



NEW YORK STATE DEPARTMENT OF FINANCIAL SERVICES  
REPORT ON EXAMINATION  
OF THE  
SEGREGATED GIFT ANNUITY FUND  
OF THE  
PLANNED PARENTHOOD FEDERATION OF AMERICA, INC.

CONDITION:

DECEMBER 31, 2017

DATE OF REPORT:

DECEMBER 12, 2018

NEW YORK STATE DEPARTMENT OF FINANCIAL SERVICES

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OF THE

SEGREGATED GIFT ANNUITY FUND

OF THE

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EXAMINER:

ASHOK REDDY

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NEW YORK STATE  
DEPARTMENT *of*  
FINANCIAL SERVICES

Andrew M. Cuomo  
Governor

Linda A. Lacewell  
Acting Superintendent

March 18, 2019

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

Madam:

In accordance with instructions contained in Appointment No. 31742, dated October 31, 2018 and annexed hereto, an examination has been made into the condition and affairs of the Segregated Gift Annuity Fund of the Planned Parenthood Federation of America Inc., hereinafter referred to as “the Fund”. The Fund’s home office is located at 123 William Street, New York, NY 10038.

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 3C 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 3C of this report)

The examiner recommends that the Fund adopt an Investment Strategy Statement ("ISS") that references 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 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 ISS's risk, return, and time horizon parameters. (See item 4 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 reviewed the prior report on examination which did not contain any violations, recommendations or comments.

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

Planned Parenthood Federation of America Inc. (the “Organization”) is organized: for the purpose of providing comprehensive reproductive and complementary health care services in settings which preserve and protect the essential privacy and rights of each individual; to advocate public policies which guarantee these rights and ensure access to such services; to provide educational programs which enhance understanding of individual and societal implications of human sexuality; to promote research and the advancement of technology in reproductive health care; and to encourage understanding of inherent bioethical, behavioral, and social implications. American Birth Control League, Inc. was organized and incorporated in the New York on April 22, 1922. The name was changed to Planned Parenthood Federation of America, Inc., its present name, by a Certificate of Amendment filed with the Department of State on February 24, 1972. The Organization established a program to issue gift annuity agreements in return for gifts from donors, and it has done so since 1979. A special permit was granted to the Organization by the Department on June 17, 1988, authorizing it to issue gift annuity agreements as specified in Section 1110 of the New York Insurance Law.

#### B. Services

Planned Parenthood Federation of America Inc. maintains a planned giving, custodial and investment management services agreement with State Street Bank & Trust Company. All operations related to the issuance, maintenance and settlement of annuity agreements are handled by the Fund. The Fund has an agreement with Dan O’Connell, CPA, who prepares the annual statements and any other Department filings.

#### 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. The number of directors is limited to no fewer than 25 and no more than 31 regular voting directors. As of December 31, 2017, the board consisted of 31 directors. The directors elect a chairperson, a vice chairperson, a secretary and a treasurer. The

directors also appoint the president of the Organization. The nomination and election procedures of the directors and their terms of office are set by the by-laws.

The examiner reviewed the Investment Subcommittee minutes to determine whether the Investment Committee approved the purchases and sales of investments during the examination period. The minutes only showed that the Investment Committee only approved the sale of the Fund's shares in the PIMCO High Yield Fund and PIMCO Total Return Fund with the Blackrock High Yield Bond Fund and Vanguard Total Bond Fund in October 2014. No other investment approvals were encountered by the examiner during his review.

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.

The examiner reviewed the investment transactions for the period under examination and noted that the Fund did not 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 the Fund's Investment Strategy Statement revealed that its reference to the prudent investor standard failed to specify that such standard is as defined in Section 11-2.3 of the Estates, Powers and Trusts Law.

The examiner recommends that the Fund adopt an Investment Strategy Statement that references 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.

#### 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:

	<u>December 31,</u> <u>2012</u>	<u>December 31,</u> <u>2017</u>	<u>Increase</u> <u>(Decrease)</u>
Admitted assets	<u>\$14,256,383</u>	<u>\$21,627,962</u>	<u>\$7,371,579</u>
Liabilities	<u>\$ 8,236,762</u>	<u>\$ 7,927,803</u>	<u>\$ (308,959)</u>
Minimum required fund balance	\$ 823,676	\$ 792,780	\$ (30,896)
Excess fund balance (surplus)	<u>5,195,945</u>	<u>12,907,378</u>	<u>7,711,433</u>
Total annuity fund balance	<u>\$ 6,019,621</u>	<u>\$13,700,159</u>	<u>\$7,680,538</u>
Total liabilities and annuity fund balance	<u>\$14,256,383</u>	<u>\$21,627,962</u>	<u>\$7,371,579</u>

The increase in assets and decrease in liabilities reflects an increase in the market value of assets and a decrease in the total number of annuities in force. Annuities decreased from 612 with annual payment amounts of \$1,095,974 as of December 31, 2012 to a total of 582 with annual payment amounts of \$1,047,539 as of December 31, 2017.

The increase in surplus is due to the increase in the market value of assets as well as the decrease in liabilities stemming from release of reserves.

The Fund's admitted assets, as of December 31, 2017, were invested mainly in common stocks (98.12%).

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 on file, the Fund reported: 12.13% of its admitted assets invested in the securities of DFA Large Cap International Portfolio, 26.89% invested in DFA U.S. Large Company Portfolio, and 16.52% invested in WFA Core Bond Fund. The Fund's current concentration in these funds could make it highly unlikely 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. Based upon the sample reviewed, no significant findings were noted.

## 6. 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 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
C	The examiner recommends that the Fund adopt an Investment Strategy Statement that references 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.	5
D	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

Respectfully submitted,

\_\_\_\_\_/s/  
Ashok Reddy  
Senior Examiner

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

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

\_\_\_\_\_/s/  
Ashok Reddy

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

APPOINTMENT NO. 31742

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:

**ASHOK REDDY**

as a proper person to examine the affairs of the

**SEGREGATED GIFT ANNUITY FUND OF THE  
PLANNED PARENTHOOD FEDERATION OF AMERICA, 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 31st day of October, 2018

MARIA T. VULLO  
Superintendent of Financial Services

By:

*Mal M Cleod*

MARK MCLEOD  
DEPUTY CHIEF - LIFE BUREAU

