

NEW YORK STATE DEPARTMENT OF FINANCIAL SERVICES
REPORT ON EXAMINATION
OF THE
SEGREGATED GIFT ANNUITY FUND
OF THE
MASONIC MEDICAL RESEARCH LABORATORY

CONDITION:

DECEMBER 31, 2018

DATE OF REPORT:

AUGUST 27, 2019

NEW YORK STATE DEPARTMENT OF FINANCIAL SERVICES

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EXAMINER:

ADELIA GBADAMOSI

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NEW YORK STATE
DEPARTMENT *of*
FINANCIAL SERVICES

Andrew M. Cuomo
Governor

Linda A. Lacewell
Superintendent

February 13, 2020

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

Madam:

In accordance with instructions contained in Appointment No. 31914, dated May 16, 2019 and annexed hereto, an examination has been made into the condition and affairs of the Segregated Gift Annuity Fund of the Masonic Medical Research Laboratory, hereinafter referred to as “the Fund,” at its home office located at 2150 Bleecker Street, Utica, New York 13501.

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 investments at least once annually and note such approval in its board minutes. (See item 3C of this report)

The examiner recommends that the Fund strengthen the diversification of its investment holdings by investing the Fund's assets in investments from other issuers. If the trustee has determined that it is in the interests of the beneficiaries to concentrate its invested assets in Invesco, 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 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)

The examiner recommends that the Fund prepare its filed annual statements in accordance with the instructions for completing the New York State Segregated Gift Annuity Fund Annual Statement. (See item 6 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 on December 11, 2014. This examination covers the period from December 11, 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.

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 Masonic Medical Research Laboratory (the “Organization”) is organized for the purpose of improving the health and quality of life for all. A special permit was granted to the Organization, by the Department on December 11, 2014, for the purpose of issuing gift annuity agreements as specified in Section 1110 of the New York Insurance Law. Since date of grant to December 31, 2018, the end date of this examination period, the Fund has not issued any new gift annuities under the permit. (See item 4 of this report)

B. Services

Sun Trust Bank is the Fund’s custodian. PG Calc and Hemmenway & Reinhardt, Inc. perform the administrative functions such as issuing quarterly payments, tax reporting and providing year end reports needed for audits and the annual statement. The Fund reconciles the SunTrust investment account monthly and prepares the annual statement from the reports obtained from PG Calc and Hemenway and Reinhardt. Hemmenway & Reinhardt, Inc. was bought by PG Calc in early 2019.

C. Corporate Governance

The management of the Organization and the Fund and all of its affairs and property are entrusted to a board of directors made up of masons appointed by the Grandmaster of the Grand Lodge of Free and Accepted Masons of the State of New York. The number of directors are limited to no less than nine (9) and no more than fifteen (15) directors. As of December 31, 2018, the board consisted of 15 directors. The directors elect a president, the chairman of the board, a vice president, a secretary and a treasurer in accordance with the by-laws. The nomination and election procedures of the directors and their terms of office are set by the by-laws.

The Fund failed to provide its board minutes for the examination period in response to the Pre-examination Letter and in a follow-up response indicated that the board does not authorize the purchases and sales of investments because it has given such approval to its investment advisor.

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

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:

	December 31, <u>2014</u>	December 31, <u>2018</u>	Increase (Decrease)
Admitted assets	\$ <u>104,861</u>	\$ <u>321,295</u>	\$ <u>216,434</u>
Liabilities	\$ <u>0</u>	\$ <u>202,769</u>	\$ <u>202,769</u>
Minimum required fund balance	\$ 0	\$ 20,277	\$ 20,277
Excess fund balance (surplus)	<u>104,861</u>	<u>98,249</u>	<u>(6,612)</u>
Total annuity fund balance	\$ <u>104,861</u>	\$ <u>118,526</u>	\$ <u>13,665</u>
Total liabilities and annuity fund balance	\$ <u>104,861</u>	\$ <u>321,295</u>	\$ <u>216,434</u>

In April 2014, the Organization established a gift annuity account with an initial deposit of \$100,000, after which the Organization applied for a permit to issue annuities in New York, and was granted such permit on December 11, 2014. From April 2014 to December 31, 2018, the end date of the period under examination, the Fund has not issued any new annuities. In August 2015, the Fund received 12 gift annuities, and the related assets, as a transfer from The Masonic Brotherhood Foundation ("Foundation"), a related organization. These annuities had been issued from 2007 through 2013 by the Foundation. As a result, assets, liabilities and annuity fund balance increased from 2014 through 2018, but annuities in force actually decreased from the initial 12 with annual payment amounts of \$21,647 as of December 31, 2015, to a total of 10 with annual payment amounts of \$20,647 as of December 31, 2018.

The Fund's admitted assets, as of December 31, 2018, were invested mainly in common stocks (95.06%) and money market mutual funds (4.88%).

According to the 2018 annual statement, the Fund reported 27.52% of its admitted assets invested in securities issued by Invesco. The Fund's current concentration in the securities of one issuer, Invesco, could make it less likely that the Fund's other assets can provide a variability to offset the risks inherent in concentration in one issuer.

Based upon the above-noted concentration in the securities of one issuer, the examiner recommends that the Fund strengthen the diversification of its investment holdings by investing the Fund's assets in investments from other issuers. If the trustee has determined that it is in the interests of the beneficiaries to concentrate its invested assets in Invesco, then it should memorialize the reasons for that determination in terms of the Investment Strategy Statement's risk, return, and time horizon parameters. A trustee using reasonable care, skill and caution should diversify the issuers of the Fund's assets to reduce the risk of loss of principal. 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. Limiting exposure to the assets of any one issuer to 25% or less of admitted assets would reasonably assure that the risks in investment in that issuer 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 a sample of 3 annuity contracts terminated revealed that in all 3 of the 3 cases (100%) 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. ANNUAL STATEMENT REPORTING

The Department’s instructions for completing the New York Segregated Gift Annuity Fund Annual Statement instruct as follows for the annuity fund balance:

“Line 15 “Current Year” Column: Must equal the sum of Lines 13 and 14, as well as Page 2, Line 20.3.

“Prior Year” Column: Report prior year’s Annuity Fund Balance at end of year.”

The following table illustrates the differences between the total annuity fund balance found on page 2, line 20.3 and page 3, line 15 of the Fund’s filed annual statement for 2015 through 2018:

	2015	2016	2017	2018
Total Annuity Fund Balance, Per Balance Sheet (Pg. 2, Ln 20.3)	\$402,529	\$116,655	\$130,778	\$98,249
Total Annuity Fund Balance, Per Income Statement (Pg. 3, Ln 15)	\$623,368	\$338,064	\$355,862	\$321,295

The examiner determined that the totals reported on page 3, line 15 for annuity fund balance in the income statement should have been equal to the lower values reported in the balance sheet, page 2, line 20.3, for each year under examination.

The examiner recommends that the Fund prepare its filed annual statements in accordance with the instructions for completing the New York State Segregated Gift Annuity Fund Annual Statement.

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 investments and note such approval in its board minutes.	4
B	The examiner recommends that the Fund strengthen the diversification of its investment holdings by investing the Fund's assets in investments from other issuers. If the trustee has determined that it is in the interests of the beneficiaries to concentrate its invested assets in Invesco, then it should memorialize the reasons for that determination in terms of the Investment Strategy Statement's (ISS) risk, return, and time horizon parameters.	6
C	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.	7
D	The examiner recommends that the Fund prepare its filed annual statements in accordance with the instructions for completing the New York State Segregated Gift Annuity Fund Annual Statement.	8

Respectfully submitted,

/s/
Adelia Gbadamosi
Senior Insurance Examiner

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

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

/s/
Adelia Gbadamosi

Subscribed and sworn to before me
this _____ day of _____

APPOINTMENT NO. 31914

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:

ADELIA GBADAMOSI

as a proper person to examine the affairs of the

**SEGREGATED GIFT ANNUITY FUND OF THE
MASONIC MEDICAL RESEARCH LABORATORY**

and to make a report to me in writing of the condition of said

FUND

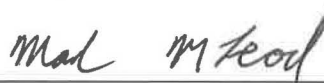
with such other information as she shall deem requisite.

In Witness Whereof, I have hereunto subscribed my name
and affixed the official Seal of the Department
at the City of New York

this 16th day of May, 2019

LINDA A. LACEWELL
Acting Superintendent of Financial Services

By:



MARK MCLEOD
DEPUTY CHIEF - LIFE BUREAU

