

September 30, 2008

Marcia E. Asquith
Office of the Corporate Secretary
FINRA
1735 K Street, NW
Washington, D.C. 20006-1500

RE: Regulatory Notice 08-39

Dear Ms. Asquith:

Princor Financial Services Corporation, Inc. provides this letter of comment, as requested of member firms, relating to FINRA Regulatory Notice 08-39 covering proposed new rules governing communications about variable insurance products.

Comments

Proposed IM-2210-1, Paragraph (5) Tax Considerations

Paragraph (5)(B)(i) would require any comparative analysis of tax-deferred versus taxable compounding to utilize identical *gross* rates of return. We believe this will cause confusion, as in many instances only the expense structure of one of the investment types would be known.

For example, a comparison of the tax-deferral features of a variable insurance product that has a known expense structure versus a hypothetical taxable investment with an unknown expense structure will create situations where a member is unable to provide a true comparison of strategies without uneducated guesswork to determine an almost arbitrary expense figure for a hypothetical taxable investment.

To provide maximum clarity to a customer and eliminate the potential scenario where members must determine expense structures to hypothetical investments, we propose the language in IM-2210-1 (5)(B)(i) allow for comparative tax deferral and taxable investment illustrations:

“ . . . using identical investment amounts and identical assumed **net** rates of return, . . . ”

Proposed IM-2210-1, Paragraph (5) Tax Considerations

Paragraph (5)(B)(vii)(a) requires a hypothetical tax deferral illustration to disclose the extent to which capital gains and dividend tax rates may affect the return on a taxable investment.

We believe the existing guidance provided by FINRA, requiring disclosure that “lower maximum tax rates on capital gains and dividends would make the return of the taxable investment more favorable, thereby reducing the difference in the performance between the accounts” should be maintained.

We believe any further requirement to quantify that difference will lead to additional confusion for customers as the illustration will become more complicated.

Proposed IM-2210-2, Paragraph (d) Guarantee Claims and Riders

Paragraph (d)(4) states that any communication discussing a rider must explain the rider, its costs and limitations, and that the rider is an optional feature of the contract.

While we believe a customer needs to be fully aware of the features and limitations of any optional riders prior to purchasing a variable insurance product, for variable life insurance products we do not believe marketing pieces or illustrations are the appropriate avenue for the disclosure of this information.

There is a degree of variance in expenses for riders in variable life insurance products that makes it difficult in a marketing piece or illustration to fully disclose and explain limitations, fees, etc. in a manner conducive to a client fully understanding such information.

We believe, instead, that the prospectus must be relied on for this detailed disclosure of information on optional riders for variable life insurance products. The prospectus--which must be delivered prior to any product illustration--provides descriptions, availability, limitations, and minimum and maximum costs for each available rider. Duplication of this information in an illustration or marketing piece would make the illustration or marketing piece unnecessarily cumbersome and difficult to understand for the customer.

Proposed IM-2210-2, Paragraph (f) Historical Performance

Paragraph (f)(5)(A) requires variable annuity illustrations based on historical performance be net of maximum guaranteed charges.

We recommend IM-2210-2 (f)(5)(A) be amended for greater flexibility and also for increased consistency with IM-2210-2 (f)(3)(B). IM-2210-2 (f)(5)(A) would be amended to read:

“present dollar values that are net of fees imposed at the investment option level, and for variable annuity illustrations, net of maximum guaranteed charges, **or accompanied by performance that is net of maximum guaranteed charges.**”

Proposed IM-2210-2, Paragraph (g) Illustrations Based on Assumed Rates of Return

Paragraphs (g)(1), (g)(2) and (g)(3) require that hypothetical illustration rates of return for variable insurance products include the deduction of maximum guaranteed charges without also allowing for the inclusion of rates of return net of current charges. The allowance for the inclusion of returns net of current charges in hypothetical illustrations was previously allowed expressly for variable life insurance products in IM-2210-2 (b)(5)(iii).

We recommend FINRA continues to allow the illustration of hypothetical returns net of current charges in addition to returns net of maximum guaranteed charges, as current charges more accurately reflect what an issuer intends to charge a customer. Use of only maximum guaranteed charges in a hypothetical illustration will fail to provide the customer a representative view of how a variable insurance product operates over time.

For variable life insurance specifically, maximum guaranteed charges are designed to provide the issuer long-term flexibility when mortality, persistency, or expense experience is worse than assumed in pricing, or when federal or state regulatory bodies increase taxes or statutory reserve requirements during the life of the policy.

Allowing only the illustration of hypothetical returns net of maximum guaranteed charges for variable life insurance policy illustrations may cause issuers to re-file variable life products with lower guaranteed charges. In addition to the added burden of re-filing policies with the states, as well as the SEC, the lower guaranteed charges would result in a reduction in the amount of premium that can be paid in a life insurance policy due to the use of maximum guaranteed charges in the Internal Revenue Code Section 7702 compliance calculations.

We request that in Paragraphs (g)(1), (g)(2) and (g)(3), following “. . . and that reflect the deduction of the maximum guaranteed charges.” the following sentence be added in each instance:

“Current charges may be illustrated in addition to the maximum charges.”

Proposed IM-2210-2, Paragraph (g) Illustrations Based on Assumed Rates of Return

Paragraph (g)(3) allows for hypothetical negative rates of return to be illustrated, provided an illustration is also completed of hypothetical positive rates of return.

However, based on Paragraph (g)(1)--which states as a condition for a compliant illustration--“The illustration prominently shows investment results that are based on an assumed gross annual rate of return of 0% . . .”; and guidance on page 9 of Regulatory Notice 08-39 stating “First, all illustrations would have to show investment results that are based on an assumed annual rate of return of 0% . . .,” it appears FINRA is also

requesting an illustration of the 0% rate of return in this scenario described in Paragraph (g)(3).

We request that Paragraph (g)(3) be rewritten to allow for only the hypothetical positive rate of return when the hypothetical negative rate of return is illustrated. We do not believe the addition of the 0% return in this scenario adds to the understanding of the customer regarding the operation of the variable insurance product. Indeed, the addition of a third set of hypothetical return figures in this instance may simply confuse the customer.

Princor Financial Services Corporation, Inc. thanks you for this opportunity to provide comments on FINRA Regulatory Notice 08-39. If there are any questions relating to our comments or recommendations, please contact me at (515) 247-6491.

Sincerely,

Chad Oppedal
Princor Registered Representative
Advertising Principal

The Principal Financial Group[®]