



NEW YORK STATE DEPARTMENT OF FINANCIAL SERVICES  
REPORT ON EXAMINATION  
OF THE  
SEGREGATED GIFT ANNUITY FUND  
OF THE  
UNITED CHURCH FUNDS, INC.

CONDITION:

DECEMBER 31, 2015

DATE OF REPORT:

NOVEMBER 12, 2016

NEW YORK STATE DEPARTMENT OF FINANCIAL SERVICES

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OF THE

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EXAMINER:

HUGHROY MIGHTY

## TABLE OF CONTENTS

<u>ITEM</u>		<u>PAGE NO.</u>
1.	Executive summary	2
2.	Scope of examination	3
3.	Description of Fund	4
4.	Corporate governance	5
5.	Significant financial information	6
6.	Treatment of annuitants	8
7.	Annual statement reporting	9
8.	Summary and conclusions	11



NEW YORK STATE  
DEPARTMENT *of*  
FINANCIAL SERVICES

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Andrew M. Cuomo  
Governor

Maria T. Vullo  
Superintendent

September 11, 2017

Honorable Maria T. Vullo  
Superintendent of Financial Services  
New York, New York 10004

Madam:

In accordance with instructions contained in Appointment No. 31469, dated April 25, 2016 and annexed hereto, an examination has been made into the condition and affairs of the Segregated Gift Annuity Fund of the United Church Funds, Inc., hereinafter referred to as the “Fund,” at its home office located at 475 Riverside Drive NY, NY 10115.

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 4 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 to deviate from such a recommendation, 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 5 of this report)

The examiner recommends that the Fund adopt an Investment Strategy Statement. Such a Statement should refer 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 5 of this report)

The examiner recommends that the Fund perform monthly bank reconciliations. (See item 5 of this report)

The examiner's review of the Fund's treatment of annuitants did not reveal significant instances which deviated from the New York Insurance Law, Department regulations and circular letters and the operating rules of the Fund. (See item 6 of this report)

The examiner recommends that the Fund prepare its annual statements according to the Department's instructions. (See item 7 of this report)

## 2. SCOPE OF EXAMINATION

This is the first examination of the Fund since it received its special permit to issue gift annuity agreements in 2011. This examination covers the period from October 4, 2011 through December 31, 2015. As necessary, the examiner reviewed transactions occurring subsequent to December 31, 2015 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, 2015 to determine whether the Fund's filed 2015 annual statement fairly presents its financial condition. The examiner reviewed the Fund's income and disbursements necessary to accomplish such verification.

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

United Church Funds, Inc. (“Church” or “UCF”) is a not-for-profit corporation and was established by Special Charter of the State of Connecticut on April 21, 1909. Its mission is to promote religious, educational and charitable work for the advancement of the general interests and purposes of the United Church of Christ and its affiliates. The Church has been issuing gift annuity agreements since 1948. Prior to November 1, 2010, the name of the Church was the United Church Foundation, Inc. On November 1, 2010, the Church assumed its current name. A special permit was granted to the Church by the Department on October 4, 2011, authorizing it to issue gift annuity agreements as specified in Section 1110 of the New York Insurance Law. The Fund solicits new business from potential annuitants and maintains the individual annuity files.

Fifth Third Bank is the Custodian of the Fund’s non invested assets. For the Fund’s invested assets, the custodian is Bank of New York Mellon (BNY Mellon). The Fund engages the Boston law firm Weston Patrick P.A. (“WP”) to handle the administration of its gift annuity agreements. This includes the preparation of donor agreements, receipt of funds, reporting to donors, payment of annuities, coordination of actuarial valuations, closing of agreements, and final payment to third party beneficiaries. WP is paid a fixed fee per account, as well as a variable fee based on the principal invested and the income generated. For gift annuity arrangements, a representative at the Financial Development Ministries of the Office of General Ministries of the United Church of Christ (“FDM”), which is located in Cleveland, Ohio, inputs all of the information from the annuity application into PG Calc/GiftWrap, a secure web-based system used to process charitable contribution arrangements. This input is reviewed by WP and any corrections are noted but input into the control software is reserved to FDM.

The management of the Church and the Fund and all of its affairs and property are entrusted to a board of directors. The number of directors is limited to no fewer than 15 and not more than 18 regular voting members. The board shall elect 15 members in accordance with its by-laws. In addition, the General Minister, the President of the United Church of Christ and the Chairperson of the Executive Council shall be Ex-Officio members with vote. As of December 31, 2015, the board consisted of 17 members, of which 16 seats were filled and one was open due to a member’s death. The nomination and election procedures of the board members and their terms of office are set by the by-laws.

#### 4. CORPORATE GOVERNANCE

The examiner reviewed the board of directors' minutes to determine whether the board approved the purchases and sales of investments during the examination period. The minutes did not contain any indication that the board 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.



## 5. 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>2011</u>	<u>December 31,</u> <u>2015</u>	<u>Increase</u> <u>(Decrease)</u>
Admitted assets	<u>\$16,921,203</u>	<u>\$13,503,992</u>	<u>\$(3,417,211)</u>
Liabilities	<u>\$15,248,527</u>	<u>\$11,674,692</u>	<u>\$(3,573,835)</u>
Minimum required fund balance	\$ 1,524,853	\$ 1,167,469	\$ (357,384)
Excess fund balance (surplus)	<u>147,823</u>	<u>661,831</u>	<u>514,008</u>
Total annuity fund balance	<u>\$ 1,672,676</u>	<u>\$ 1,829,300</u>	<u>\$ 156,624</u>
Total liabilities and annuity fund balance	<u>\$16,921,203</u>	<u>\$13,503,992</u>	<u>\$(3,417,211)</u>

The decrease in assets and liabilities reflects a decline in the total number of annuities in force. Annuities decreased from 1,413 with annual payment amounts of \$2,012,900 as of December 31, 2011 to a total of 1,079 with annual payment amounts of \$1,383,986 as of December 31, 2015. The annuity fund balance increased due to a decreased minimum required fund balance as well as gains from investments and reduced disbursements.

The Fund's admitted assets, as of December 31, 2015, were invested mainly in mutual funds (80.10%) and other invested assets (19.79%).

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 2015 annual statement, the Fund reported 80.10% of its admitted assets invested in the securities of UCF Moderate Balanced Fund. The Fund reported an investment in

Unrestricted Net Assets, which consists of an additional \$1,112,171 invested in the UCF Moderate Balanced Fund. This raises the Fund's total holdings in the UCF Moderate Balanced Fund to 88.33% of total admitted assets. The Fund's current concentration could make it less likely that the Fund's other assets could provide a variability to offset the risks inherent in these investments.

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. 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 ISS'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.

The examiner recommends that the Fund adopt an Investment Strategy Statement. Such a Statement should refer 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 requested copies of the Fund's monthly bank reconciliations for November 2015, December 2015, and January 2016. The Fund was unable to provide the requested bank reconciliations or any documentation indicating that the Fund prepared monthly bank reconciliations during the examination period.

The examiner recommends that the Fund perform monthly bank reconciliations.

## 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. Based upon the samples reviewed, no significant findings were noted.

## 7. ANNUAL STATEMENT REPORTING

The Department's Instructions for Completing the Segregated Gift Annuity Fund Annual Statement for the year ended December 31, 2015 for Schedule A - Part 3 - Common Stocks state, in part:

“IMPORTANT NOTE: Mutual funds (funds that invest in stocks, bonds, options or currencies) are to be reported in Schedule A – Part 3 - Common Stocks.”

The Fund reported “market value of money market mutual funds” of \$10,816,995 in Schedule B of its 2015 Annual Statement. The examiner determined that this item actually consisted of an investment in the UCF Moderate Balanced Fund, an item which should not be reported in Schedule B.

The Fund should instead have reported mutual funds of \$10,816,995 in Schedule A - Part 3 - Common Stocks in its filed 2015 Annual Statement.

The Department's Instructions for Completing the Segregated Gift Annuity Fund Annual Statement for the year ended December 31, 2015 for Schedule C – Cash, Money Market, Certificates of Deposit state, in part:

“This Schedule shows all banks, trust companies, savings and loan associations in which deposits were maintained by the Segregated Gift Annuity Fund at any time during the year and the balances, if any, as of December 31 of the current year.”

The examiner reviewed the \$2,512,171 in Unrestricted Net Assets reported in Schedule D, Part 1 of the Fund's 2015 annual statement. The Fund noted that \$1.4 million consisted of cash or cash equivalents and \$1,112,171 were investments or units held in the UCF Moderate Balanced Fund. Accordingly, the examiner determined that the \$1.4 million should have been categorized as cash or cash equivalents in Schedule C of the Fund's filed 2015 Annual Statement and \$1,112,171 should have been categorized as common stocks in Schedule A - Part 3 of the Fund's filed 2015 Annual Statement.

The Department's Instructions for Completing the Segregated Gift Annuity Fund Annual

Statement for the Notes to the Annual Statement state:

“IMPORTANT NOTE: Each Note number must be included, i.e., 1, 2, 3, etc. If there is nothing to report at a Note, indicate “None” or “NA” at the Note number...

...3. Segregated Gift Annuity Funds authorized to write annuities in states that mandate legally required segregated and distinct trust account for that particular state’s annuitants should respond “Yes” to General Interrogatory 11 and report the dollar amount of the segregated assets, liabilities and annuity fund balance (surplus) for each state that requires a separate trust account for the maintenance of assets in accordance with their statutes or laws.”

The Fund left the Notes to the Annual Statement blank in its 2011 filed Annual Statement. In its 2012 filed Annual Statement, the Fund left Notes 2 and 3 blank and placed the response for Note 3 in Note 1. In its 2013, 2014 and 2015 filed Annual Statements, the Fund failed to complete Notes 1 and 2.

The examiner recommends that the Fund prepare its annual statements according to the Department’s instructions.

## 8. 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.	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 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.	7
C	The examiner recommends that the Fund adopt an Investment Strategy Statement. Such a Statement should refer 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.	7
D	The examiner recommends that the Fund perform monthly bank reconciliations.	7
E	The examiner recommends that the Fund prepare its annual statements according to the Department's instructions.	10

Respectfully submitted,

\_\_\_\_\_/s/  
Hughroy Mighty  
Insurance Examiner

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

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

\_\_\_\_\_/s/  
Hughroy Mighty

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

APPOINTMENT NO. 31469

NEW YORK STATE

**DEPARTMENT OF FINANCIAL SERVICES**

I, MARIA T. VULLO, 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:

**HUGHROY MIGHTY**

as a proper person to examine the affairs of the

**SEGREGATED GIFT ANNUITY FUND OF THE  
UNITED CHURCH FUNDS, 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 25th day of April, 2016

MARIA T. VULLO  
Acting Superintendent of Financial Services

By:

*Mark McLeod*

MARK MCLEOD  
DEPUTY CHIEF - LIFE BUREAU

