF FINANCIAL SERVICES  
REPORT ON EXAMINATION  
OF THE  
SEGREGATED GIFT ANNUITY FUND  
OF THE  
WORD OF LIFE FELLOWSHIP, INC.

CONDITION:

DECEMBER 31, 2018

DATE OF REPORT:

AUGUST 16, 2019

NEW YORK STATE DEPARTMENT OF FINANCIAL SERVICES

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OF THE

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OF THE

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EXAMINER:

MANISH GAJIWALA

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NEW YORK STATE  
DEPARTMENT *of*  
FINANCIAL SERVICES

Andrew M. Cuomo  
Governor

Linda A. Lacewell  
Superintendent

February 20, 2020

Honorable Linda A. Lacewell  
Superintendent of Financial Services  
New York, New York 10004

Madam:

In accordance with instructions contained in Appointment No. 31931, dated May 20, 2019 and annexed hereto, an examination has been made into the condition and affairs of the Segregated Gift Annuity Fund of the Word of Life Fellowship, Inc., hereinafter referred to as “the Fund,” at its home office located at 71 Olmstedville Road, Pottersville, NY 12860.

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 directors, or a committee thereof, approve the purchases and sales of all investments and note such approvals in the minutes. (See item 3C of this report)

The examiner recommends that the Fund adopt an Investment Strategy Statement (“ISS”) that refers to the prudent investor standard as defined in Section 11-2.3 of the Estates, Powers and Trusts Law, which standard, as specified in Section 1110(b) of the New York Insurance Law, governs the manner in which the required admitted assets of a segregated gift annuity fund shall be invested. The Fund should exercise reasonable care, skill and caution to make and implement investment and management decisions as a prudent investor would for the entire portfolio. In doing so, the Fund should take into account present and future distributions to or for the beneficiaries and create a plan to meet the needs of those distributions to establish the ISS’s risk, return, and time horizon objectives. (See item 3C of this report)

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 that period. (See item 3C of this report)

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 reasonable care, skill and caution should diversify the Fund’s assets. (See item 4 of this report)

The examiner recommends that the Fund refile with the Superintendent all gift annuity agreement forms that were used and not previously approved by the Superintendent. (See item 5 of this report)

## 2. SCOPE OF EXAMINATION

The prior examination was conducted as of December 31, 2013. This examination covers the period from January 1, 2014 through December 31, 2018. As necessary, the examiner reviewed transactions occurring subsequent to December 31, 2018 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, 2018 to determine whether the Fund's filed 2018 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

#### A. History

The Word of Life Fellowship, Inc. (the “Corporation”) was organized for the purpose of spreading the gospel of Jesus Christ throughout the United States of America and other countries. The Corporation has been issuing gift annuity agreements since 1995. A special permit was granted to the Corporation by the New York State Insurance Department on October 29, 1998, authorizing it to issue gift annuity agreements as specified in Section 1110 of the New York Insurance Law.

#### B. Services

Glens Falls National Bank and Trust Company is the Fund’s custodian and investment manager. Actuarial functions are provided by a third-party actuary, Jim Cregan. All operations related to the issuance, maintenance and settlement of annuity agreements are handled by the Fund.

#### C. Corporate Governance

The management of the Corporation and the Fund and all of its affairs and property are entrusted to a board of directors. The number of directors is limited to 35 regular voting directors. As of December 31, 2018, the board consisted of 23 directors. The directors elect a president and vice-president, who shall be members of the board, and a secretary, treasurer and assistant secretary who are not required to be members of the board. The nomination and election procedures of the directors and their terms of office are set by the by-laws.

The examiner reviewed the Finance Committee minutes to determine whether the Investment Committee approved the purchases and sales of investments during the examination period. The minutes did not contain any indication that the committee approved the purchases and sales of investments during the examination period.

The examiner recommends that the board of directors, or a committee thereof, approve the purchases and sales of all investments and note such approvals in the minutes.

The examiner's review of the Fund's ISS showed that the it does not contain reference to the prudent investor standard, as specified in Section 1110(b) of the New York Insurance Law.

The examiner recommends that the Fund adopt an ISS that refers to the prudent investor standard as defined in Section 11-2.3 of the Estates, Powers and Trusts Law, which standard, as specified in Section 1110(b) of the New York Insurance Law, governs the manner in which the required admitted assets of a segregated gift annuity fund shall be invested. The Fund should exercise reasonable care, skill and caution to make and implement investment and management decisions as a prudent investor would for the entire portfolio. In doing so, the Fund should take into account present and future distributions to or for the beneficiaries and create a plan to meet the needs of those distributions to establish the ISS's risk, return, and time horizon objectives.

The examiner reviewed the investment transactions for the period under examination and noted that the Fund did not obtain 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 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 that period.



#### 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:

	<u>December 31,</u> <u>2013</u>	<u>December 31,</u> <u>2018</u>	<u>Increase</u> <u>(Decrease)</u>
Admitted assets	<u>\$1,608,177*</u>	<u>\$1,384,021</u>	<u>\$(224,156)</u>
Liabilities	<u>\$1,463,788*</u>	<u>\$1,069,415</u>	<u>\$(394,373)</u>
Minimum required fund balance	\$ 142,933	\$ 106,941	\$ (35,992)
Excess fund balance (surplus)	<u>1,456*</u>	<u>207,665</u>	<u>206,209</u>
Total annuity fund balance	<u>\$ 144,389*</u>	<u>\$ 314,606</u>	<u>\$ 170,217</u>
Total liabilities and annuity fund balance	<u>\$1,608,177*</u>	<u>\$1,384,021</u>	<u>\$(224,156)</u>

Note: Amounts denoted with an asterisk represent corrected numbers determined during the prior examination, to correct errors in reporting in the annual statement.

The decrease in assets and liabilities reflects a decrease in the total number of annuities in force. The net increase in annuity fund balance is attributable to the combination of the issuance of new annuities, the termination of annuities due to the death of annuitants, and the investment performance of the annuity assets. Annuities decreased from 106 with annual payment amounts of \$176,802 as of December 31, 2013 to a total of 102 with annual payment amounts of \$129,183 as of December 31, 2018.

The Fund's admitted assets, as of December 31, 2018, were invested mainly in bonds (71.15%) and common stocks (22.59%). All bonds held were investment grade.

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 2018 annual statement, the Fund reported: 16.93% of its admitted assets invested in Vanguard 500 Index Fund #1340. The Fund's current concentration in this index fund could make it less likely that the Fund's other assets can provide a variability to offset the risks inherent in this fund.

Based upon the concentrations in the above fund, 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 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 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 the gift annuity agreement form used by the Fund for the one gift annuity issued in New York during the examination period noted that the Fund filed the form in question. However, there is no evidence of the policy form being approved by the Department.

The examiner recommends that the Fund refile with the Superintendent all gift annuity agreement forms that were used and not previously approved by the Superintendent.

## 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 Fund violated Section 312(b) of the New York Insurance Law by failing to maintain signed statements signed from the board members indicating that they received and read the prior report on examination. This is a repeat violation.</p> <p>The Fund provided signed board member statements indicating that they received and read the prior report on examination.</p>
B	<p>The examiner recommends that the Fund comply with Section 312(b) of the New York Insurance Law by obtaining and maintaining the signature of each board member indicating that they received and read the prior report on examination. This is a repeat recommendation.</p> <p>The Fund provided signed board member statements indicating that they received and read the prior report on examination.</p>
C	<p>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 to deviate from such a recommendation, then it should memorialize the reasons for that determination in terms of the ISS's risk, return, and time horizon parameters.</p> <p>The Fund has continued to fail to properly diversify its investment holdings.</p>
D	<p>The examiner recommends that the Fund prepare its annual statements in accordance with the Department's instructions.</p> <p>No further discrepancies were noted by the examiner.</p>
E	<p>The examiner recommends that the Fund exercise due care in the preparation of its annual statements and supporting schedules. This is a repeat recommendation.</p> <p>No further discrepancies were noted by the examiner.</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 board of directors, or a committee thereof, approve the purchases and sales of all investments and note such approvals in the minutes.	4
B	The examiner recommends that the Fund adopt an ISS that refers to the prudent investor standard as defined in Section 11-2.3 of the Estates, Powers and Trusts Law, which standard, as specified in Section 1110(b) of the New York Insurance Law, governs the manner in which the required admitted assets of a segregated gift annuity fund shall be invested. The Fund should exercise reasonable care, skill and caution to make and implement investment and management decisions as a prudent investor would for the entire portfolio. In doing so, the Fund should take into account present and future distributions to or for the beneficiaries and create a plan to meet the needs of those distributions to establish the ISS's risk, return, and time horizon objectives.	5
C	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 that period.	5
D	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.	7
E	The examiner recommends that the Fund refile with the Superintendent all gift annuity agreement forms that were used and not previously approved by the Superintendent.	8

Respectfully submitted,

\_\_\_\_\_/s/  
Manish Gajiwala  
Senior Insurance Examiner

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

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

\_\_\_\_\_/s/  
Manish Gajiwala

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

*APPOINTMENT NO. 31931*

*NEW YORK STATE*

*DEPARTMENT OF FINANCIAL SERVICES*

*I, LINDA A. LACEWELL, 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:*

**MANISH GAJIWALA**

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

**SEGREGATED GIFT ANNUITY FUND OF THE  
WORD OF LIFE FELLOWSHIP, INC.**

*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 20th day of May, 2019*

**LINDA A. LACEWELL**  
*Acting Superintendent of Financial Services*

By:

*Mark McLeod*

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

