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2008 NOV 14 11:12:00  
CONGRESSIONAL  
CORRESPONDENCE UNIT

October 28, 2008

Honorable Christopher Cox  
Chairman  
U.S. Securities and Exchange Commission  
100 F Street NE  
Washington, DC 20549

Re: SEC Proposed Rule 151A on Indexed Annuities (File Number: S7-14-08)

Dear Chairman Cox:

As members of the U.S. (Senate/House of Representatives), we write to express our opposition to a recent proposal from the Securities and exchange Commission ("SEC") that would significantly change the regulation of certain annuity contracts and negatively impact companies, agents, and consumers across the United states.

On July 1, 2008, the SEC published for comment a proposed new rule to reclassify, prospectively, state-regulated insurance products called indexed annuities as securities ("Proposed Rule 151-A"). These products are currently used by millions of Americans to help achieve their savings goals. Proposed Rule 151-A would have profound implications for the way these products are developed, marketed and sold. It would subject already state-regulated insurance products to dual regulation by federal securities law, registration requirements, and oversight, adding filing obligations and compliance costs. It would also require that such products be distributed exclusively by registered representatives of SEC-licensed broker-dealers, rather than independent insurance agents who are solely state-licensed.

While we strongly support initiatives by the SEC to improve protection of investors in the securities markets, we do not believe the SEC's proposal , as drafted, would provide significant added protections to such investors-certainly not sufficient to justify such a profound departure from the existing regulatory scheme for financial products enacted by Congress. Following are several concerns raised by some of our constituents that we believe merit serious consideration by the Commission.

First, the SEC's proposed release fails to make a convincing case that the products it seeks to asset its securities-law regulatory authority over are, in fact, securities. Indexed annuities provide contract owners with guaranteed minimum values-undoubtedly the most salient feature of this product, especially during market downturns such as occurred on September 15. While millions of investors in stocks and mutual funds recently lost billions of dollars in the value of their holdings due to such declines, indexed annuity holders lost nothing. As with traditional fixed annuities, the guarantees in

indexed annuities are funded through the insurance company's general account and the company bears the burden of making sure it has sufficient funds to meet its contractual obligations to contract owners. The insurer bears the investment risk. Further, we understand from our constituents and observe from the many comment letters filed with the SEC that the proposed rule as drafted is overboard and may pull into its grasp many traditional annuity products that would further alter the regulatory scheme enacted by Congress for the regulation of financial products.

Second, as we have heard from constituents and state insurance commissioners, indexed annuities, the companies that issue them, and the agents that sell them are already regulated, inspected and licensed under state law and have been since the introduction of indexed annuities. For example, insurers and their products are subject to comprehensive state regulation with respect to investment and financial requirements, unfair and deceptive trade practices, and guaranty fund laws. Well over 30 states have adopted the National Association of Insurance Commissioners' ("NAIC") Suitability in Annuity Transactions Model Regulation which governs the suitability of annuity sales, strengthens agent supervision and requires periodic review of records. Nearly every state has adopted the NAIC's Life Insurance and Annuities Replacement Model Regulation, which regulates the activities of insurance companies and producers when replacing existing life insurance and annuities. A number of states have adopted the NAIC's Annuity Disclosure Model Regulation, which provides guidance to insurers in developing disclosure documents and information. We understand from the NAIC that it continually subjects these measures to review and improvements to better protect consumers.

Further, we understand that every state requires a minimum level of competency for producers to obtain a license to sell, solicit or negotiate annuity products and continuing education to maintain their license. Thus, it appears to us that state insurance commissioners and the NAIC have taken the necessary steps to safeguard consumers. The SEC's proposing release fails to demonstrate that state regulation of indexed annuities has fallen short in some material respect sufficient to implicate the "federal interest" (as the SEC calls it) in providing consumers with the protections of the federal securities laws or what new/additional benefits would flow to consumers from such protections. To us, it appears that Proposed Rule 151-A would only require duplicative disclosure and would not provide a net benefit to consumers.

Third, Proposed Rule 151-A could have the effect of reducing product availability and consumer choice, effectively placing the cost of the regulation squarely on the shoulders of the consumers. The collateral consequences would also affect the livelihood of thousands of independent agents that currently sell these products. The regulation would require these agents to register with the SEC as licensed representatives associated with brokers/dealers, creating significant administrative costs, and would ultimately decrease the competitiveness of the industry as some agents would drop out of the indexed annuities market. All of the above factors will likely result in reduced consumer choice and higher consumer costs.

Fourth, we take issue with the process, or lack thereof, by which the SEC developed Proposed Rule 151-A. It is our understanding that the concept release for Proposed Rule 151-A was issued in 1997-over ten years ago. We are aware that since that time, the market for indexed insurance products has grown substantially. Yet, in its proposing release, the SEC has adduced no studies or empirical evidence indicating a correspondent, widespread growth in losses to owners of indexed annuities. Further, save for a letter we understand the SEC sent to insurance carriers in mid-2005, the SEC appears not to have undertaken the sort of outreach to stakeholders and Congress one would expect to precede such a major proposal. If this initiative is truly important to investor protection in the SEC's view, why has the Commission taken so long to bring 151-A forth and why didn't the Chairman or

other Commissioners fully explain it in their many appearances before Congress in recent years/months? We believe the SEC should have taken, and perhaps still can take, an approach that is more inclusive of stakeholders views and Congressional input on the front end.

Finally, we are concerned with whether the SEC has the resources or expertise necessary to take on such a major new regulatory responsibility, particularly in light of the fact that the Commission appears to have its hands more than full dealing with the current crisis in the financial markets. How would the SEC handle these new responsibilities? Would the Division of Investment Management and/or the Division of Enforcement require additional funding and FTE's? If not, how would the SEC provide additional oversight of these products? If so, would this distract from the SEC's current focus on dealing with the mortgage-related crisis in the financial markets? We think the SEC's top priority should be to address problems associated with the current crisis and work to get U.S. issuers and markets back on sound footing before taking on new authority.

While we strongly support initiatives by the SEC to protect consumers, we oppose Proposed Rule 151-A because it does not adequately correspond to the issues it purports to address. Until the SEC addresses these concerns, and the many other issues raised by stakeholders, we believe further action by the SEC with regard to 151-A is warranted. We urge you to withdraw the proposed rule, or at the very least, delay its adoption until our concerns have been fully addressed. Unlike its inattention to the requests made by many of us and our colleagues to extend the current period for 151-A, we hope and expect that the SEC will heed the concerns we, as elected members of the legislative branch, have expressed in this letter.

Sincerely,

*Gladys Fretcher*  
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