



**REPORT ON EXAMINATION  
OF THE  
SEGREGATED GIFT ANNUITY FUND  
OF THE  
FRIENDS OF THE ISRAEL DEFENSE FORCES**

**AS OF DECEMBER 31, 2020**

**EXAMINER: Hasan Ahmed**

**DATE OF REPORT: June 7, 2022**

NEW YORK STATE DEPARTMENT OF FINANCIAL SERVICES

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KATHY HOCHUL  
Governor

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ADRIENNE A. HARRIS  
Superintendent

September 30, 2022

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

Madam:

In accordance with instructions contained in Appointment No. 32218, dated March 8th, 2022 and annexed hereto, an examination has been made into the condition and affairs of the Segregated Gift Annuity Fund of the Friends of the Israel Defense Forces. The Fund's home office is located at 60 East 42<sup>nd</sup> Street, New York, NY 10165.

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

## 1. EXECUTIVE SUMMARY

The Fund violated Section 312(b) of the New York Insurance Law by failing to obtain signed statements from the board members indicating that they received and read the prior report on examination. The examiner recommends that the Fund comply with Section 312(b) of the New York Insurance Law by obtaining the signature of each board member indicating that they have received and read any current or future filed report on examination. (See item 3E 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 3E of this report)

The examiner recommends that the Fund use on all annuity benefit checks the name it agreed to by board resolution as part of its permit application to the Department for a special permit to issue charitable gift annuities in New York. (See item 3E of this report)

The examiner recommends that the Investment Strategy Statement be approved by the board of directors. (See item 4A of this report)

The examiner recommends that the Fund review at least annually its written investment policy setting forth guidelines on investments and delegation of management and the conformance of its delegees to that investment policy and statutory guidance and that it memorialize those reviews in either board minutes or materials. (See item 4A 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 6 of this report)

The examiner recommends that the Fund maintain documentation showing the amount of residuum transfer as well as the dates when the residuum were transferred as part of annuity terminations. (See item 6 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 Friends of the Israel Defense Forces Segregated Annuity Fund (the "Fund") through which Friends of the Israel Defense Forces (the "Corporation") provides annuity benefits.

The prior examination was conducted as of December 31, 2015. This examination covers the period from January 1, 2016 through December 31, 2020. As necessary, the examiner reviewed transactions occurring subsequent to December 31, 2020 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 Friends of the Israel Defense Forces or Fund, in relation to their annuity activities, could have better adhered to statutory standards and guidance or 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, 2020 to determine whether the Fund's filed 2020 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, recommendations and/or comments contained in the prior report on examination. The results of such review are contained in item 7 of this report.

### 3. DESCRIPTION OF FUND

#### A. History

The Friends of The Israel Defense Forces was chartered in 1981 and is organized for the purpose of offering education, cultural, recreational, and social services programs and facilities that provide hope, purpose, and life-changing support for the soldiers who protect Israel and Jews worldwide. The Corporation established the Fund to issue gift annuity agreements in return for gifts from donors in 2011. The Superintendent of Insurance granted to the Corporation a Charitable Annuity Society special permit on September 1, 2011.

#### B. Structure

The Fund is overseen by the Corporation's board of directors. The Corporation performs the marketing of the program, receives gift annuity contributions and forwards the contributions to the bank, prepares annuity illustrations and contracts for annuitants, and sends signed contracts to the bank. The Fund purchased a license to use software prepared by PG Calc, and the Fund uses that software to calculate annuity benefits, annuity illustrations, and provide other supporting material.

#### C. Assets under the Board of Directors

As of the December 31, 2020 audited financial statement, the Corporation's board of directors oversaw an endowment consisting of twelve individual funds comprising \$9,774,585 in total assets. The board also oversaw \$130,047,233 in investments. The Fund, as of December 31, 2020, held total admitted assets of \$20,517,565.

#### D. Third-Party Payment Service Provider

State Street Bank is the custodian of the Fund's assets. State Street Bank administers the gift annuity program by receiving funds directly from annuitants or via the Fund, receiving copies of annuity contracts from the Fund, recording the annuities in their recordkeeping system, making annuity payments to annuitants, sending 1099 tax forms to annuitants, investing annuity funds and performing related functions.

#### E. Oversight Structure

Section 312(b) of the New York Insurance Law states, in part:

“(b) A copy of the report shall be furnished by such insurer or other person to each member of its board of directors and each such member shall sign a statement which shall be retained in the insurer’s files confirming that such member has received and read such report . . .”

The examiner’s review revealed that the Fund failed to obtain statements signed by each board member indicating that they received and read the prior report on examination.

The Fund violated Section 312(b) of the New York Insurance Law by failing to obtain signed statements from the board members indicating that they received and read the prior report on examination. The examiner recommends that the Fund comply with Section 312(b) of the New York Insurance Law by obtaining the signature of each board member indicating that they have received and read any current or future filed report on examination.

The examiner reviewed the investment transactions for the period under examination and noted that the Fund failed to 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.

The examiner’s review of a sample of benefit payments made to annuitants during the examination period revealed that only the name of the Friends of the Israel Defense Forces, not the Fund’s name, appeared on the annuity benefit checks.

The examiner recommends that the Fund use on all annuity benefit checks the name it agreed to by board resolution as part of its permit application to the Department for a special permit to issue charitable gift annuities in New York.



#### 4. INVESTMENT REVIEW

##### A. Investment Strategy Statement

New York Estate Powers and Trust Law § 11-2.3(b)(3)(A) requires trustees to “pursue an overall investment strategy to enable the trustee[s] to make appropriate present and future distributions to or for the benefit of the beneficiaries under the governing instrument, in accordance with risk and return objectives reasonably suited to the entire portfolio.”

New York Not-for-Profit Corporation Law § 552(e)(2) requires institutions to adopt “an overall investment strategy having risk and return objectives reasonably suited to the fund and to the institution.” New York Not-for-Profit Corporation Law § 552(f) provides that each “institution shall adopt a written investment policy setting forth guidelines on investments ... and delegation of management and investment functions in accord with the standards of this article.”

The examiner’s review of the Fund’s Investment Strategy Statement (“ISS”) revealed that the board did not approve the ISS.

The examiner recommends that the Investment Strategy Statement be approved by the board of directors.

The examiner recommends that the Fund review at least annually its written investment policy setting forth guidelines on investments and delegation of management and the conformance of its delegees to that investment policy and statutory guidance and that it memorialize those reviews in either board minutes or materials.

## 5. ASSETS AND LIABILITIES SUMMARY

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>2015</u>	<u>December 31,</u> <u>2020</u>	<u>Increase</u>
Admitted assets	<u>\$7,912,533</u>	<u>\$20,517,565</u>	<u>\$12,605,032</u>
Liabilities	<u>\$5,781,536</u>	<u>\$11,318,990</u>	<u>\$ 5,537,454</u>
Minimum required fund balance	\$ 578,139	\$ 1,131,899	\$ 553,760
Excess fund balance (surplus)	<u>1,553,009</u>	<u>8,066,676</u>	<u>6,513,667</u>
Total annuity fund balance	<u>\$2,131,148</u>	<u>\$ 9,198,575</u>	<u>\$ 7,067,427</u>
Total liabilities and annuity fund balance	<u>\$7,912,533</u>	<u>\$20,517,565</u>	<u>\$12,605,032</u>

The increase in assets, liabilities and annuity fund balance reflects an increase in the total number of annuities in force. Annuities increased from 139 with annual payment amounts of \$799,945 as of December 31, 2015 to a total of 159 with annual payment amounts of \$1,818,460 as of December 31, 2020.

The Fund's admitted assets, as of December 31, 2020, were invested in equity securities (98.97%).

## 6. 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 5 annuity contracts terminated revealed that in all 5 of the 5 cases (100%) 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.

The examiner's review revealed that in all five out of the five cases (100%), the Fund failed to maintain documentation for the terminated annuities that show the amount of residuum transferred as well as the dates when the residuum were transferred.

The examiner recommends that the Fund maintain documentation showing the amount of residuum transfer as well as the dates when the residuum were transferred as part of annuity terminations.

## 7. PRIOR REPORT SUMMARY AND CONCLUSIONS

Following are the 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 board of trustees, or a committee thereof, approve the purchases and sales of all investments and note such approvals in the minutes.</p> <p>The review of investment approvals by the board is not within the scope of this examination. However, the board still reviewed the portfolio on an annual basis.</p>
B	<p>The examiner recommends that the Fund utilize broker's advices or other supporting documentation for its investment transactions to reconcile such advices to the monthly statements provided by the custodian.</p> <p>The Fund failed to utilize broker's advices or other supporting documentation for its investment transactions to reconcile such advices to the monthly statements provided by the custodian. This is a repeat recommendation. (See item 3E of this report)</p>
C	<p>The examiner recommends that the Fund diversify its investment holdings.</p> <p>The Department no longer provides guidance for investment diversification.</p>
D	<p>The examiner recommends that the Fund not exceed the maximum rates recommended by the American Council on Gift Annuities.</p> <p>The Fund exceeded the Department's maximum payout rates. However, the Fund agreed to offer rates below the Department's minimums going forward.</p>
E	<p>The examiner recommends that the Fund prepare its annual statements according to the Department's instructions.</p> <p>The examiner found no new discrepancies during the course of the examination.</p>
F	<p>The examiner recommends that the Fund exercise due care in the preparation of its filed annual statements.</p> <p>The examiner found no new discrepancies during the course of the examination.</p>

## 8. SUMMARY AND CONCLUSIONS

Following are the violations and recommendations contained in this report:

<u>Item</u>	<u>Description</u>	<u>Page No(s).</u>
A	The Fund violated Section 312(b) of the New York Insurance Law by failing to obtain signed statements from the board members indicating that they received and read the prior report on examination.	5
B	The examiner recommends that the Fund comply with Section 312(b) of the New York Insurance Law by obtaining the signature of each board member indicating that they have received and read any current or future filed report on examination.	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 uses on all annuity benefit checks the name it agreed to by board resolution as part of its permit application to the Department for a special permit to issue charitable gift annuities in New York.	5
E	The examiner recommends that the Investment Strategy Statement be approved by the board of directors.	6
F	The examiner recommends that the Fund review at least annually its written investment policy setting forth guidelines on investments and delegation of management and the conformance of its delegees to that investment policy and statutory guidance and that it memorialize those reviews in either board minutes or materials.	6
G	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

<u>Item</u>	<u>Description</u>	<u>Page No(s).</u>
H	The examiner recommends that the Fund maintain documentation showing the amount of residuum transfer as well as the dates when the residuum were transferred as part of annuity terminations.	8

Respectfully submitted,

\_\_\_\_\_/s/  
Hasan Ahmed  
Senior Insurance Examiner

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

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

\_\_\_\_\_/s/  
Hasan Ahmed

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

***APPOINTMENT NO. 32218***

***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:*

***HASAN AHMED***

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

***SEGREGATED GIFT ANNUITY FUND OF THE  
FRIENDS OF THE ISRAEL DEFENSE FORCES***

*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 8th day of March, 2022*

***ADRIENNE A. HARRIS***  
*Superintendent of Financial Services*

*By:*



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

