The Contingent Deferred Annuity (A) Subgroup met via conference call Jan. 26, 2012, to continue discussions of contingent deferred annuities (CDAs) and how they should be treated.

1. **Comments from Interested Parties**
   
   a. **American Council of Life Insurers (ACLI)**
   
   Kelly Ireland (American Council of Life Insurers—ACLI) summarized ACLI’s position on CDAs. Ms. Ireland explained that it is ACLI’s position that most state laws would consider CDAs as annuities. She said that a lifetime series of payments would meet the definition of an annuity in most of the states. Ms. Ireland said that ACLI thinks the mortality component of a CDA is meaningful and helps retirees achieve their retirement goals.

   b. **Transamerica Advisors Life Insurance Company**
   
   David Hopewell (Transamerica Advisors Life Insurance Company) summarized the Transamerica letter submitted to the Subgroup. Mr. Hopewell said that Transamerica believes it is in the best interest of the public to allow CDAs to be offered within the annuity regulatory framework. The Transamerica letter argued that annuity carriers have the experience to manage the risks inherent in CDAs and the suitability standards to govern appropriate sales. The letter argued that state definitions of annuities encompass CDAs, while state definitions of financial guaranty insurance do not. The Transamerica letter also referred to the IRS private letter rulings that found CDA contracts to be annuities for federal income tax purposes.

   c. **Prudential**
   
   Bryan Pinsky (Prudential) summarized Prudential’s letter to the Subgroup. He said that Prudential supports the analysis and conclusions reached by the American Academy of Actuaries (AAA), as well as comment letters submitted by the Insured Retirement Institute (IRI) and the ACLI supporting the classification of contingent annuities as annuities under state law. Mr. Pinsky said that Prudential believes that CDAs are appropriately categorized as annuities under most states’ insurance laws. He said that the predominant risk associated with CDAs is longevity risk; i.e., the risk historically protected against by annuities. He said that, in terms of managing the risks around externally held assets, Prudential firmly believes that the risk can be managed through rigorous diligence on asset management programs prior to making the contingent annuity available to investors in those programs. Mr. Pinsky said that, because CDAs provide guarantees similar to the lifetime income guarantees on variable annuities, Prudential believes that CDAs should be subject to the statutory reserve guidance provided by Actuarial Guideline XLIII—CARVM for Variable Annuities (AG 43) and the statutory risk-based capital requirements of the RBC C3-Phase II framework.

   d. **MetLife**
   
   Eric Dupont (MetLife) reiterated MetLife’s concerns with the product. He said that, in MetLife’s view, CDAs are financial guaranty insurance, by definition. Mr. Dupont also mentioned the New York opinion that CDAs are financial guaranty insurance under Article 69 of the New York State Insurance Code.

   e. **Great-West Life**
   
   Great-West Life Insurance and Annuities Company indicated that it planned to submit a comment letter along with the memorandum it submitted to the Life Actuarial (A) Task Force dated April 28, 2011, for discussion on the Subgroup’s next call.

2. **Historical Perspective Document**

   Felix Schirripa (NJ) created a historical perspective document that looked at the interaction of longevity protection and market risk through a CDA delivered monthly to hypothetical buyers that lived exactly 35 years (i.e., purchased the CDA at age 65 and survived to age 100) in the period from Jan. 1, 1926, to Dec. 31, 2011. He explained that there were 613 hypothetical buyers in this historical period. Mr. Schirripa explained that this historical perspective document shows that: 1) CDAs present insurers with significant market risks if the portfolio is too aggressive; 2) CDAs do not provide meaningful longevity protection if portfolio is too conservative; and 3) meaningful longevity protection can emerge, if the CDA can...
actually change the buyer’s behavior (i.e., move a buyer into a higher risk/reward portfolio). Mr. Schirripa said that he would like to continue to discuss these issues on the next call.

Mr. Schirripa also raised the issue of whether a nonforfeiture feature is needed with this product and whether it should be covered under state guaranty funds.

The Contingent Deferred Annuities (A) Subgroup plans to have a conference call Feb. 9 to continue its discussions.