REPORT ON EXAMINATION
OF THE
SEGREGATED GIFT ANNUITY FUND
OF THE
SOCIETY FOR THE PROPAGATION OF THE FAITH

AS OF DECEMBER 31, 2019

EXAMINER: MANISH GERA

DATE OF REPORT: AUGUST 4, 2022

NEW YORK STATE DEPARTMENT OF FINANCIAL SERVICES

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TABLE OF CONTENTS

ITEM		PAGE NO.
1.	Executive summary	2
2.	Scope of examination	3
3.	Description of Fund	4
	A. History	4
	B. Structure	4
	C. Assets under the board of directors	4
	D. Third-party payment service provider	4
4.	Investment review	5
	A. Investment policy statement	5
5.	Assets and liabilities summary	6
6.	Treatment of annuitants	7
7.	Annual statement reporting	8
8.	Prior report summary and conclusions	10
9.	Summary and conclusions	11

April 24, 2023

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

Madam:

In accordance with instructions contained in Appointment No. 32229, dated April 7, 2021 and annexed hereto, an examination has been made into the condition and affairs of the Segregated Gift Annuity Fund of the Society for the Propagation of the Faith. The Fund's home office is located at 70 West 36th Street 8th Floor, New York, New York 10018.

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

1. EXECUTIVE SUMMARY

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'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 December 31, 2019 filed annual statement. (See item 5 of this report)

The examiner recommends that the Fund ensure that all gift annuity agreement forms have the appropriate form number as approved by the Superintendent printed on each form issued. (See item 6 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)

2. SCOPE OF EXAMINATION

This Scope of Examination summarizes the nature of the Superintendent of the Department of Financial Services' ("Department" or "DFS") examination and assessment of the Society for the Propagation of the Faith Segregated Annuity Fund (the "Fund") through which Society for the Propagation of the Faith (the "Society") provides annuity benefits.

The prior examination was conducted as of December 31, 2014. This examination covers the period from January 1, 2015 through December 31, 2019. As necessary, the examiner reviewed transactions occurring subsequent to December 31, 2019 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 Society or Fund, in relation to their annuity activities, could have better adhered to statutory standards and guidance or 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, 2019 to determine whether the Fund's filed 2019 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 Society for the Propagation of the Faith was organized for the purpose of propagating, and assisting in the propagation of, the faith and doctrines of the holy Roman Catholic Church throughout the world. The Society established the Fund to issue gift annuity agreements in return for gifts from donors in 1917. The Superintendent of Insurance granted to the Society a Charitable Annuity Society special permit on March 25, 1940.

B. Structure

The Fund is overseen by the Society's Board of Directors. All operations related to the issuance, maintenance, and settlement of annuity agreements are handled by the Fund itself.

C. Assets Under the Board of Directors

As of December 31, 2019, the Society's Board of Directors oversaw an endowment comprising $33,963,293 in total assets. The Fund, as of December 31, 2019, held total admitted assets of $18,203,505.

D. Third-Party Payment Service Provider

The Fund maintains a business checking account with JP Morgan Chase Bank. The custodian of the Fund is Morgan Stanley Smith Barney LLC and Greystone Consulting is the investment manager. Charitable Trust Administration Corporation (CTAC) maintains the list of active and matured annuities, generates payments to the annuitants and prepares the fund's state Annual Statements.

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 Society prepared and provided a custom tailored investment policy statement ("IPS") for the Fund. The Fund adopted that statement 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.

5. ASSETS AND LIABILITIES SUMMARY

The following summary table indicates the decline in various categories of the Fund's assets, liabilities, and fund balance during the period under review:

	December 31, 2014	December 31, 2019	Increase (Decrease)
Admitted assets	$21,741,281	$18,203,505	$(3,537,776)
Liabilities	$16,678,161	$14,139,704	$(2,538,457)
Minimum required fund balance	$ 1,662,419	$ 1,413,567	$ (248,852)
Excess fund balance (surplus)	3,400,701	2,650,235	(750,466)
Total annuity fund balance	$ 5,063,120	$ 4,063,801	$ ($999,319)
Total liabilities and annuity fund balance	$21,741,281	$18,203,505	$(3,537,776)

The decrease in assets, liabilities and annuity fund balance reflects a decrease in the total number of annuities in force. Annuities decreased from 1,596 with annual payment amounts of $3,829,236 as of December 31, 2014 to a total of 962 with annual payment amounts of $1,861,075 as of December 31, 2019.

The Fund's admitted assets, as of December 31, 2019, were invested mainly in bonds (49.07%) and equity securities (48.48%).

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 reviewed a sample of new gift annuities issued by the Fund during the examination period. In the sample selected, the examiner noted that 14 out of the 15 newly issued gift annuities reviewed had contracts which failed to have the appropriate form number as approved by the Superintendent printed on the forms.

The examiner recommends that the Fund ensure that all gift annuity agreement forms have the appropriate form number as approved by the Superintendent printed on each form issued.

The examiner's review of a sample of 20 annuity contracts terminated revealed that in 17 of the 20 cases (85%) 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 Department's Instructions for Completing the New York State Segregated Gift Annuity Fund Annual Statement for all years under examination states the following with regard to the investment schedules, in part:

> "Column 2 Description
> Give a complete description, including the full name of the security.
> (e.g., U.S. Treasury Note; GNMA Pool 147742; Morgan Stanley Trust L-6 CMO)"

The examiner's review of the investment schedules indicated that the Fund's investments were not individually listed as per the annual statement instructions. Instead, the Fund listed as a description for the investments held, "See Attached Consolidated Statement", without providing details on the Fund's holdings.

The Department's Instructions for Completing the New York State Segregated Gift Annuity Fund Annual Statement for the year ended December 31, 2019 states the following with regard to Schedule C, Cash on Deposit:

> "Column 6 Balance
>
> Report the ending balance in the depository's account as of December 31 of the current year.
>
> Report the total balance of all open depository accounts on the line, "Total Cash on Deposit". The total amount on this line should agree with the amount reported on Page 2, Line 6.2."

The examiner reviewed the Fund's filed annual statements for the examination period. During his review, the examiner noted that the Fund failed to report cash on deposit on Schedule C during the years 2017 through 2019 but reported Cash on Deposit on Balance Sheet page 2, line 6.2 of the Fund's filed annual statements. While reviewing the Fund's bank statements and bank reconciliations, the examiner noted that the Fund did have cash on deposit during those years. The following table illustrates the differences noted by the examiner during his review:

	2017	2018	2019
Cash on Deposit, as reported on page 2, line 6.2	$24,634	$331,926	$258,011
Cash on Deposit as reported in Schedule C (Open and Closed Accounts)	$0	$0	$0
Cash as reported in the December bank reconciliation	$24,634	$331,924	$258,011

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. PRIOR REPORT SUMMARY AND CONCLUSIONS

Following are the violations and recommendations contained in the prior report on examination and the subsequent actions taken by the Fund in response to each citation:

Item	Description
A	The Fund violated Section 312(b) of the New York Insurance Law by failing to maintain signed statements from the board members indicating that they received and read the prior report on examination. The Fund has complied with the recommendation.
B	The examiner recommends that the Fund comply with Section 312(b) of the New York Insurance Law by obtaining and maintaining the signature of each board member indicating that they received and read the prior report on examination. The Fund has complied with the recommendation.
C	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 that were filed with the Superintendent. The Fund used forms that were in compliance with accepted forms. However, they were missing the form number on the bottom-left hand corner of the page.
D	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. The Fund used forms that were in compliance with accepted forms. However, they were missing the form number on the bottom-left hand corner of the page..

9. SUMMARY AND CONCLUSIONS

Following are the recommendations contained in this report:

Item	Description	Page No(s).
A	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.	5
B	The examiner recommends that the Fund ensure that all gift annuity agreement forms have the appropriate form number as approved by the Superintendent printed on each form issued.	7
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.	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 his knowledge and belief.

/s/
Manish Gera

Subscribed and sworn to before me

this _____ day of _____

APPOINTMENT NO. 32229

NEW YORK STATE

DEPARTMENT OF FINANCIAL SERVICES

I, ***LINDA A. LACEWELL****, 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 SOCIETY FOR THE PROPAGATION OF THE FAITH

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 7th day of April, 2021

LINDA A. LACEWELL
Superintendent of Financial Services

By: Mark McLeod

MARK MCLEOD
DEPUTY CHIEF - LIFE BUREAU