

I like variable annuities...for the right situation. Regulating of securities products and documentation has gone overboard. Consumer protection is fine. Documenting that consumers receive information is fine but lets simplify the whole thing.

First, prospectuses are fine. But almost nobody reads them. They are too big and daunting for most people to tackle. The SEC and NASD can start by changing how prospectus information is given to consumers. A four-page disclosure with 'fill-in the blanks' for specific prospectus information would be an excellent start and eliminate all the duplication of forms and put all the disclosures and suitability information in one place.

Second, there are too many disclosure, suitability, etc required. Registered reps are leaving the business because there is too much paperwork for too little compensation and too many compliance people scared to death to let reps do anything.

So lets design a simple The form, pre-printed by mutual fund and variable annuity companies, would list all of the available investment choice for the MF series or VA product.

(A) The sales rep would circle or check the funds selected (for VA, the expense charge would follow each account choice).

(B) The sales rep would circle the Class of funds chosen with the sales charges and surrender charges next to each class.

(C) A list of six – eight suitability choices would be listed for the client / sales person to pick the one(s) that best describe why the product was chosen. There should also be a couple lines for additional information to be written in. The suitability choice should be initialed by the client.

(D) The NASD can add 8-10 other items from prospectus that would be filled in. This forces the sales rep to review these items with the client or direct the client to them.

(E) Prior to the client's signature would be a 'consumer responsibility acknowledgement' that (1) they are buying a securities product, (2) they can lose their money, (3) they are responsible for making changes to their investment choices or giving their representative the authority to make investment choice changes, (4) they have had the opportunity to review the product information and have access to the current prospectus, (5) they understand the sales rep and others will receive compensation from the sale of this securities product, (6) that the product provider is responsible to abide with securities rules and regulations but failure to abide by regulations doesn't mean the client's interest were harmed.

(F) In BOLD TYPE -- IF THE CONSUMER HAS CONCERNS or QUESTIONS ABOUT THEIR INVESTMENT DECISION they can call the product sponsor at a special toll-free number (all calls would be logged and recorded). The consumer has five business days to cancel or suspend the transaction without penalty or investment loss.

This single form, standardize for all mutual funds and all variable annuities would have enough information and disclosures to make sure consumers are adequately informed to the extent the consumer wants to be informed. There should be one other form, prepared by the SEC and NASD. This would be a brochure giving consumers sources of information about mutual funds, mutual fund investing, about variable annuities, determining suitability and understand the risks of the various investment classes. The pros and cons of using a specific investment type for qualified plans. To me, more than any prospectus or anything else I can hand to a prospect, would be the best education tool available. Then it is up to the consumer to go online to the website(s), or go to the library to check out the books, or buy the books, or request the information from their insurance company or mutual funds company.

This two or three page brochure would be sent with every annual statement instead of the prospectus that gets tossed into the trash by the majority of investors.

The NASD needs to keep one important difference between mutual funds and variable annuities in mind. Mutual funds are bought. Variable annuities are sold. People can go on-line and make a mutual fund purchase. A sales rep. doesn't need to meet face-to-face with a funds customer anymore. Not so with variable annuities. Because it is an insurance company product, most companies continue to require real signatures. Because some variable annuities offer riders and options, these have to be explained. Variable annuity companies should require applicants to initial their rider or option choices.

Continue to protect the common consumer but simplify the process, the basic information source, and don't treat the consumers of today like they are stupid. There is enough information available that people can be educated, if they want to be.

Two other comments that have nothing to do with variable annuity regulation.

First, eliminate the need for every OSJ to have daily blotter. Their broker-dealer has all the information on file, in duplicate. Require the OSJ to keep a print-out of all transactions. I would not be opposed to requiring more information on the blotter because I don't think it asks for enough information.

Second, eliminate the need for all written correspondence to be reviewed by a principle before being sent to the consumer. I think this is having the opposite effect than what the NASD/SEC intended. Now, few reps put anything in writing. I knew of a financial planner who would write very detailed financial plans with a lot of 'what if' comparisons for his clients. His broker-dealer's compliance people stopped this practice.

Basic guidelines of information that can be included could be drafted. For example, correspondence cannot include any information regarding performance. Period. Correspondence should always include a statement that states the consumer should review the company-printed materials and prospectus before investing or changing any investment options.

Simplifying will make consumers more informed and better protected.

Thanks for your consideration.

Michael J. Kruger, CLU, LTCIS
Registered Representative – Branch Manager
Jefferson Pilot Securities Corporation
10846 Old Mill Rd Ste 2A
Omaha, NE 68154
(402) 408-1590 Fax (402) 408-1593