



AMERICAN ACADEMY *of* ACTUARIES

January 26, 2012

Felix Schirripa
Chair, Contingent Deferred Annuity (A) Subgroup
National Association of Insurance Commissioners

Dear Mr. Schirripa:

At the January 19 meeting of the NAIC Contingent Annuity Subgroup, the Contingent Annuity Work Group (CAWG) of the American Academy of Actuaries presented a comparative analysis of the potential value of a typical contingent annuity and a self-directed investment arrangement (self-insurance) at your request. The discussion that ensued after the presentation left us with the impression that you believed our analysis was not focused on the issues that were initially requested. In addition, during the call, questions were raised on whether our original October 28 report appropriately addressed the legal ramifications of contingent annuities, and on whether the Academy had an unbiased focus on the issue. The purpose of this letter is to respond to these issues.

We prepared the January 19 analysis at your request to illustrate the potential financial value to the consumer. While there might be different methods that could be used to produce such an analysis, our sole purpose was to illustrate a full range of results – from no claims to full protection from the viewpoint of the consumer. It is unfortunate that this analysis was not the approach that you had envisioned at the start of the project. We respectfully suggest that in future cooperative efforts between the NAIC and the Academy that both parties utilize either meeting minutes or emails to document the approach and objectives at the beginning of the analysis. Of course, pursuant to the Academy's long-standing mission, it has always been the policy of the Academy that all Academy actuarial work represents independent and objective actuarial information. We believe that providing unbiased actuarial advice is in the public interest.

We acknowledge that there are legal issues surrounding contingent annuity products, but have never held the Academy as having any expertise on legal issues. In light of the NAIC legal counsel's observation on our October 28 report that the report's "legal analysis was lacking", we believe that it is important to remind you that the CAWG's report did not include a legal analysis. To quote from our report's cover letter:

"We did not intend this document to cover any or every issue that has arisen or could arise with contingent annuities, nor to provide opinions on any nonactuarial issues. However, where appropriate, we have provided information on our understanding of certain legal and other implications of the product compared with other insurance and annuity products to provide a more complete picture of the product environment."

To quote from our report's Executive Summary:

"It is logically consistent to classify the contingent annuity product as an annuity from an actuarial or risk perspective, and not as a form of financial guaranty insurance. The

contingent annuity has a comparable structure to other annuity products based on the risks insured and the benefits paid to the consumer. However, we do recognize that contingent annuities may not fit into the legal framework for annuities in every state.”

To quote from the body of the report (page 8):

“Based on our analysis, the CAWG has concluded that contingent annuities contain a material life contingent component, which suggests that the manufacture and sale of such a product belongs with a life insurance company. Our conclusion is based on a review of the actuarial characteristics of the product, rather than any legal review.” (emphasis added).

The Academy prides itself on providing unbiased, objective, and independent actuarial analysis to the NAIC. Suggestions made on the call by interested parties that either our October 28 report or the January 19 analysis is biased or incomplete are ill-founded. We are prepared to discuss any technical disagreements regarding our analysis, such as methodologies or assumptions used. We would hope that participants in the policy debate would engage in discussions with a technical focus and goal of understanding the issues to assist in meeting the charge assigned to the work group. Alternative written analyses provided by other interested parties are welcome and can supplement the public discussion taking place among regulators and interested parties and lead to a more informed resolution of the issues.

We appreciate the highly charged environment in which these contingent annuity discussions are taking place. We strongly believe our contributions can provide an objective, risk-focused basis to understanding the contingent annuity – something that should be of great interest to the regulatory community. As these discussions continue, we sincerely hope any additional contributions, if any, we make would be accepted in the same professional and objective manner in which the contributions will be offered.

Please feel free to contact us to discuss any questions you might have with this letter.

Sincerely,

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

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