

July 31, 2008

Gentlemen,

Regarding the rule change...S7-14-08

Under the Annuity contract (Contract) the assets have a fixed basis visa-ve the contract itself. Hence the internal fee that's paid (commonly referred to as internal expense charge or "Mortality Expense" ME,) is SUPPOSED to guarantee at minimal the annuitant will receive NO LESS upon demise than the basis. Hence risk has "limited to none" downside.

The contract is to be marketed as PART of an asset allocation to begin with. Any Financial Advisor worth their salt will work this way. The strength of the Insurance carrier is also to be factored, since this is a life time vehicle.

The problem (Which has been there for years) is not the vehicle but rather how it is marketed by individual Representatives. Annuities or ANY investment vehicle are designed to give the investor a better ROI than leaving their assets in a bank. There is no such program at a Bank which pays a remotely competitive return consistently such as the "old passbook savings account at 5 1/4%" circa 1960's. Due to this fact, people attempt to increase their rates of return through alternative means i.e. variable investments. When individual investors do this, they are handed (BY LAW) a risk disclosure document. The marketing firm's representatives are SUPPOSED to review this document with the investor BEFORE they sign receipt of same.

The TRUE problem stems from Supervision and the failure thereof to assure these actions occur.

An individual can purchase an option on the contract called a "COLA" for a small percentage per year which will at minimum allow the contract to grow each year regardless of what the Index does. This works the same as a Variable Annuity contract.

An Annuity, by definition is designed to guarantee an income for life (depending on the settlement option chosen at the time of annuitization) of the Annuitant. The taxability of any growth has ALWAYS been subject to current tax laws and should be figured into the investor's withdrawal strategy.

Personally, as a past Training Manager and a Certified Instructor for the industry, I don't feel the law needs to be changed... rather the enforcement of the Laws and regulations which exist. This includes the Insurance Carriers as well as the Financial Advisors. THAT IS WHY THE ADVISOR'S ARE LICENSED AND ARE REQUIRED TO DO CONTINUING EDUCATION!

Sincerely,
Don Shutts