



**REPORT ON EXAMINATION
OF THE
SEGREGATED GIFT ANNUITY FUND
OF THE
CORNELL UNIVERSITY
AS OF December 31, 2022**

EXAMINER: Hasan Ahmed

DATE OF REPORT: February 21, 2024

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KATHY HOCHUL
Governor



ADRIENNE A. HARRIS
Superintendent

April 30, 2024

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

Dear Adrienne A. Harris:

In accordance with instructions contained in Appointment No. 32504, dated May 17th, 2023, and annexed hereto, an examination has been made into the condition and affairs of the Segregated Gift Annuity Fund of the Cornell University. The Fund's home office is located at 341 Pine Tree Road, Ithaca, NY 14850.

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 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 Cornell University Gift Annuity Fund (the "Fund") through which Cornell University (the "University") 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

Cornell University was chartered in 1865 and is organized to discover, preserve, promote and disseminate knowledge through education. The University established the Fund to issue gift annuity agreements in return for gifts from donors in 1991. The Superintendent of Insurance granted to the University a Charitable Annuity Society special permit on June 22, 1993.

B. Structure

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

C. Assets under the Board of Trustees

As of the June 30, 2022 audited financial statement, the University's Board of Trustees oversaw an endowment comprising \$9.34 billion in total assets. The Fund, as of December 31, 2022, held total admitted assets of \$77,046,588.

D. Third-party Service Providers

The Fund has a service agreement with BNY Mellon for administrative and investment management related services and is the custodian of the Fund's assets. Services provided include the accounting of investments and reserves, remittance of payments to beneficiaries, mailing of IRS Form 1099-R for annuitants, and the preparation of annual statements to the states.

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 University prepared and provided a form 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.

5. ASSETS AND 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:

	December 31, <u>2017</u>	December 31, <u>2022</u>	Increase (Decrease)
Admitted assets	<u>\$67,896,024</u>	<u>\$77,046,588</u>	<u>\$ 9,150,564</u>
Liabilities	<u>\$45,616,268</u>	<u>\$42,725,145</u>	<u>\$ (2,891,123)</u>
Minimum required fund balance	\$ 4,561,627	\$ 4,272,514	\$ (289,113)
Excess fund balance (surplus)	<u>17,718,129</u>	<u>30,048,929</u>	<u>12,330,800</u>
Total annuity fund balance	<u>\$22,279,756</u>	<u>\$34,321,444</u>	<u>\$12,041,688</u>
Total liabilities and annuity fund balance	<u>\$67,896,024</u>	<u>\$77,046,588</u>	<u>\$ 9,150,564</u>

The increase in admitted assets and annuity fund balance is a result of gains in the market value of the Fund's assets. The decrease in liabilities reflects a decrease in the total number of annuities in force. Annuities decreased from 637 with annual payment amounts of \$4,864,427 as of December 31, 2017 to a total of 526 with annual payment amounts of \$4,579,569 as of December 31, 2022.

The Fund's admitted assets, as of December 31, 2022, were invested in equity securities (99.53%)

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 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 referred to the prudent investor standard.</p>
B	<p>The University submitted documentation showing that the Fund's investments in the LTI Master Trust are used for the Fund's obligations and not the obligations of the University. The letter requesting approval of its investment arrangement was submitted to the Department, dated July 25, 2018. By letter dated September 7, 2018, the Department notified the University of its non-disapproval of the arrangement, verifying that the Fund's investment arrangement is not in violation of Section 1110(b) of the New York Insurance Law.</p> <p>The bank confirmations provided by the custodian shows the Fund's investment in the LTI Master are used for the Fund's obligations and not the obligations of the University in compliance with the Fund's investment arrangement submitted to Department, dated July 25, 2018.</p>

8. SUMMARY AND CONCLUSIONS

Following is the recommendation contained in this report:

<u>Item</u>	<u>Description</u>	<u>Page No(s).</u>
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

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. 32504

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
CORNELL UNIVERSITY***

and to make a report to me in writing of the condition of said

FUND

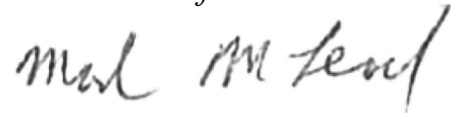
with such other information as he shall deem requisite.

*In Witness Whereof, I have hereunto subscribed my name
and affixed the official Seal of the Department
at the City of New York*

this 17th day of May, 2023

*ADRIENNE A. HARRIS
Superintendent of Financial Services*

By:



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

