



**REPORT ON EXAMINATION
OF THE
SEGREGATED GIFT ANNUITY FUND
OF THE
FELLOWSHIP OF RECONCILIATION, INC.**

AS OF December 31, 2021

EXAMINER: Manish Gera

DATE OF REPORT: May 18, 2023

NEW YORK STATE DEPARTMENT OF FINANCIAL SERVICES

REPORT ON EXAMINATION

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MANISH GERA

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KATHY HOCHUL
Governor

ADRIENNE A. HARRIS
Superintendent

October 26, 2023

Honorable Adrienne A. Harris
Superintendent of Financial Services
New York, New York 10004

Madam:

In accordance with instructions contained in Appointment No. 32375, dated November 23, 2022 and annexed hereto, an examination has been made into the condition and affairs of the Segregated Gift Annuity Fund of the Fellowship of Reconciliation, Inc. The Fund's home office is located at 521 North Broadway, Nyack, New York 10960.

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

1. EXECUTIVE SUMMARY

The examiner recommends that the Fund adopt an Investment Policy Statement that refers 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 4A of this report)

The examiner recommends that the Fund review at least annually its written investment policy setting forth guidelines on investments and delegation of management and the conformance of its delegees to that investment policy and statutory guidance and that it memorialize those reviews in either board minutes or materials. (See item 4A of this report)

The examiner recommends that the National Council , or a committee thereof, be provided, at least annually, with a report concerning the Fund's investment of required admitted assets and note such in the minutes. (See item 4B of this report)

The examiner recommends that the Fund's National Council, or a committee thereof, review the activities of the Fund at least annually and note the same in the minutes. (See item 4B 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 6 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 7 of this report)

The examiner recommends that the Fund exercise due care in the preparation of its filed annual statements. (See item 7 of this report)

2. SCOPE OF EXAMINATION

This Scope of Examination summarizes the nature of the Superintendent of the Department of Financial Services' examination and assessment of the Fellowship of Reconciliation, Inc. Segregated Gift Annuity Fund (the "Fund") through which Fellowship of Reconciliation, Inc. (the "Fellowship") provides annuity benefits.

The prior examination was conducted as of December 31, 2016. This examination covers the period from January 1, 2017 through December 31, 2021. As necessary, the examiner reviewed transactions occurring subsequent to December 31, 2021 but prior to the date of this report (i.e., the completion date of the examination).

This report outlines DFS's supervisory expectations or priorities and articulates DFS's general views regarding the exceptional circumstances where the Foundation or Fund, in relation to their annuity activities, could have better satisfied statutory standards or to adhered to practices or methods of dealing that are regularly observed among similar circumstances.

The Fund is subject to the solvency and examination requirements of New York Insurance Law § 1110 and of New York Insurance Law articles 1, 2, 3, 25, and 74.

The investment of the Fund's required admitted assets is subject to N.Y. Estates, Powers and Trust Law § 11-2.3. The investment of the remainder of the Fund's admitted assets is subject to N.Y. Not-for-Profit Corporation Law Article 5-a. Both establish that the trustees are to invest the assets consistent with prudent person standards.

The examination comprised a verification of assets and liabilities as of December 31, 2021 to determine whether the Fund's filed 2021 annual statement fairly presents its financial condition. The examiner reviewed the Fund's income and disbursements necessary to accomplish such verification. The examiner also reviewed the corrective actions taken by the Fund with respect to the violations, recommendations and/or comments contained in the prior report on examination. The results of such review are contained in item 8 of this report.

3. DESCRIPTION OF FUND

A. History

The Fellowship of Reconciliation, Inc. is organized for the purpose of exploring the power of love and truth for resolving human conflict through nonviolent reconciliation, and to achieve a just and peaceful world community, with full dignity and freedom for every human being. The Fellowship established the Fund to issue gift annuity agreements in return for gifts from donors in 1968. The Superintendent of Insurance granted to the Fellowship a Charitable Annuity Society special permit on May 8, 1984.

B. Structure

The Fund is overseen by the Fellowship's National Council. The Fellowship handles marketing, the issuance and management of contracts, and the closing of gift annuities with donors.

C. Assets under the National Council

As of the June 30, 2021 audited financial statement, the Fellowship's National Council oversaw investments totaling \$4,463,957. The Fund, as of December 31, 2021, held total admitted assets of \$1,086,451.

D. Third-party Payment Service Provider

Wells Fargo is the Fund's custodian and investment manager. Wells Fargo also performs accounting functions, administers annuity benefit payments to annuitants, and is responsible for the production of 1099-R tax forms. Wells Fargo creates liability reports and monthly reports for the fund, and Fellowship uses those reports to prepare the journal entries, and annual reports for the State of New York.

4. INVESTMENT REVIEW

A. Investment Policy Statement

New York Estate Powers and Trust Law § 11-2.3(b)(3)(A) requires trustees to “pursue an overall investment strategy to enable the trustee[s] to make appropriate present and future distributions to or for the benefit of the beneficiaries under the governing instrument, in accordance with risk and return objectives reasonably suited to the entire portfolio.”

New York Not-for-Profit Corporation Law § 552(e)(2) requires institutions to adopt “an overall investment strategy having risk and return objectives reasonably suited to the fund and to the institution.” New York Not-for-Profit Corporation Law § 552(f) provides that each “institution shall adopt a written investment policy setting forth guidelines on investments ... and delegation of management and investment functions in accord with the standards of this article.”

The examiner’s review of the Fund’s Investment Policy Statement showed that it does not contain reference to the prudent investor standard as specified in Section 1110(b) of the New York Insurance Law.

The examiner recommends that the Fund adopt an Investment Policy Statement that refers 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 IPS’s risk, return, and time horizon objectives.

The Fellowship prepared and provided a custom-tailored investment policy statement (“IPS”) to the Fund. The Fund adopted that form as its IPS.

The examiner recommends that the Fund review at least annually its written investment policy setting forth guidelines on investments and delegation of management and the conformance of its delegees to that investment policy and statutory guidance and that it memorialize those reviews in either board minutes or materials.

B. Monitoring

The examiner reviewed the National Council minutes to determine if the National Council had been provided with a report concerning the Fund's investment of required admitted assets. The minutes failed to contain any indication that the National Council was provided with a report concerning the Fund's investment of required admitted assets.

The examiner recommends that the National Council, or a committee thereof, be provided, at least annually, with a report concerning the Fund's investment of required admitted assets and note such in the minutes.

The Fund failed to provide copies of the meeting minutes of all committees of the National Council thereof pertaining to the Fund.

The examiner recommends that the Fund's National Council, or a committee thereof, review the activities of the Fund at least annually and note the same in the minutes.

5. ASSETS & LIABILITIES SUMMARY

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>2016</u>	<u>December 31,</u> <u>2021</u>	<u>Increase/</u> <u>(Decrease)</u>
Admitted assets	\$ <u>1,086,451</u>	\$ <u>1,027,929</u>	\$ <u>(58,522)</u>
Liabilities	\$ <u>885,737</u>	\$ <u>635,759</u>	\$ <u>(249,978)</u>
Minimum required fund balance	\$ 88,574	\$ 63,576	\$ (24,998)
Excess fund balance (surplus)	<u>112,140</u>	<u>328,593</u>	<u>216,453</u>
Total annuity fund balance	\$ <u>200,714</u>	\$ <u>392,169</u>	\$ <u>191,455</u>
Total liabilities and annuity fund balance	\$ <u>1,086,451</u>	\$ <u>1,027,929</u>	\$ <u>(58,522)</u>

The decrease in assets and liabilities reflects a decrease in the total number of annuities in force. Annuities decreased from 119 with annual payment amounts of \$110,882 as of December 31, 2016 to a total of 48 with annual payment amounts of \$74,746 as of December 31, 2021. The increase in annuity fund balance reflects the residuum not transferred to the general funds due to low interest rates in recent years.

The Fund's admitted assets, as of December 31, 2021, were invested mainly in equity securities (95.49%).

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.

The examiner's review of a sample of 14 annuity contracts terminated revealed that in 7 of the 14 cases (50%) reviewed, the Fund failed to 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.

7. ANNUAL STATEMENT REPORTING

The examiner's review of the Fund's filed 2021 annual statement revealed the following discrepancies:

In the Exhibit of Annuities In Force, differences were noted in multiple columns and rows starting with the 2020 filed annual statement. Details on those changes can be found in the table below:

	Annuity Payments as Reported in Year-end Reserve Listing	Annuity Payments Reported in 2019 Exhibit of Annuities in Force	Annuity Payments Reported in 2020 Exhibit of Annuities in Force, Year End	Annuity Payments Reported in 2021 Exhibit of Annuities in Force, Year End
2017	\$105,845	\$105,844	\$111,602	\$111,602
2018	\$101,952	\$101,952	\$107,710	\$107,710
2019	\$95,211	\$95,211	\$100,969	\$100,969

The figures reported as year-end annuity payments in the Exhibit of Annuities in Force are the beginning of the year figures for the following year.

In addition, Schedule A, Part 3 was not completed properly in the filed 2021 annual statement. Columns 3, 4, and 6 were left blank.

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.

The examiner recommends that the Fund exercise due care in the preparation of its filed annual statements.

8. PRIOR REPORT SUMMARY AND CONCLUSIONS

Following is the recommendation contained in the prior report on examination and the subsequent actions taken by the Fund in response to each citation:

<u>Item</u>	<u>Description</u>
A	<p>The examiner recommends that the National Council, or a committee thereof, approve the purchases and sales of all investments and note such approvals in the minutes.</p> <p>The Fund has complied with the recommendation.</p>
B	<p>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.</p> <p>The Department no longer provides specific guidance for diversification.</p>
C	<p>The examiner recommends that the Fund adopt an Investment Strategy Statement that refers 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.</p> <p>The Fund has not complied with the recommendation. A similar recommendation appears in this report on examination.</p>
D	<p>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.</p> <p>The Fund has not complied with the recommendation. A similar recommendation appears in this report on examination.</p>

<u>Item</u>	<u>Description</u>
E	<p>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.</p> <p>The Fund has not complied with the recommendation. A similar recommendation appears in this report on examination.</p>
F	<p>The examiner recommends that the Fund exercise due care in the preparation of its filed annual statements.</p> <p>The Fund has not complied with the recommendation. A similar recommendation appears in this report on examination.</p>
G	<p>The examiner recommends that the Fund prepare and maintain a complete set of Fund books and records, including a trial balance and general ledger.</p> <p>The Fund has complied with the recommendation.</p>

9. 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 Fund adopt an Investment Policy Statement that refers 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.	5
B	The examiner recommends that the Fund review at least annually its written investment policy setting forth guidelines on investments and delegation of management and the conformance of its delegates to that investment policy and statutory guidance and that it memorialize those reviews in either board minutes or materials.	5
C	The examiner recommends that the National Council, or a committee thereof, be provided, at least annually, with a report concerning the Fund's investment of required admitted assets and note such in the minutes.	6
D	The examiner recommends that the Fund's National Council, or a committee thereof, review the activities of the Fund at least annually and note the same in the minutes.	6
E	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.	8
F	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.	9

<u>Item</u>	<u>Description</u>	<u>Page No(s).</u>
G	The examiner recommends that the Fund exercise due care in the preparation of its filed annual statements.	9

Respectfully submitted,

/s/

Manish Gera
Insurance Examiner

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

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

/s/

Manish Gera

Subscribed and sworn to before me

this _____ day of _____

APPOINTMENT NO. 32375

NEW YORK STATE

DEPARTMENT OF FINANCIAL SERVICES

I, ADRIENNE A. HARRIS, 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:

MANISH GERA

as a proper person to examine the affairs of the

***SEGREGATED GIFT ANNUITY FUND OF THE
FELLOWSHIP OF RECONCILIATION, 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 23rd day of November, 2022

*ADRIENNE A. HARRIS
Superintendent of Financial Services*

By:



***MARK MCLEOD
DEPUTY CHIEF - LIFE BUREAU***

