



NEW YORK STATE DEPARTMENT OF FINANCIAL SERVICES

REPORT ON EXAMINATION

OF THE

SEGREGATED GIFT ANNUITY FUND

OF THE

LIGHTHOUSE INTERNATIONAL

CONDITION:

DECEMBER 31, 2017

DATE OF REPORT:

JULY 13, 2018

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EXAMINER:

DONNA TAYLOR

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NEW YORK STATE
DEPARTMENT *of*
FINANCIAL SERVICES

Andrew M. Cuomo
Governor

Linda A. Lacewell
Superintendent

May 7, 2021

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

Madam:

In accordance with instructions contained in Appointment No. 31737, dated April 18, 2018 and annexed hereto, an examination has been made into the condition and affairs of the Segregated Gift Annuity Fund of the Lighthouse International, hereinafter referred to as the “Fund.” The Fund’s home office is located at 250 West 64th Street, New York, NY 10023.

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 Fund's board of directors review the activities of the Fund at least annually and note the same in the minutes. (See item 3C of this report).

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 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 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)

The examiner recommends that the Fund avoid or mitigate situations that have the appearance of a conflict of interest, by paying greater scrutiny to any high concentrations in investments that are either issued or sponsored by the investment advisor and establishing a Board of Directors (or a committee thereof) or senior management-level policy or procedures related to conflicts of interest for investment advisors. (See item 4 of this report)

The Fund violated Section 1110(a) of the New York Insurance Law by using gift annuity agreement forms that differed from the gift annuity agreement forms filed with the Superintendent. The examiner recommends that the Fund file with the Superintendent all gift annuity agreement forms that were used and not previously filed with the Superintendent. (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

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

Lighthouse International (the “Corporation”) is organized for the purpose of helping people of all ages overcome the challenges of vision loss. The Corporation established a program to issue gift annuity agreements in return for gifts from donors, and it has done so since 1993. A special permit was granted to the Corporation by the Department on April 10, 1998 authorizing it to issue gift annuity agreements as specified in Section 1110 of the New York Insurance Law.

Lighthouse International is an affiliate of Lighthouse Guild International, which was created when Jewish Guild for the Blind affiliated with Lighthouse International on December 23, 2013.

B. Services

All operations related to the issuance, maintenance and settlement of annuity agreements are handled by the Fund. Fiduciary Trust Company International, a wholly owned subsidiary of Franklin Templeton Investments, is the custodian for the fund’s investments. Fiduciary Trust generates checks, wires and ACH payments to the income beneficiaries of the Fund. In addition, Fiduciary Trust generates and mails 1099Rs for income beneficiaries.

C. Corporate Governance

The management of the Corporation and the Fund and all its affairs and property are entrusted to a board of directors. The number of directors is limited to 35 regular voting directors. As of December 31, 2017, the board consisted of 26 directors. The directors elect a chairman, one or more vice chairs, if necessary, a treasurer, secretary and president. The nomination and election procedures of the directors and their terms of office are set by the by-laws.

The examiner requested the board of director’s minutes for the examination period. The Fund provided the examiner with the 2013 board minutes. The Fund did not provide the examiner with a copy of the board minutes for Lighthouse International for the years 2014-2017 but instead provided minutes for Lighthouse Guild.

The examiner recommends that the Fund’s board of directors review the activities of the Fund at least annually and note the same in the minutes.

The examiner reviewed the board of directors' minutes to determine whether the board approved the purchases and sales of Fund investments during the examination period. The minutes did not contain any indication that the board approved the purchases and sales of annuity investments separately, only investment overall.

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's review revealed that the Fund has not adopted an Investment Strategy Statement.

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.

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>\$3,376,636</u>	<u>\$3,826,755</u>	<u>\$ 450,119</u>
Liabilities	<u>\$2,569,765</u>	<u>\$1,861,729</u>	<u>\$ (708,036)</u>
Minimum required fund balance	\$ 256,976	\$ 186,173	\$ (70,803)
Excess fund balance (surplus)	<u>549,895</u>	<u>1,778,853</u>	<u>1,228,958</u>
Total annuity fund balance	<u>\$ 806,871</u>	<u>\$1,965,026</u>	<u>\$1,158,155</u>
Total liabilities and annuity fund balance	<u>\$3,376,636</u>	<u>\$3,826,755</u>	<u>\$ 450,119</u>

The increase in assets and annuity fund balance was due to investment gains, investment income, and additional gifts made to the Fund. The decrease in liabilities is due to the decrease in the total number of annuities in force. Annuities decreased from 160 with annual payment amounts of \$430,408 as of December 31, 2012 to a total of 106 with annual payment amounts of \$364,910 as of December 31, 2017.

The Fund's admitted assets, as of December 31, 2017 were invested mainly in common stock (94.23%).

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 2016 annual statement, the Fund reported: 25.74% of its admitted assets invested in Franklin Custodian Funds Growth Advisor Class, 16.04% invested in Franklin Income Fund - Advisor Class, 10.27% invested in Franklin Investments Securities Total Return Fund Advisor DTD 6/20/1984 and 10.05% invested in FGT Franklin International Growth Fund. The

Fund's current concentration in these funds could make it less likely 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 or institutions, 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.

According to the 2017 annual statement on file, the Fund reported 89.02% of its admitted assets in common stock issued by Franklin Templeton Investments. Fiduciary Trust Company International, a wholly owned subsidiary of Franklin Templeton Investments, also serves as the Fund's investment advisor. This relationship may create a conflict of interest that can negatively impact the interests of the Fund's annuitants.

The examiner recommends that the Fund avoid or mitigate situations that have the appearance of a conflict of interest, by paying greater scrutiny to any high concentrations in investments that are either issued or sponsored by the investment advisor and establishing a Board of Directors (or a committee thereof) or senior management-level policy or procedures related to conflicts of interest for investment advisors.

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.

Section 1110(a) of the New York Insurance Law states, in part:

“. . . Every such corporation or association shall, before making such agreement, file with the superintendent copies of its forms of agreements with annuitants . . .”

The examiner’s review of a sample of 11 newly issued gift annuities by the Fund during the examination period noted that in all 11 newly issued annuities, the Fund used forms that differed from the gift annuity agreements filed with the Superintendent. The deviating forms found in the sample are 1da-I-NY, 1da-D-NY, and 1dna-D-NY. These forms were used by the Fund before they were approved by the Department.

The Fund violated Section 1110(a) of the New York Insurance Law by using gift annuity agreement forms that differed from the gift annuity agreement forms filed with the Superintendent. The examiner recommends that the Fund file with the Superintendent all gift annuity agreement forms that were used and not previously filed with the Superintendent.

6. ANNUAL STATEMENT REPORTING

The Department's Instructions for Completing the New York State Segregated Gift Annuity Fund Annual Statement for the year ended December 31, 2016, namely Exhibit 2 – Unrealized Capital Gains and Losses Bonds, Stocks, Money Market Mutual Funds, and Other Invested Assets, states the following, in part:

“Column 4: Market Value, End of Year, Report the amount from the “Market Value End of Year” column of the various Schedules for the current year and prior year in each of the categories.”

Moreover, the instructions for Schedule A, Part 3, Common Stocks, state the following, in part:

“Column 7

Market Value, End of Year: The market value of each stock/mutual fund is the rate reported in Column 6 times the number of shares reported in Column 4...

... Common Stocks: Total should agree with the amount reported on Page 2, Line 3, and Exhibit 2, Line 7, Column 4.”

In the Fund's filed 2016 annual statement, it reported \$3,548,320 as the market value of the common stocks it held that year. The market value figure reported on Page 2, line 3 of the Fund's filed annual statement was \$3,477,820, which is what the Fund should have reported.

The Department's Instructions for Completing the New York State Segregated Gift Annuity Fund Annual Statement for the year ended December 31, 2016 and 2017, namely Exhibit 1 – Verification of Investment Income and Schedule A, Part 3, Column 9 states, in part:

“Line 1...Column 6 should equal the sum of: (1) the amount reported for Totals in Schedule A, Part 2, Column 9, **and** (2) the amount reported for Totals in Schedule A, Part 3, Column 9.”

“Column 9: Income Received During Year Report the amount of income received during the current year. (e.g., dividends, distribution of gains) Total should agree with the amount reported in Exhibit 1, Line 1, Column 6.”

The examiner's review of the Fund's filed 2017 annual statement indicated that the Fund reported \$74,815 in income received during the year, whereas Schedule A, Part 3, Column 9 revealed that the Fund earned \$67,934 of income received during the year 2017. The examiner determined that the Fund should have reported \$74,815 in income in Schedule A, Part 3, Column 9.

The Department's Instructions for Completing the New York State Segregated Gift Annuity Fund Annual Statement for the year ended December 31, 2017 for Schedule C, states the following, 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 details for the individual deposit accounts are to be reported either under "OPEN ACCOUNTS" or "CLOSED ACCOUNTS." In addition, any cash in the Segregated Gift Annuity Fund's Office is also reported in this Schedule."

The Fund reported \$109,000 in Schedule C in the 2017 annual statement invested in the STIP 2: US Treasury Only DTD 8/31/2003. The examiner determined that the STIP 2: US Treasury Only DTD 8/31/2003 was a bond that should have been reported in Schedule A, Part 1 - Bonds.

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 violation and recommendations contained in this report:

<u>Item</u>	<u>Description</u>	<u>Page No(s).</u>
A	The examiner recommends that the Fund's board of directors review the activities of the Fund at least annually and note the same in the minutes.	5
B	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.	6
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.	6
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.	8
E	The examiner recommends that the Fund avoid or mitigate situations that have the appearance of a conflict of interest, by paying greater scrutiny to any high concentrations in investments that are either issued or sponsored by the investment advisor and establishing a Board of Directors (or a committee thereof) or senior management-level policy or procedures related to conflicts of interest for investment advisors.	8

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F	The Fund violated Section 1110(a) of the New York Insurance Law by using gift annuity agreement forms that differed from the gift annuity agreement forms filed with the Superintendent.	9
G	The examiner recommends that the Fund file with the Superintendent all gift annuity agreement forms not previously filed with the Superintendent.	9
H	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.	11

Respectfully submitted,

/s/

Donna Taylor
Senior Insurance Examiner

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

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

/s/

Donna Taylor

Subscribed and sworn to before me

this _____ day of _____

APPOINTMENT NO. 31737

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:

DONNA TAYLOR

as a proper person to examine the affairs of the

***SEGREGATED GIFT ANNUITY FUND OF THE
LIGHTHOUSE, INC.***

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 13th day of April, 2018

*MARIA T. VULLO
Superintendent of Financial Services*

By:

Mark McLeod

**MARK MCLEOD
DEPUTY CHIEF - LIFE BUREAU**

