



AMERICAN ACADEMY of ACTUARIES

November 19, 2012

Jim Mumford
Chair, Contingent Deferred Annuity Working Group, Definition Subgroup
National Association of Insurance Commissioners (NAIC)

Dear Jim:

In our October 11 conference call, you asked the Contingent Annuity Work Group (CAWG) of the American Academy of Actuaries to review and comment on a proposed terminology and definition for contingent deferred annuities that had been jointly offered by the Insured Retirement Institute (IRI) and the American Council of Life Insurers (ACLI). The CAWG reviewed and formulated comments and suggestions on that proposed term and definition. Those comments are included on the second page of this document.

We subsequently noticed, however, that the NAIC Contingent Deferred Annuity (CDA) Working Group offered a revised draft definition, which was distributed via email on November 8 to the NAIC CDA Working Group, interested regulators and interested parties. The revised draft definition put forward is:

"Contingent Deferred Annuity" means an annuity contract that establishes an insurer's obligation to make periodic payments for the annuitant's lifetime at the time designated investments, which are not owned or held by the insurer, are depleted to a contractually-defined amount due to contractually-permitted withdrawals, market performance, fees and/or other expenses.

This revised draft definition coincidentally reflects many of the comments we had developed on the prior draft that was shared with us on October 11. Furthermore, this revised version is consistent with the understanding of the members of the CAWG of the product and we have no significant concerns regarding it. Our minor suggestions are the following:

- 1) We suggest that "expenses" be replaced with "charges".
- 2) In light of the clarification that the product is an annuity and not financial guaranty insurance, we suggest "insurer's" be replaced with "life insurer's".

Thank you for giving us the opportunity to comment on this definition. Please feel free to contact us if you wish to discuss our comments.

Sincerely,

Andy Ferris, Chair
Contingent Annuity Work Group
American Academy of Actuaries

Cande Olsen, Vice President
Life Practice Council
American Academy of Actuaries

Cc: Lee Covington, Insured Retirement Institute
Kelly Ireland, American Council of Life Insurers

Our Comments on the Prior Draft and Definition
Provided for Background Information Only

The following draft name and definition had been jointly proposed by the Insured Retirement Institute (IRI) and the American Council of Life Insurers (ACLI).

Standalone Lifetime Income Annuity, also known as a Contingent Deferred Annuity, means an individual or group fixed annuity contract that establishes an insurer's obligation to provide annuity benefits at the time a designated pool of covered assets, which are not owned or held by the insurer, are depleted to a contractually-defined amount due to contractually-permitted withdrawals, market performance, fees and/or other expenses. Investments authorized by the insurer as covered assets may include, but are not limited to, mutual funds, exchange traded funds, certificates of deposit, collective investment trust funds, and/or managed accounts.

The CAWG comments are the following:

- 1) The first sentence contains the phrase “to provide annuity benefits,” which may have been intended to refer generically to the various types of payment structures that could be offered, some of which are guaranteed to pay for a lifetime and some of which are not. We also note, however, that the proposed product name, “Standalone Lifetime Income Annuity” implies that the payments are for a lifetime. To eliminate this inconsistency, we propose replacing the quoted phrase with, “to provide lifetime annuity payments”. We acknowledge that the primary drawback of this change is that it would limit the definition to exclude products that are otherwise similar but utilize payment structures that are not guaranteed for a lifetime. For example, a product with a payout structure similar in concept to Guaranteed Minimum Withdrawal Benefits (GMWB), which were marketed before Guaranteed Lifetime Withdrawal Benefits (GLWB) became available, would not be included in the definition.
- 2) At the end of the first sentence, we suggest that “expenses” be replaced with “charges”.
- 3) We believe regulators will require information on the types of covered assets that insurers choose to authorize for their “Standalone Lifetime Income Annuity” products. At a minimum, we expect that regulators would use this information to assess:
 - a) The risk management programs that insurers implement to manage the risk of those covered assets; and
 - b) How the company has incorporated the characteristics of the particular covered assets into the reserving and capital methodologies used for the product.We acknowledge, however, that any requirements for such information would best be specified by regulation and not by this definition. As such, we suggest the second sentence of the proposed definition be removed entirely.
- 4) It is unclear if the purpose of including two product names is to encourage use of the name “Standalone Lifetime Income Annuity” in lieu of “Contingent Deferred Annuity”. We suggest that consideration be given as to whether it is better to recognize a single product name or to include alternative product names.