



**REPORT ON EXAMINATION
OF THE
SEGREGATED GIFT ANNUITY FUND
OF THE
LIGHTHOUSE INTERNATIONAL
AS OF December 31, 2022**

EXAMINER: Hasan Ahmed

DATE OF REPORT: November 10, 2023

NEW YORK STATE DEPARTMENT OF FINANCIAL SERVICES

REPORT ON EXAMINATION

OF THE

SEGREGATED GIFT ANNUITY FUND

OF THE

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TABLE OF CONTENTS

<u>ITEM</u>		<u>PAGE NO.</u>
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
	E. Oversight structure	4
4.	Investment review	5
	A. Investment strategy statement	5
	B. Monitoring	5
5.	Assets and liabilities summary	6
6.	Treatment of annuitants	7
7.	Prior report summary and conclusions	8
8.	Summary and conclusions	10

KATHY HOCHUL
Governor



ADRIENNE A. HARRIS
Superintendent

December 21, 2023

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

Madam:

In accordance with instructions contained in Appointment No. 32513, dated April 7th, 2023, and annexed hereto, an examination has been made into the condition and affairs of the Segregated Gift Annuity Fund of the Lighthouse International. The Fund's home office is located at 250 West 64th Street, New York, NY 10023.

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

1. EXECUTIVE SUMMARY

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 3E of this report)

The examiner recommends that the Investment Strategy Statement be approved by the board of directors. (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 Fund's board of directors, 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's review of the Fund's treatment of annuitants did not reveal significant instances which deviated from the New York Insurance Law, Department regulations and circular letters and the operating rules of the Fund. (See item 6 of this report)

2. SCOPE OF EXAMINATION

This Scope of Examination summarizes the nature of the Superintendent of the Department of Financial Services' (the "Department") examination and assessment of the Lighthouse International Gift Annuity Fund (the "Fund") through which Lighthouse International (the "Organization") provides annuity benefits.

The prior examination was conducted as of December 31, 2017. This examination covers the period from January 1, 2018 through December 31, 2022. As necessary, the examiner reviewed transactions occurring subsequent to December 31, 2022 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 College 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, 2022 to determine whether the Fund's filed 2022 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 violation and recommendations contained in the prior report on examination. The results of such review are contained in item 7 of this report.

3. DESCRIPTION OF FUND

A. History

Lighthouse International is organized for the purpose of helping people of all ages overcome the challenges of vision loss. The Organization established the Fund to issue gift annuity agreements in return for gifts from donors in 1993. The Superintendent of Insurance granted to the Organization a Charitable Annuity Society special permit on April 10, 1998.

B. Structure

The Fund is overseen by the Organization's board of directors. All operations related to the issuance, maintenance and settlement of annuity agreements are handled by the Fund.

C. Assets under the Board of Directors

As of the December 31, 2022 IRS Form 990, the Organization's Board of Directors oversaw an endowment comprising \$27,898,790 in total assets. The Fund, as of December 31, 2022, held total admitted assets of \$1,725,671.

D. Third Party Payment Service Provider

The Fund has a service agreement with the State Street for certain administrative and investment management related services. Those services include making payments to beneficiaries and mailing out 1099 tax forms for income beneficiaries. The Fund uses PG Calc for the gift annuity payment calculations.

E. Oversight Structure

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.

4. INVESTMENT REVIEW

A. Investment Strategy 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 Strategy Statement (“ISS”) revealed that the board did not approve the ISS.

The examiner recommends that the Investment Strategy Statement be approved by the board of directors.

The examiner also 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 requested the minutes of the board of directors and all committees thereof for the examination period. The Fund provided the examiner with a copy of the board minutes for meetings conducted in 2022 only.

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

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, <u>2017</u>	December 31, <u>2022</u>	<u>(Decrease)</u>
Admitted assets	<u>\$3,826,755</u>	<u>\$1,725,671</u>	<u>\$(2,101,084)</u>
Liabilities	<u>\$1,861,729</u>	<u>\$ 532,987</u>	<u>\$(1,328,742)</u>
Minimum required fund balance	\$ 186,173	\$ 52,788	\$ (133,385)
Excess fund balance (surplus)	<u>1,778,853</u>	<u>1,139,896</u>	<u>(638,957)</u>
Total annuity fund balance	<u>\$1,965,026</u>	<u>\$1,192,684</u>	<u>\$ (772,342)</u>
Total liabilities and annuity fund balance	<u>\$3,826,755</u>	<u>\$1,725,671</u>	<u>\$(2,101,084)</u>

The decrease in assets, liabilities, and annuity fund balance reflects a decline in annuities in force. Annuities decreased from 106 with annual payment amounts of \$364,910 as of December 31, 2017, to a total of 62 with annual payment amounts of \$65,542 as of December 31, 2022.

The Fund's admitted assets, as of December 31, 2022, were invested in equity securities (95.0%).

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.

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 actions taken by the Fund in response to each citation:

<u>Item</u>	<u>Description</u>
A	<p>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.</p> <p>The Fund's board of directors failed to review the activities of the Fund at least annually and note the same in the minutes. A similar recommendation appears in this report on examination.</p>
B	<p>The examiner recommends that the board of trustees, or a committee thereof, approve the purchases and sales of all investments and note such approvals in the minutes</p> <p>The Fund's board of directors failed to review the activities of the Fund at least annually and note the same in the minutes. A similar recommendation appears in this report on examination.</p>
C	<p>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.</p> <p>The Fund adopted an Investment Strategy Statement that refers to the prudent investor standard as defined in Section 1110(b) of the New York Insurance Law.</p>
D	<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 on diversification.</p>

<u>Item</u>	<u>Description</u>
E	<p>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.</p> <p>The Department no longer provides specific guidance pertaining to investment diversification relating to conflicts of interest.</p>
F	<p>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.</p> <p>The Fund filed with the Superintendent all gift annuity forms before using them.</p>
G	<p>The examiner recommends that the Fund file with the Superintendent all gift annuity agreement forms not previously filed with the Superintendent.</p> <p>The Fund filed with the Superintendent all gift annuity agreement forms not previously filed with the Superintendent.</p>
H	<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 prepare its filed annual statements in accordance with the instructions for completing the New York State Segregated Gift Annuity Fund Annual Statement.</p>

8. 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 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.	4
B	The examiner recommends that the Investment Strategy Statement be approved by the board of directors.	5
C	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
D	The examiner recommends that the Fund's board of directors, or a committee thereof, review the activities of the Fund at least annually and note the same in the minutes.	5

Respectfully submitted,

_____/s/
Hasan Ahmed
Senior Insurance Examiner

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

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

_____/s/
Hasan Ahmed

Subscribed and sworn to before me
this _____ day of _____

APPOINTMENT NO. 32513

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:

HASAN AHMED

as a proper person to examine the affairs of the

***SEGREGATED GIFT ANNUITY FUND OF THE
LIGHTHOUSE INTERNATIONAL***

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, 2023

*ADRIENNE A. HARRIS
Superintendent of Financial Services*

By:



*MARK MCLEOD
DEPUTY CHIEF - LIFE BUREAU*

