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AMERICAN ACADEMY *of* ACTUARIES

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February 20, 2013

Commissioner Ted Nickel  
Chair, Contingent Deferred Annuity (A) Working Group  
National Association of Insurance Commissioners

Dear Commissioner Nickel:

The American Academy of Actuaries<sup>1</sup> Contingent Annuity Work Group (CAWG) appreciates the opportunity to comment on the actuarial aspects of the *CDA Working Group Recommendation to the A Committee* that was distributed by the Contingent Deferred Annuities (A) Working Group on February 13.

### **CDA Definition**

We agree with this definition in the *Recommendation*. Our one concern is that, effective in 2012, a different definition is used in Exhibit 5 of the Annual Statement Blank. We suggest that this new definition replace the definition in the Annual Statement Blank going forward. The 2012 Blanks change also requires separate reporting of the account value covered by these contracts and their reserves. We suggest that any changes to the Annual Statement Blank for this product going forward keep this requirement in mind to ensure that inconsistencies in the blank are not inadvertently introduced.

### **Financial Regulation of CDAs**

**Reserving and RBC Requirements for CDAs.** The *Recommendation* states that reserving and RBC for CDAs should be referred to the NAIC groups with the subject matter expertise. The CAWG would like to reiterate the statement made in our December 21, 2012 report that AG 43 (and by analogy C3P2) provides an appropriate methodology for establishing CDA reserves. But in light of the additional information gathered by various NAIC groups and the discussions held since the NAIC first considered this issue, we understand if the CDA Working Group wants a formal review of the issues by the appropriate NAIC technical groups.

The *Recommendation* also mentions that “evaluation of the capital and reserving requirements for CDAs should be ongoing at the NAIC level. ....” We agree that an ongoing evaluation of reserve and capital standards should take place, and it should be part of the ongoing evaluation of capital and reserve requirements for all products. For example, the NAIC C-3 Phase II/AG 43 (E/A) Subgroup charged with evaluating the effectiveness of C3P2/AG43 requirements should expand its scope to include all products subject to these requirements.

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<sup>1</sup> The American Academy of Actuaries is a 17,000-member professional association whose mission is to serve the public and the U.S. actuarial profession. The Academy assists public policymakers on all levels by providing leadership, objective expertise, and actuarial advice on risk and financial security issues. The Academy also sets qualification, practice, and professionalism standards for actuaries in the United States.

We also agree with comments in the *Recommendation* that suggest the NAIC develop a template/checklist of questions that states could use as part of the product review and approval process. The development of tools to assist states in regulating the risks of CDAs is consistent with comments made in our June 27, 2012 presentation on *Contingent Deferred Annuity Solvency and Risk Management Issues*, where we said, “Regulatory review of a company’s risk management programs is important; we believe regulators are able to review insurers’ risk management programs at the time of policy form approval.” We noted in our presentation that some states review hedging operations as part of the examination process, but we believe that states can also question companies as part of the policy form review and approval process. To address concerns about operational risk, some states inquire into third party requirements before product filings are approved.

The CAWG supports the concept of review of a company’s risk management program as part of the policy form approval process, the examination process, and/or the review of ORSA filings – focusing on the risks to be managed, rather than the type of product. For instance, a template/checklist could be developed to facilitate review of a company’s risk management program at the time of policy form filing. Requested information could include a description of a company’s hedging programs, risk appetite, goals for hedge effectiveness, copies of any third party contracts in place, investment parameters, and other product options designed to control risks. The CAWG would be happy to assist with the development of such a template/checklist.

If you have any questions, please contact John Meetz, the Academy’s life policy analyst, at 202-223-8196 or [meetz@actuary.org](mailto:meetz@actuary.org).

Sincerely,

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We would also like to thank the following subject matter experts for their assistance with our analysis:

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