



NEW YORK STATE DEPARTMENT OF FINANCIAL SERVICES
REPORT ON EXAMINATION
OF THE
SEGREGATED GIFT ANNUITY FUND
OF THE
INTERNATIONAL RESCUE COMMITTEE, INC.

CONDITION:

DECEMBER 31, 2017

DATE OF REPORT:

DECEMBER 19, 2018

NEW YORK STATE DEPARTMENT OF FINANCIAL SERVICES

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OF THE

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EXAMINER:

DENISE SAUNDERS

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NEW YORK STATE
DEPARTMENT *of*
FINANCIAL SERVICES

Andrew M. Cuomo
Governor

Linda A. Lacewell
Superintendent

October 10, 2019

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

Madam:

In accordance with instructions contained in Appointment No. 31734, dated April 13, 2018 and annexed hereto, an examination has been made into the condition and affairs of the Segregated Gift Annuity Fund of the International Rescue Committee, Inc., hereinafter referred to as “the Fund.” The Fund’s home office is located at 122 East 42nd Street, New York, NY 10168.

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 trustees, 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 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 Investment Strategy Statement's ("ISS") risk, return, and time horizon parameters. (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)

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

The prior examination was conducted as of December 31, 2012. This examination covers the period from January 1, 2013 through December 31, 2017. As necessary, the examiner reviewed transactions occurring subsequent to December 31, 2017 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, 2017 to determine whether the Fund's filed 2017 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 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 International Rescue, Inc. (the “Organization”) founded in 1933 and was incorporated in New York on March 23, 1942. The name was changed to International Rescue Committee, Inc., (“IRC”) its present name, by a Certificate of Amendment filed with the Department of State on May 3, 1951. The Organization was organized for the purpose of providing global emergency relief to assist in rehabilitation, protection of human rights, post-conflict development, resettlement services and advocacy for refugees and others uprooted or affected by violent conflict and oppression without regard to the race, nationality or religion of the beneficiaries as well as to carry out programs of humanitarian assistance in areas of need outside the United States and to administer such assistance without regard to the race, nationality or religion of the beneficiaries. The Organization also conducts programs of public education regarding the situation, circumstances, needs and plight of victims of oppression and persecution for the purpose of mobilizing assistance on their behalf.

The Organization established a program to issue gift annuity agreements in return for gifts from donors, and it has done so since 1991. A special permit was granted to the organization by the Department on March 19, 1993, authorizing it to issue gift annuity agreements as specified in Section 1110 of the New York Insurance Law.

B. Services

The Fund’s custodian is State Street Global Advisors for its cash and securities. All major operations related to investing, distributions, receiving new gift annuities and accounting are outsourced to State Street Global Advisors. The Fund receives, reviews, and records the accounting information at a summary level in its ledger. Milliman, Inc. is tasked with performing a valuation of the Fund’s reserves as well as providing an actuarial opinion.

C. Corporate Governance

The management of the Organization, the Fund and all of its affairs and property are entrusted to a board of trustees. The number of trustees is limited to 33 regular voting trustees.

The trustees are divided into 3 classes “A” through “C” comprising of 11 trustees in each class. The term of office of each class of trustee expires in different years. Each year, a class of trustee’s term expires, and an election for the next term of three years is conducted. As of December 31, 2017, the board consisted of 33 trustees. The trustees elect the Chair of the Board of Trustees, Vice-Chair, and President. All other officers of the Organization shall be appointed by the President, subject to the approval of the Board. The nomination and election procedures of the trustees and their terms of office are set by the by-laws. The Investment Committee of the Board is entrusted with management of the gift annuity fund.

The examiner reviewed the Investment 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 trustees, or a committee thereof, approve the purchases and sales of all investments and note such approvals in the minutes.

4. SIGNIFICANT FINANCIAL INFORMATION

The following summary table indicates the growth in various categories of the Fund's assets, liabilities, and fund balance during the period under review:

	<u>December 31,</u> <u>2012</u>	<u>December 31,</u> <u>2017</u>	<u>Increase</u> <u>(Decrease)</u>
Admitted assets	<u>\$8,393,612</u>	<u>\$11,146,051</u>	<u>\$2,752,439</u>
Liabilities	<u>\$6,674,670</u>	<u>\$ 6,437,575</u>	<u>\$ (237,095)</u>
Minimum required fund balance	\$ 667,467	\$ 643,757	\$ (23,710)
Excess fund balance (surplus)	<u>1,051,475</u>	<u>4,064,719</u>	<u>3,013,244</u>
Total annuity fund balance	<u>\$1,718,942</u>	<u>\$ 4,708,476</u>	<u>\$2,989,534</u>
Total liabilities and annuity fund balance	<u>\$8,393,612</u>	<u>\$11,146,051</u>	<u>\$2,752,439</u>

The increase in assets was due to an increase in the market value of investments. The increase in liabilities was due to the larger size of new gifts to the Organization. The annuity fund balance increased due to changes in market values of the Fund's holdings as well as new gifts.

The Fund's admitted assets, as of December 31, 2017, were invested mainly in common stocks (98.21%).

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 2017 annual statement, the Fund reported: 21.77% of its admitted assets invested in Intermediate U.S. Government/Credit Bond Index NL QP Exchange Traded Fund ; 14.94% invested in International Alpha Common Trust Fund ; and 24.79% invested in S&P 500

Common Trust Fund. The Fund's current concentration in these funds could make it less likely that the Fund's other assets can provide a variability to offset the risks inherent in these funds.

Based upon the concentrations in the above funds, 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 reviewed a sample of new gift annuities issued by the Fund during the examination period. In the sample selected, the examiner noted that 1 out of the 15 newly issued gift annuities reviewed used a contract which did not have the appropriate form number as approved by the Superintendent printed on the form.

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.

The examiner's review of a sample of 10 annuity contracts terminated revealed that in 5 of the 10 cases (50%) reviewed, the Fund did not 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 violations 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 from the board members indicating that they received and read the prior report on examination.</p> <p>The Fund obtained and maintained the signature of each board member 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.</p> <p>The Fund obtained and maintained the signature of each board member indicating that they received and read the prior report on examination.</p>
C	<p>The Fund violated Section 1110(a) of the New York Insurance Law by using gift annuity agreement forms that differed from the gift annuity agreement forms that were filed with the Superintendent.</p> <p>The Fund filed with the Superintendent all gift annuity agreement forms that were used and not previously filed with the Superintendent.</p>
D	<p>The examiner recommends that the Fund file with the Superintendent all gift annuity agreement forms that were used and not previously filed with the Superintendent.</p> <p>The Fund filed with the Superintendent all gift annuity agreement forms that were used and not previously filed with the Superintendent.</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 trustees, or a committee thereof, approve the purchases and sales of all investments and note such approvals in the minutes.	5
B	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
C	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.	8
D	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.	8

Respectfully submitted,

Denise Saunders
Senior Insurance Examiner

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

DENISE SAUNDERS, being duly sworn, deposes and says that the foregoing report, subscribed by her, is true to the best of her knowledge and belief.

Denise Saunders

Subscribed and sworn to before me

this _____ day of _____

APPOINTMENT NO. 31734

NEW YORK STATE

DEPARTMENT OF FINANCIAL SERVICES

I, MARIA T. VULLO, 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:

DENISE SAUNDERS

as a proper person to examine the affairs of the

**SEGREGATED GIFT ANNUITY FUND OF THE
INTERNATIONAL RESCUE COMMITTEE, INC.**

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 13th day of April, 2018

MARIA T. VULLO
Superintendent of Financial Services

By:

Mark McLeod

MARK MCLEOD
DEPUTY CHIEF - LIFE BUREAU

