

STATE OF NEW YORK INSURANCE DEPARTMENT  
REPORT ON EXAMINATION  
OF  
THE YOUNG MEN'S CHRISTIAN ASSOCIATION  
RETIREMENT FUND, INC.

CONDITION: JUNE 30, 2004

DATE OF REPORT: APRIL 12, 2005

STATE OF NEW YORK INSURANCE DEPARTMENT

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OF

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AS OF

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EXAMINER:

VIJAY GOSWAMI

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STATE OF NEW YORK  
INSURANCE DEPARTMENT  
25 BEAVER STREET  
NEW YORK, NEW YORK 10004

George E. Pataki  
Governor

Howard Mills  
Acting Superintendent

April 12, 2005

Honorable Howard Mills  
Acting Superintendent of Insurance  
Albany, New York 12257

Sir:

In accordance with instructions contained in Appointment No. 22307, dated February 7, 2005 and annexed hereto, an examination has been made into the condition and affairs of The Young Men's Christian Association Retirement Fund, Inc., hereinafter referred to as "the Fund," at its office located at 140 Broadway, New York, New York 10005.

Wherever "Department" appears in this report, it refers to the State of New York Insurance Department.

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

## 1. EXECUTIVE SUMMARY

The examiner's review of a sample of transactions did not reveal any differences which materially affected the Fund's financial condition as presented in its financial statements contained in the June 30, 2004 filed statement. (See item 5 of this report)

The examiner's review of the Fund's treatment of participants did not reveal significant instances which deviated from the operating rules of the Fund. (See item 6 of this report)

## 2. SCOPE OF EXAMINATION

The prior examination was conducted as of June 30, 1999. This examination covers the period from July 1, 1999 to June 30, 2004. As necessary, the examiner reviewed transactions occurring subsequent to June 30, 2004 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 June 30, 2004 to determine whether the Fund's filed 2004 annual statement fairly presents its financial condition. The examiner reviewed the Fund's income and disbursements necessary to accomplish such verification and utilized examination procedures, as deemed appropriate, in such review and in the review or audit of the following matters:

- Fund history
- Management and control
- Growth of the Fund
- Accounts and records
- Financial statements
- Treatment of members

The examiner reviewed the corrective actions taken by the Fund with respect to the recommendations contained in the prior report on examination. The results of the examiner's review are contained in item 7 of this report.

This report on examination is confined to the financial statements and comments on those matters which are deemed to require explanation or description.

## 3. DESCRIPTION OF THE FUND

### A. History

The Fund was incorporated on May 2, 1921. The Retirement Plan was established on July 1, 1922. The Fund is chartered by New York State as a non-profit organization with a status of a religious, educational or benevolent corporation and is sponsored by the YMCA National Councils of the United States and Canada.

The Fund's original purpose was to benefit those who had been employed officers of any Young Men's Christian Association ("YMCA") upon their retirement. On March 22, 1934, Chapter 74 of the Laws of New York were amended whereby the Fund would benefit anyone who had been an employed officer or an employee of a YMCA. The Fund has been operated on a contributory basis, wherein both the individual and the participating YMCA contribute toward the plan.

Prior to July 1, 1989, the Fund operated two plans: the Savings and Security Plan for service and clerical personnel, and the Retirement Plan for administrative and program personnel. On July 1, 1989, the two plans were combined and the survivor was the Retirement Plan.

### B. Management

The management of the Fund is vested in a board of trustees of 15 persons eligible for active or voting membership in the YMCA. Not more than five of the trustees may be employed officers. Beneficiaries of the Fund (any person who is receiving retirement allowances or other benefits) are ineligible to serve on the board.

The annual meeting of participants is held for the election of trustees and for the voting on such matters as announced in the notice of the meeting. At each annual meeting of participants, one-fourth of trustees are elected by ballot for a period of four years, and such other members, as may be necessary to fill vacancies, are also elected. The board of trustees is empowered to fill vacancy in its number by reason of resignation, death, removal by the board of trustees for cause, inability to serve, or otherwise until the next annual meeting. Each participating YMCA, through its authorized representative, is entitled to one vote for each participant of record on the first day of the month in which the annual meeting is held.

The board of trustees can exercise all the power necessary to accumulate, manage and dispose of funds entrusted to it by the laws under which the Fund has been incorporated.

The time and place of the annual meetings of participants is determined by the board of trustees with at least 30 days notice given to all participating YMCAs and participants.

The members of the board of trustees serve without compensation, but may be reimbursed for necessary expenses incurred in the service of the board. The regular meetings of the board of trustees are held quarterly or as called by the Chairperson. Seven members present at the meetings constitute a quorum.

A review of the minutes of the board of trustees and the various committees revealed that meetings were well attended.

The following is a list of the 15 members of the board of trustees as of June 30, 2004, showing their residences, principal business affiliations and the year first elected to the board:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>	<u>Year First Elected</u>
Theodore H. Ashford Wilmington, DE	President Ashford Capital Management Inc.	1993
Eric D. Mullins Houston, TX	Managing Director Goldman Sachs	2002
Reid S. Thebault Detroit, MI	President and Chief Executive Officer YMCA of Metropolitan Detroit	2002
John A. Clymer Minneapolis, MN	Managing Director U.S. Trust Company	2001
Richard A. Collato San Diego, CA	President and Chief Executive Officer YMCA of San Diego County	1999
Elizabeth T. Frank Philadelphia, PA	Retired Senior Vice President Lazard Freres Asset Management	1999
G. Rainey Williams, Jr. Oklahoma City, OK	Managing General Partner Marco Investment Company	1999
William A. Holby Atlanta, GA	Partner King & Spalding LLP	2004
Carlos Gonzalez Red Hook, NY	Director Client Asset Management Oriental Group	2002

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>	<u>Year First Elected</u>
Albert W. Hsu New York, NY	U.S. Investments Officer Atlantic Philanthropics	2004
Susan Rittscher Providence, RI	President YMCA of Greater Providence	2004
Harold Davis Oakland, CA	Executive Director Emeritus Oakland California Housing Authority	1997
Robert B. Gilbertson, Jr. Tampa, FL	President and CEO Tampa Metropolitan YMCA	2001
Sheila R. Tiemens Seattle, WA	Senior Vice President Human Resources YMCA of Greater Seattle	2004
Peter D. Ziegler West Bend, WI	Chairman North Track Funds, Inc.	2001

Following is a list of the Fund's officers as of June 30, 2004:

<u>Name</u>	<u>Title</u>
Peter D. Ziegler	Chairman of the Board
John M. Preis	President
Kurt R. Kaboth	Secretary
Vincent M. De Sio	Treasurer

In March 2005, Mr. Kurt Kaboth separated employment. As of this report date, the Fund has not replaced him.

#### 4. SIGNIFICANT OPERATING RESULTS

Indicated below is significant information concerning the operations of the Fund during the period under examination as extracted from its filed annual statements. Failure of items to add to the totals shown in any table in this report is due to rounding.

The following table indicates the Fund's financial growth during the period under review:

	June 30, <u>1999</u>	June 30, <u>2004</u>	<u>Increase</u>
Admitted assets	<u>\$3,239,860,991</u>	<u>\$4,072,798,004</u>	<u>\$832,937,013</u>
Net reserves	\$2,734,805,573	\$3,304,400,449	\$569,594,876
Other liabilities	<u>505,055,418</u>	<u>768,397,555</u>	<u>263,342,137</u>
Total liabilities	<u>\$3,239,860,991</u>	<u>\$4,072,798,004</u>	<u>\$832,937,013</u>

The Fund's ledger assets as of June 30, 2004 were mainly comprised of bonds (37.42%) and stocks (58.89%). The Fund's entire bond portfolio as of June 30, 2004 was comprised of investment grade obligations.

The following shows the account of members and pensioners at June 30 of the respective year:

	<u>Active Members</u>	<u>Deferred Transitional and Vested Members</u>	<u>Pensioners</u>	<u>Total</u>
2000	36,853	28,677	6,928	72,458
2001	39,251	33,730	7,226	80,207
2002	44,161	35,621	7,674	87,456
2003	46,554	21,645	7,904	76,103
2004	46,530	19,866	8,193	74,589

## 5. FINANCIAL STATEMENTS

The following statements show the assets, reserves and liabilities as of June 30, 2004, as contained in the Fund's filed 2004 annual statement, the income and disbursements and a statement of administrative expenses for each of the years under review. The examiner's review of a sample of transactions did not reveal any differences which materially affected the Fund's financial condition as presented in its financial statements contained in the June 30, 2004 filed statement.

### A. STATEMENT OF ASSETS AND LIABILITIES FISCAL YEAR ENDED JUNE 30, 2004

#### Assets

##### Ledger Assets

Bonds (at market value)	\$1,524,067,540
Stocks (at market value, common stocks \$2,389,675,126)	2,398,785,364
Cash and short term investments	10,217,481
Contribution receivable, fixed assets and miscellaneous	16,991,665
Amounts due from brokers	118,420,883
Interest and due divided receivable	<u>11,272,939</u>

Total ledger assets	<u>\$4,079,755,822</u>
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##### Not admitted assets

Furniture and fixtures	\$ <u>(6,957,818)</u>
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Total admitted assets	<u>\$4,072,798,004</u>
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#### Liabilities

Accumulated contributions of members	\$ 808,618,762
Present value of benefits payable on account of beneficiaries now drawing allowances	1,566,163,017
Net reserve for benefits provided by the employer for members now in active service	929,618,670
Reserve for security and mortality fluctuations	<u>768,397,555</u>

Total liabilities	<u>\$4,072,798,004</u>
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In Schedule D Part 1 of the 2004 filed annual statement, the Fund reported cash totaling \$130,482,952. This amount reflects cash that the Fund earmarked for investments. Similarly, in the 2000, 2002, and 2003 filed annual statements, the Fund reported \$19,566,812, \$151,766,629 and \$98,853,623, respectively, in Schedule D Part1 (the Fund held \$0 in cash as of year-end 2001). In accordance with the annual statement instructions, Schedule D Part 1 should reflect all bonds held at year end; Schedule E should reflect the Fund's cash depositories. The Fund reported its cash earmarked for investment in Schedule D of the annual statement.

The examiner recommends that cash, which includes cash that is earmarked for investment purposes, be included in Schedule E of the annual statement, and be reported as a separate line item on the asset page of the annual statement.

## B. INCOME AND DISBURSEMENTS

Fiscal Year Ending June 30,

	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
Ledger assets at end of previous year	\$ <u>2,781,121,544</u>	\$ <u>3,164,185,413</u>	\$ <u>3,220,363,503</u>	\$ <u>3,155,031,665</u>	\$ <u>3,096,595,288</u>
<u>Income:</u>					
Contributions from members	\$ 53,908,852	\$ 60,896,121	\$ 71,075,143	\$ 78,428,694	\$ 82,939,577
Contributions from employers	54,161,352	56,777,335	70,205,232	73,784,553	75,249,736
Interest on bonds	113,683,377	116,393,385	91,822,937	70,853,328	51,329,666
Dividend on stocks	143,786,597	36,065,089	23,012,347	27,914,290	30,667,909
Interest on cash on deposit	0	0	17,008	10,871	9,242
Security lending and miscellaneous	1,042,586	400,486	2,092,355	1,142,488	1,580,039
Interest & Dividend receivable treated as non-ledger asset from prior year	0	0	0	0	15,940,703
Cumulative unrealized gains on bonds and stocks treated as non-ledger asset from prior year	0	0	0	0	220,407,158
Donations	0	0	1,400	0	500
Increase in Liabilities from prior year	0	30,153,830	0	35,043,802	313,212,139
Profit on sale of securities	311,932,165	203,975,465	153,856,001	121,965,626	302,214,082
Increase by adjustment in book value of securities	<u>0</u>	<u>0</u>	<u>390,411</u>	<u>251,977</u>	<u>244,432,445</u>
Total income	\$ <u>678,514,929</u>	\$ <u>504,661,711</u>	\$ <u>412,472,834</u>	\$ <u>409,395,629</u>	\$ <u>1,337,983,196</u>
<u>Disbursements:</u>					
Retirement benefits	\$ 134,724,284	\$ 120,867,211	\$ 100,013,602	\$ 99,575,985	\$ 105,122,530
Lump sum payments on death after retirement	1,803,235	799,435	810,121	1,171,429	1,578,344
Payment on death before retirement	718,765	1,270,463	1,197,386	1,486,727	1,662,492
Refund Payments	19,423,682	36,186,702	45,276,903	53,396,875	53,918,929
Administrative & other expenses	27,706,730	27,201,543	26,111,515	25,241,542	26,715,291
Decrease in liabilities from prior year	0	0	7,047,984	0	0
Gross loss on sale of securities	110,145,535	261,952,901	296,377,758	286,146,131	81,011,171
Gross decrease in book value of securities	<u>928,829</u>	<u>205,365</u>	<u>969,403</u>	<u>813,317</u>	<u>84,813,904</u>
Total disbursements	\$ <u>295,451,060</u>	\$ <u>448,483,620</u>	\$ <u>477,804,672</u>	\$ <u>467,832,006</u>	\$ <u>354,822,661</u>
Ledger assets at end of year	\$ <u>3,164,185,413</u>	\$ <u>3,220,363,503</u>	\$ <u>3,155,031,665</u>	\$ <u>3,096,595,288</u>	\$ <u>4,079,755,822</u>

C. STATEMENT OF ADMINISTRATIVE EXPENSES

	<u>June 30,</u>				
	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
Salaries	\$10,457,277	\$ 12,788,356	\$ 12,009,844	\$ 11,255,469	\$ 10,818,532
Office rent	1,950,500	1,981,179	1,898,841	1,914,117	2,119,732
Printing & stationery	478,633	540,553	370,953	272,301	185,688
Postage & telephone	357,796	487,377	516,511	364,247	375,585
Advertising	62,791	16,841	13,051	39,153	23,711
Furniture, fixtures & other					
office equipment	417,816	454,355	777,401	373,916	344,620
Repair and expenses	455,081	707,161	764,379	828,310	1,023,712
Data processing	1,214,241	1,188,499	685,048	1,319,428	241,343
Insurance expenses	236,242	266,657	277,363	304,813	97,123
Legal expenses	274,766	466,824	565,208	527,644	752,360
Board & committee					
expenses	129,487	118,926	130,482	117,512	97,742
Investment expenses	2,883,731	6,100,906	6,234,558	5,793,789	8,481,110
Professional services	1,307,614	1,328,371	1,046,041	1,325,659	1,330,805
Dues & conferences	198,786	221,290	155,068	114,935	121,768
Travel expenses	249,091	263,427	219,842	199,126	203,111
Operating supplies & misc.	<u>285,373</u>	<u>270,821</u>	<u>206,963</u>	<u>273,845</u>	<u>210,473</u>
Total	<u>\$20,959,225</u>	<u>\$27,201,543</u>	<u>\$25,871,553</u>	<u>\$25,024,264</u>	<u>\$26,427,415</u>

Prior to 2004, the Company reported the following as non-ledger assets: accrued interest and dividend income; the market value of bonds and stocks over book value; and, cumulative unrealized gains on bonds and stocks. In 2004, the Fund changed its reporting of bonds and stocks, which also affected its reporting of non-ledger assets. The changes were intended to result in closer conformity with Generally Accepted Accounting Principles than what was reported in previous annual statements. Starting in 2004, the Fund reported bonds and stocks at market value. As a result, the Fund reported, in its Income and Disbursements Statement, \$15,940,703 of “interest and dividend receivable treated as non-ledger asset from prior year”, and \$220,407,158 of “cumulative unrealized gains on bonds and stocks treated as non-ledger asset from prior year”.

## 6. TREATMENT OF MEMBERS

The examiner reviewed a sample of various types of retirement benefits to members and beneficiaries to determine whether the members or beneficiaries were treated properly and efficiently. The examiner also reviewed the various controls involved, checked the accuracy of computations and traced the accounting data to the books of account.

Based upon the sample reviewed, no significant findings were noted.

## 7. PRIOR REPORT SUMMARY AND CONCLUSIONS

Following are the recommendations contained in the prior report on examination and the subsequent action taken by the Fund in response to the recommendations:

<u>Item</u>	<u>Description</u>
A	The examiner recommended that the Fund report all liabilities on the liability page of its annual statement.  During the examination period, all liabilities were reported in the liability page of the annual statement.
B	The examining actuary recommended that the Fund notify the Department of proposed changes in annual statement reporting prior to their implementation.  In 2004, the Fund changed its reporting of non-ledger assets. The changes in the annual statement resulted in closer conformity with Generally Accepted Accounting Principles than what was reported in the previous annual statements.

## 8. SUMMARY AND CONCLUSIONS

Following is the recommendation contained in this report:

<u>Item</u>	<u>Description</u>	<u>Page No.</u>
A	The examiner recommends that cash, which includes cash that is earmarked for investment purposes, be included in Schedule E of the annual statement, and be reported as a separate line item on the asset page of the annual statement.	8

9. ACTUARIAL REPORT

The actuary's report is attached as an appendix to this report on examination.

**APPENDIX**

**REPORT**

**BY THE**

**NEW YORK STATE INSURANCE DEPARTMENT ACTUARY**

**ON THE**

**THE YOUNG MEN'S CHRISTIAN ASSOCIATION**

**RETIREMENT FUND**

**CONDITION AS OF JUNE 30, 2004**

**DATE OF REPORT:**

**APRIL 12, 2005**

**ACTUARY:**

**MICHAEL J. LAMBERT**

The plan is a money purchase plan, in which contributions (both from the participant and the employer) are defined, in this case as a percentage of salary, investments are made by the plan, and, at retirement, a participant's account balance is converted to an annuity.

For several years it had been uncertain how the IRS was going to view this plan for purposes of tax status. In 2002, the IRS indicated that it did not view the plan as either a defined contribution plan or a church plan, thereby throwing into jeopardy the tax treatment afforded to past contributions. After a lobbying effort, the IRS adopted the position that this plan was to be treated as a church plan. Public Law 108-476, signed in December 2004, embodied that decision.

The plan assets are maintained in three primary funds: (1) the Participant's Reserve, in which all participant contributions, regular and additional, along with credited interest, are made, (2) the Association Reserve, which includes the contributions of participating associations, bequests, gifts, etc., and all fund investment earnings, and (3) the Annuity Reserve, from which the benefits are paid. The first two funds are further subdivided into Regular and Additional categories, depending on whether the contributions were the result of the regular stated percentage of salary, or were due to additional voluntary contributions.

The second fund, the Association Reserve fund, serves as a balancing fund, and is credited or charged with all items not covered by the other two funds, including expenses of operation. Reserves for active lives are maintained in the Association Reserve fund, and include reserves for service retirements, disability retirements, early retirements, deferred vested benefits and pre-retirement and post-retirement death benefits.

The third fund, the Annuity Reserve fund, covers all benefits currently in payment status. At the time each annuity is initiated, its purchase price is transferred to this fund. Interest required to maintain the annuity reserves is also transferred to the Annuity Reserve fund.

The rate basis upon which annuities were purchased with accumulated contributions was changed effective January 1, 1996. Contributions made prior to 1996, and associated interest, for both males and females were converted to annuities based on the 1951 Group Annuity Table for Males with a three-year setback and 8% interest. Contributions made after 1995, and associated interest, were converted to annuities based on the 1995 Buck Mortality Table, weighted 50% male and 50% female, and 7% interest.

The primary benefit, service retirement, is determined on a money-purchase basis as described above. The disability and death benefits are dependent on the fund balances but also have some components that are based on a formula, as in a traditional defined benefit plan. For example, one component of the disability benefit is a hypothetical accumulation amount if

contributions were made from the date of disability to age 60 at a rate based on the participant's five-year average salary prior to disability and accumulated at the stipulated Regular Interest rate.

During the five years of the examination period, the format of the actuarial report prepared by the actuary for the fund has changed from one in which the liabilities are grouped by fund to one in which the liabilities are grouped by liability source; e.g., retirement, disability, death. This change brings the report format more in line with that of a traditional defined benefit plan.

Since this plan has some characteristics of a defined benefit plan, actuarial assumptions are used in the calculation of plan liabilities. The principal assumption is the interest rate, or assumed yield on investments. That assumption is split into two components: one for fund earnings attributable to pre-retirement, the other for fund earnings attributable to post-retirement. For the 1999 and 2000 plan years, the pre-retirement interest assumption was 5%, and the post-retirement assumption was 6%. With the 2001 plan year, the post-retirement assumption was changed to 6.5% (the pre-retirement assumption remained at 5%).

As part of each year's actuarial valuation report, the actuary for the plan described the gain or loss for the preceding year; i.e., the amount by which the "expected" liability or assets, based on the actuarial assumptions, differed from the actual liability or assets. The table below shows a summary of the gain or loss for the five years of the examination period, in addition to the preceding year.

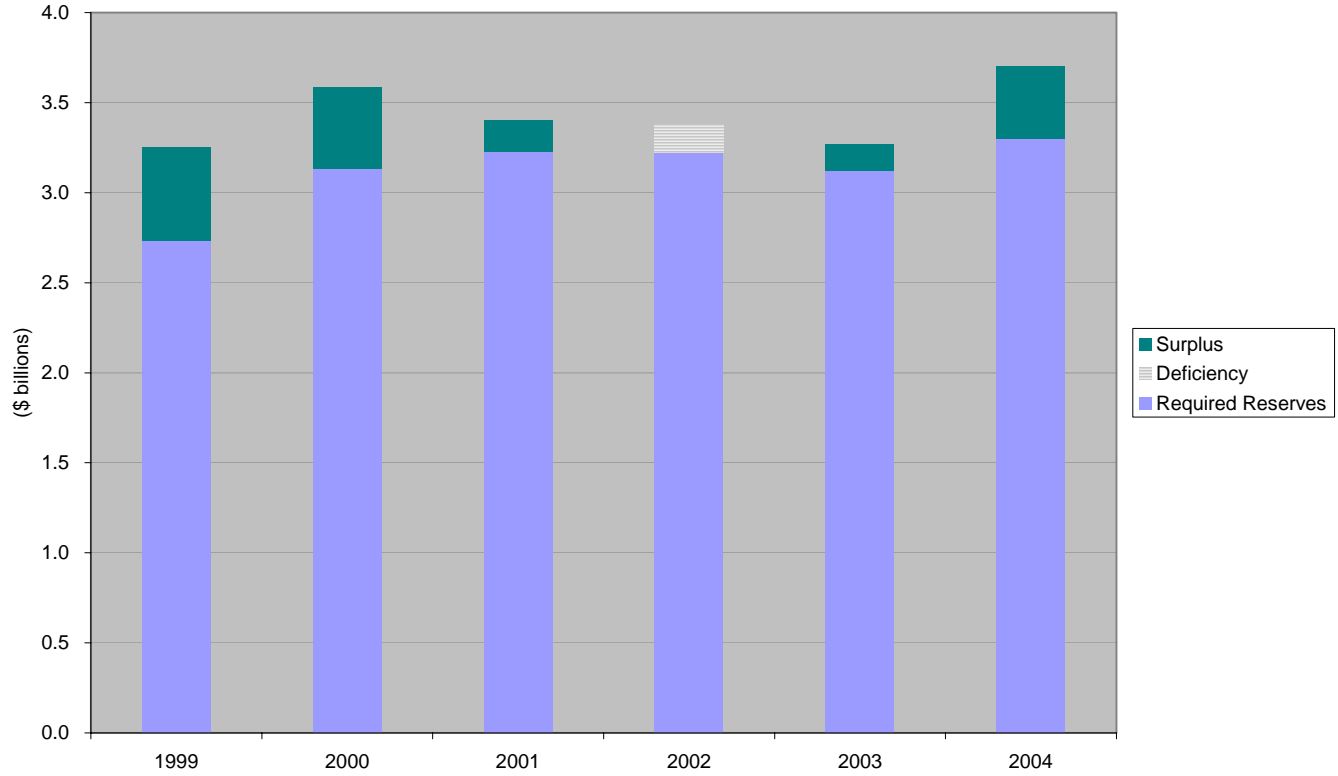
Attributable to	Gain or (loss) for year (\$000)					
	1999	2000	2001	2002	2003	2004
Investment experience	96,672	241,776	(287,025)	(339,302)	(110,602)	272,822
Administrative expenses	(4,944)	(6,946)	(8,028)	(6,684)	(5,868)	(4,476)
New participants	(26,536)	(27,998)	(32,015)	(25,623)	(15,629)	5,403
Remaining assumptions	307	14,333	(6,502)	6,144	12,103	(24,271)
Total net gain (loss)	65,499	221,165	(333,570)	(365,466)	(119,997)	249,479

The table above shows that the gain or loss due to investment experience contributes the largest share of the total gain or loss.

Interest is credited to the funds in two components: Regular Interest and Extra Interest. The rate of Extra Interest is determined each year, based on the investment experience of the funds. The rate of Regular Interest has been 5% since at least 1982. For 2004 the rate of Regular



**Reserves and Assets**  
Reserves plus Surplus equals Assets



An important part of the actuarial valuation process is to compare the actual experience with what was assumed. The actuary for this plan has done that, and included the results in the annual actuarial report.

The table below shows the participant, compensation and benefit levels during the examination period.

	1999	2000	2001	2002	2003	2004
Active Participants						
Number	34,311	36,853	39,251	44,161	46,554	46,530
Annual compensation (\$000)	739,346	821,172	907,043	1,052,868	1,136,670	1,225,737
Average annual compensation	21,548	22,282	23,109	23,842	24,416	26,343
Transition Participants – number	16,867	18,432	20,867	22,638	11,215	10,599
Excess Leaves of Absence – number	N/A	N/A	3,338	3,994	1,238	306
Deferred Vested Participants – number	8,928	10,245	9,525	8,989	9,192	8,961
Retired Participants						
Number	6,650	6,928	7,226	7,674	7,904	8,193
Annual retirement allowance (\$000)	78,332	83,348	89,632	97,752	101,671	107,260
Average annual retirement allowance	11,779	12,031	12,404	12,738	12,863	13,092

The general funding objective is that assets are in excess of liabilities with a 92% confidence level. To do that, the actuary has determined that the goal is that the Contingency Reserve (called Surplus elsewhere in this report) should be 10% of the Required Reserve (called Liability elsewhere in this report). The interest assumption of 5% pre-retirement and 6.5% post-retirement are believed to be conservative enough so that there is a high likelihood that that goal will be met.