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September 10, 2008

The Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549

Concerning File Number S7-14-08

I am against rule 151A.

<u>The unique feature of indexed annuities</u>

The SEC claims that there is a problem with indexed annuities. And everyone involved agrees there is a problem anytime someone is defrauded. However, what is not revealed in the proposal of rule 151A is the magnitude of the problem. Are indexed annuity complaints per dollar of sales higher than fixed annuity complaints? Are indexed annuity complaints higher than variable annuity complaints?

According to NASAA President Patricia Struck as sited in the background information of 151A, the concern about "variable and equity index annuities are not about the products" meaning that she is more concerned with abusive sales tactics and fraud. Notice that the fraud she sees is partly because of variable annuities. Variable annuities have been supervised by the SEC for decades and yet the sales tactics of this product are a concern to Struck. Why would we want the SEC to expand it's ineffective protection to indexed annuities?

Furthermore, what is it that consumers are complaining about? Is it surrender charges? The background information provided with the proposal says that "*the often complex features of these annuities have not been adequately disclosed to purchasers, as well as claims that rapid sales growth has been fueled by the payment of outsize commissions that are funded by high surrender charges imposed over long periods*". An indexed annuity is only incrementally more complex than a fixed annuity and less complex than a variable annuity.

If the indexed annuity needs to be supervised because of surrender charges then you must consider fixed annuities as securities as well. If the complexity arises from market value adjustments or other liquidity provisions in the contract then you must also supervise fixed annuities. The recommendation to classify indexed annuities as securities should rest solely on the way <u>interest is credited</u> because that is the only difference from fixed annuities.

Premium bonuses, high surrender charges, market value adjustments, and nearly every sales tactic associated with an indexed annuity also exists for fixed annuities. Therefore, you should either attempt to expand the jurisdiction of 151A to all fixed and indexed annuities or abandon the proposal. Abusive sales tactics occur with variable, indexed and fixed annuities – because all three types have many of the same characteristics. Your decision to classify indexed annuities as a security must be isolated to the abusive sales tactics specifically associated with the way <u>interested is credited</u>.

Why have you not targeted indexed certificates of deposit currently offered by some banks? There is very little difference between an indexed CD and an indexed annuity. Clients should in theory be subject to the same abusive sales tactics and complexity you claim to be true of indexed annuities.

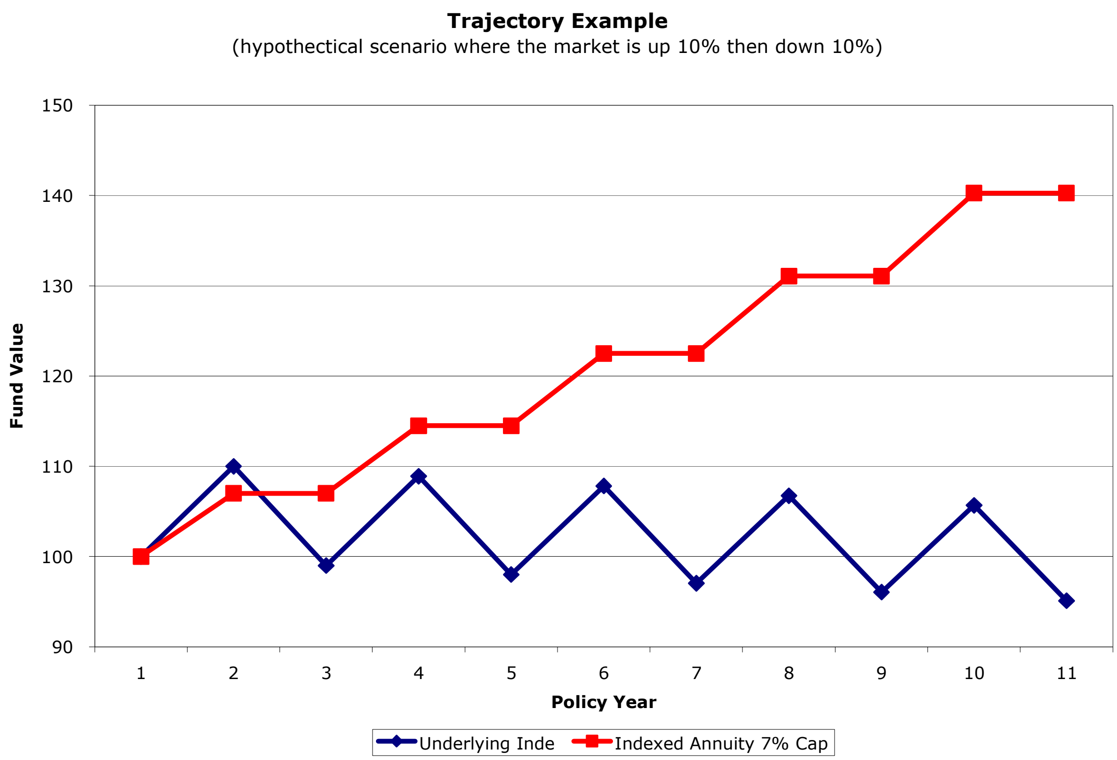
<u>**Understating the insurance value of indexed annuities**</u>

The information in your proposal uses language and information that understates the safety provided by indexed annuities. The claim that purchasers of indexed annuities are "*exposed to significant investment risk*" is false. Indexed annuities, when held to term, are fully principal protected.

The risk that indexed annuity holders have taken is not significant and is best termed interest credit risk. They exchange what could be a fixed rate for a floating rate based on the change of the index. Most contracts offer a fixed account, so the policy holder could take, for example, 4% interest credit to their account but rather they have chosen to link to the S&P 500 and receive something between 0%-8%. The principal can never go backward.

That is a guarantee. That is protection. That is, in fact, insurance. You claim that purchasers are attracted by the "*prospect of investment growth*". That is true, but you falsely claim that it is not for "*the usual* *insurance basis of stability and security*." Indexed annuities are purchased for both their potential and safety. Purchasers are willing to risk the amount of interest they are credited as long as they know their initial deposit is insured.

The claim that purchasers values are affected by the trajectory of the index is only true for the indexing term (which is usually one year). Even then trajectories of the interest credit and the underlying index are only moderately correlated.



Consider the chart above of a hypothetical 10 year scenario where the underlying index is generally sideways (similar to the recent ten year experience in the S&P 500 index). Notice that the trajectory of the market and the trajectory of the indexed annuity have very little in common. Your decision to classify an indexed annuity as a security seems to rely heavily on the fact that the there is an insurance aspect to some degree but "*that degree may be too small*."

The degree of insurance required to be an annuity is already defined by the people of the states. Most state legislators have defined the degree of insurance that must be provided in the form of that states Nonforfeiture Law.

You must be prepared to answer the question of why the definition of insurance codified by the states is inadequate. Your comparison of the indexed annuity to the superficial insurance cited in the VALIC case is like comparing a lightening bug to the sun. The protections and guarantees of indexed annuities have been found by the state insurance departments to comply with the peoples definition insurance.

Conclusion

Your decision to classify indexed annuities as securities is short sighted. The burden of the proof is on the SEC to demonstrate the failings of the insurance benefits of the product. The SEC must also clearly demonstrate that the problems associated with the indexed annuity are isolated to the way in which interest is credited. Otherwise, we are heading down the road where the SEC supervises the sale of everything. I would have to call a registered rep to buy a cup of coffee because it might be perceived as a bad investment.

Respectfully,

Shane Stamatis