The Contingent Deferred Annuity (A) Subgroup met via conference call Feb. 16, 2012, to continue discussions of contingent deferred annuities (CDAs) and how they should be treated.

1. Comments from Interested Parties

a. Comments from the American Academy of Actuaries (AAA)

Cande Olsen (Actuarial Resources, Inc.) presented on behalf of the AAA Contingent Annuity Work Group. The AAA created a document intended to expand upon the historical perspective analysis that Felix Schirripa (NJ) presented on the Subgroup’s Feb. 9 conference call. Ms. Olsen explained that the AAA document presents a prospective stochastic model, taking into account a broader range of experience using an NAIC capital scenario generator to model the same situation as Mr. Schirripa’s historical perspective analysis. Ms. Olsen said that the conclusion the AAA reached was that there is significant benefit in CDAs. The AAA’s paper also observed, like Mr. Schirripa, that there is greater benefit in owning a CDA using a higher risk/reward portfolio.

Tomasz Serbinowski (UT) reminded everyone that the AAA’s scenario is based on people living to age 100. Mr. Schirripa said he was disappointed in the results of his analysis, because he thought that more people would benefit from having a CDA. Mr. Schirripa said that there are significant consumer behavior issues to consider. Mr. Serbinowski also pointed out that the NAIC scenario generator turns out numbers for the purpose of providing statutory reserves and capital and are, therefore, going to moderate some of the turbulence in the market. Steve Ostlund (AL), said that the analyses of Mr. Schirripa and the AAA only addressed a portion of the risk, which reinforces the need for regulators to take another look at the risks associated with this product.

b. Insurance Industry Presentation

Representatives from the industry gave a presentation on CDAs and illustrated the similarities between guaranteed living withdrawal benefit (GLWB) riders and CDAs. Sara Richman (Great-West Life & Annuity Insurance Company) explained that GLWB riders and CDAs function the same way: GLWB riders provide a guaranteed basis for lifetime income based on the account value administered at the insurer’s platform, and CDAs similarly provide a guaranteed basis for lifetime income based on the value of the covered assets administered at partner’s platform. Bryan Pinsky, (Prudential Annuities) explained that GLWB riders and CDAs are structured the same way and that CDAs include the same product features and risk portfolios as GLWB riders. Mr. Pinsky said that GLWB riders and CDAs have similar sensitivities to behavioral, longevity and market risks. Tim Bennett (Transamerica Advisors Life Insurance Company) said that the reserve and capital guidance for GLWB riders also applies to CDAs (Actuarial Guideline XLIII—CARVM for Variable Annuities and RBC C-3 Phase II), which specifically include “guarantees similar in nature to GMDBs [guaranteed minimum death benefits] or VAGLBs [variable annuities with guaranteed living benefits], even if the insurer does not offer the mutual funds or variable funds to which these guarantees relate.” Mr. Bennett said that the insurance industry has demonstrated its ability to control the character of the assets to which it applies protection and has been successful within administrative platforms that are owned by the insurer, as well as those owned by a third party. Mr. Bennett said that the existing life insurance business systems, technology and oversight are effective in managing risks in the CDA business model.

c. Birny Birnbaum (Center for Economic Justice)

Mr. Birnbaum asked about the need for this product. He said that general references to the retirement needs of a generation are not helpful. He said that if there are no real difference between CDAs and GLWB riders, except for the ownership of the assets, so what is the benefit of CDAs to the consumer? Mr. Schirripa said that CDAs are targeted toward a new group of buyers other than those that would buy a GLWB rider in a conventional variable annuity.

2. Update on Subgroup’s Perspective

Mr. Schirripa reviewed a proposed draft recommendation from the Contingent Deferred Annuities (A) Subgroup of the Life Insurance and Annuities (A) Committee. Mr. Schirripa emphasized that all regulators and interested parties are interested in making sure retirees and near-retirees maximize their savings. Mr. Schirripa said that he understands the importance of lifetime income protection in achieving this goal, but regulators need to make sure that innovative products can deliver on their promises. He said that as long as there is money in a covered fund, the investor retains the risk; but that does not mean that the insurer does not have market risk, as well. Mr. Schirripa explained that the purpose of the historical test perspective
document he presented on the Feb. 9 conference call was to help regulators understand the product. He said that the historical test sheds light on critical product design issues in CDAs, the inefficiencies and risks associated with low utilization of withdrawals, as well as the nonforfeiture issues that are implicated. Mr. Schirripa proposed some new terms to refer to CDAs and GLWB riders: hybrid income annuities for GLWB riders and synthetic hybrid income annuities for CDAs. Mr. Schirripa concluded that, if hybrid income annuities can be sold, then so should synthetic hybrid income annuities. Mr. Schirripa said that this is the right time to take another look at hybrid income annuities and synthetic hybrid income annuities and make sure that the appropriate solvency and consumer protections are in place.

Kelly Ireland (American Council of Life Insurers—ACLI) agreed with much of the recommendation, but said she was surprised and concerned by the inclusion of GLWBs in the recommendation to the Life Insurance and Annuities (A) Committee. Lee Covington (Insured Retirement Institute—IRI) echoed Ms. Ireland’s concerns.

Mr. Birnbaum said he was concerned that there was no sense of urgency in the recommendation. He said that there were a number of troubling observations involving questionable insurer conduct in the Life Actuarial (A) Task Force referral to the Life Insurance and Annuities (A) Committee that were not addressed in the referral. Mr. Birnbaum reiterated his question about the need for the product given its similarity to the GLWB rider.

Mr. Schirripa explained that he planned to have a Subgroup recommendation for the Life Insurance and Annuities (A) Committee at the Spring National Meeting.