

From: Birny Birnbaum [birny@sbcglobal.net]
Sent: Friday, October 23, 2009 5:23 PM
To: Ario, Joel; Kreidler, Mike (Cmrs. Private); Sean Dilweg; Hudson, Mary Jo; Tyler, Ralph; Huff, John; Geeslin, Mike; Morrison, Marcy; Michie, Kent; Tompkins, Van; Gross, Alfred; Scott Richardson; Kofman, Mila; Herb Olson; Ross, Ken
Subject: Interstate Commission Product Standards -- Proposed Additional Standards for Annuities Are Anti-Consumer

Commissioners,

The Interstate Commission will vote on Monday to adopt a recommendation regarding additional product standards for annuities -- specifically, a product standard which allows a prohibition on the sale of an annuity by the owner of the annuity.

The industry's argument -- which has been adopted by the Product Standards Committee -- is astonishing: Investors who buy the policies from consumers will not make -- or be forced into making because of unexpected circumstances -- the illogical, inefficient and harmful decisions that individual consumers make. The insurers threaten that they will have to raise prices if they cannot sell products that are abusive to some consumers. The ACLI letter states:

/For example, Guaranteed Minimum Withdrawal Benefit (GMWB) fees are based on many variables, one of which is policyholder behavior. This may involve the contract owner making personal financial decisions based on life events that require surrendering the contract or taking out more than the guaranteed amount at some point during the life of the contract because of a divorce, medical bills, home repair, accidents, etc. If a contract with a GMWB feature is sold to an institutional investor, the institutional investor will likely select against the company by always behaving totally "efficiently" (i.e., only taking withdrawals when it makes sense technically based on sophisticated financial models, never taking any excess withdrawals, never surrendering the entire contract, reallocating investment allocations based on sophisticated financial models, etc.)/

The industry argument continues that, because insurers are able to take advantage of many consumers who are forced into unfavorable actions with their annuity, the insurers can offer a lower price on these products than if the products were utilized in a manner most favorable to consumers.

If regulators vote to adopt these standards, then regulators are endorsing the concept of insurers selling complex products and leaving consumers without any escape if the products are not suitable or desirable -- that alleged "lower prices" are an acceptable trade-off for consumer abuse.

The fact that such an anti-consumer product standard is on the verge of being adopted is a result of the absence of consumer representation and consumer advocacy at the Interstate Commission -- an institutional bias against consumers. If consumers had the same resources as industry to participate in product standard working group meetings and to lobby individual regulators, we doubt such a proposal would be approved.

In an environment where suitability of annuity sales -- at best -- needs significant improvement, regulators should not be awarding insurers a monopoly on consumer choice for disposing of an unsuitable annuity.

Thanks for your consideration,

Birny Birnbaum