



**REPORT ON EXAMINATION
OF THE
SEGREGATED GIFT ANNUITY FUND
OF THE
ASSOCIATION OF GRADUATES OF
THE UNITED STATES MILITARY ACADEMY
AS OF December 31, 2018**

EXAMINER: Philip Youssef

DATE OF REPORT: November 1, 2019

NEW YORK STATE DEPARTMENT OF FINANCIAL SERVICES

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PHILIP YOUSSEF

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KATHY HOCHUL
Governor



ADRIENNE A. HARRIS
Superintendent

January 27, 2022

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

Madam:

In accordance with instructions contained in Appointment No. 31893, dated June 28th, 2019 and annexed hereto, an examination has been made into the condition and affairs of the Segregated Gift Annuity Fund of the Association of the Graduates of the United States Military Academy at its home office located at 698 Mills Road, West Point, NY 10996.

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

1. EXECUTIVE SUMMARY

The examiner's review of a sample of transactions did not reveal any differences which materially affected the Fund's financial condition as presented in its financial statements contained in the December 31, 2018 filed annual statement. (See item 4 of this report)

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. (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' (the "Department" or "DFS") examination and assessment of the Association of Graduates of the United States Military Academy Segregated Annuity Fund (the "Fund") through which Association of Graduates of the United States Military Academy (the "Association") provides annuity benefits.

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).

This report outlines DFS's supervisory expectations or priorities and articulates DFS's general views regarding the exceptional circumstances where the College or Fund, in relation to their annuity activities, could have better satisfied statutory standards or 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, 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 reviewed the prior report on examination which did not contain any violations, recommendations or comments.

3. DESCRIPTION OF FUND

A. History

The Association of Graduates of the United States Military Academy is organized for the purpose of furthering the ideals and promoting the welfare of the United States Military Academy, and to supporting and serving its graduates. The Association established the Fund to issue gift annuity agreements in return for gifts from donors in 1984. The Superintendent of Insurance granted to the Association a Charitable Annuity Society special permit on June 29, 1999.

B. Structure

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

C. Assets under the Board of Directors

As of the December 31, 2018 Form 990, the Association's Board of Directors oversaw an endowment comprising \$252,700,217 in total assets. The Fund, as of December 31, 2018, held total admitted assets of \$4,691,652.

D. Third-Party Payment Service Provider

Bank of New York Mellon (BNY Mellon) is the Fund's custodian and investment manager. BNY Mellon is also responsible for administrative functions, such as accounting, investments, and the distribution of annuity payments.

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>2013</u>	<u>December 31,</u> <u>2018</u>	<u>Increase</u> <u>(Decrease)</u>
Admitted assets	<u>\$3,717,366</u>	<u>\$4,691,652</u>	<u>\$974,286</u>
Liabilities	<u>\$2,473,266</u>	<u>\$3,266,339</u>	<u>\$793,073</u>
Minimum required fund balance	\$ 247,327	\$ 326,634	\$ 79,307
Excess fund balance (surplus)	<u>996,774</u>	<u>1,098,679</u>	<u>101,905</u>
Total annuity fund balance	<u>\$1,244,100</u>	<u>\$1,425,313</u>	<u>\$181,213</u>
Total liabilities and annuity fund balance	<u>\$3,717,366</u>	<u>\$4,691,652</u>	<u>\$974,286</u>

The increase in assets, liabilities and annuity fund balance occurred despite a decrease in the total number of annuities in force, due to large annuities for 2 donors whose gift value (6 annuities in total) was over \$1.6 million. The number of annuities decreased from 97 as of December 31, 2013 to a total of 81 as of December 31, 2018; however, annual payment amounts increased from \$276,674 as of December 31, 2013 to \$354,775 as of December 31, 2018.

The Fund's admitted assets, as of December 31, 2018, were invested mainly in equities issued by one entity or its affiliates (89.85%) and bonds (4.41%). All bonds held were investment grade.

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 reviewed a sample of new gift annuities issued by the Fund during the examination period. In the sample selected, the examiner noted that 2 out of the 2 newly issued gift annuities reviewed had contracts which did not have the appropriate form number as approved by the Superintendent printed on the forms.

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.

6. SUMMARY AND CONCLUSIONS

Following is the recommendation contained in this report:

<u>Item</u>	<u>Description</u>	<u>Page No(s).</u>
A	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.	6

Respectfully submitted,

_____/s/
Philip Youssef
Insurance Examiner

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

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

_____/s/
Philip Youssef

Subscribed and sworn to before me
this _____ day of _____

APPOINTMENT NO. 31893

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:

PHILIP YOUSSEF

as a proper person to examine the affairs of the

**SEGREGATED GIFT ANNUITY FUND OF THE
ASSOCIATION OF GRADUATES OF THE UNITED STATES MILITARY ACADEMY**

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 28th day of June, 2019

LINDA A. LACEWELL
Acting Superintendent of Financial Services

By:



MARK MCLEOD
DEPUTY CHIEF - LIFE BUREAU

