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October 21, 2009

Commissioner Mary Jo Hudson, Chair
IIPRC Management Committee
444 North Capitol Street, NW
Hall of the States, Suite 701
Washington, DC 20001-1509

Dear Commissioner Hudson & Members of the IIPRC Products Standard Committee:

This letter is sent to represent the concerns of the members of the Life Insurance Settlement Association (LISA), the nation's oldest, largest and most diverse organization of participants in the secondary market for life insurance. Thank you for the opportunity to participate in the discussions regarding the development of product standards for annuities with guaranteed living benefit riders. We are committed to the promotion of appropriate regulations and the preservation of the fundamental rights of consumers in insurance products.

We write to reiterate our concern with the inclusion of restrictive language in the drafts *ADDITIONAL STANDARDS FOR GUARANTEED LIVING BENEFITS (GLB) (for Individual Deferred Non-Variable Annuities and Individual Deferred Variable Annuities)* that denies consumers the ability to change the ownership in beneficiaries of such products for value. Such provisions are unfriendly to consumers and, if included in national uniform standards will deny consumers some of their existing rights and options regarding the annuities they have and will purchase.

These riders are complex, complicated and convoluted. The ability for consumers to fully understand how these products work with the phantom accounts being created to establish the benefit base while trying to intertwine with the account value for determination of how benefits will be calculated will be confusing to the average annuity consumer. On Monday, October 19, 2009 at the Southeastern Regulators Association (SERA) Conference, a breakout session was led by Barry Skolnick, Mitchell, Williams, Selig, Gates & Woodyard, PLLC and Karen Alvarado, Chief Compliance Officer for the Transamerica Capital Management Division titled "*Impact of Evolving Product Designs on Variable Annuity Suitability*"; the presentation was about the Guaranteed Living

Benefits riders being attached to variable and non-variable annuity contracts. The presentation was very informative, and the presenters did a wonderful job in trying to explain how the product works, however, it was clear that these products are very complex and the potential for inefficiency is very apparent. As I listened thinking in protecting the senior citizen while allowing them the opportunity to invest how they wanted, two points in the presentation really stood out in my mind:

- Factors used in calculating benefit base benefits are more conservative than factors used in calculating benefits provided by annuitizing the cash value.
- Difference in factors make benefits somewhat less transparent to consumer and therefore more suspectible to misunderstanding.

Given the complexity of these products and the potential for unsuitable sales to our senior citizens, can we afford to restrict our consumers' options?

The life insurance industry has voiced concern over the fear that institutional investors associated with the secondary market will make more efficient decisions regarding the application of benefits should the secondary market become owners of these types of products. We would submit the only consumer these products will be suitable for are the sophisticated consumer, since the product is very complex, complicated and convoluted; and the sophisticated buyers have the access and are accustomed to seeking professional investment advice. Therefore, these restrictions are only protections for the life insurance industry who want to deny the consumer their fundamental property rights. These restrictions bring no value to the consumer—in benefits or pricing.

One of the arguments presented in support of these restrictions to consumers has been "to preserve the current pricing of these products, to mitigate against the need for insurance companies to substantially increase the cost of the benefits in order to hedge against the potential sale of the benefits to secondary market investors, and to prevent the benefits from being priced where they will become unaffordable for many consumers."[1] This is an argument that has never been supported by any actuarial data or any other substantiating information other than the life insurance industry's standard argument in relation to settlements, that rates will be increased. In fact, during the deliberations of these standards, the life insurance industry indicated that these types of restrictions have already been approved in many states. If that is the case, are these products with these restrictions priced less than the products that do not have these restrictions, and if not, why? If these restrictions are supportive based on the life insurance industry's claims of pricing, then these restrictive products should be priced less and the costs benefits passed along to the buying consumers.

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[1] IIPRC Products Standards Committee Recommendation Memorandum to IIPRC Management Committee, October 13, 2009, page two

We respectfully request the Management Committee to consider the needs of the annuity consumers and reject the restrictive and consumer unfriendly provisions set forth in these proposals. We appreciate the opportunity to comment on this very important issue and look forward to additional dialogue. We have continued to provide written comments throughout this process and have attached them for your review and consideration. If you should have any questions, please feel free to contact us.

Respectfully submitted,

Brian K. Staples

Attachments