

Dear Secretary Norris,

I am writing as a financial planner who has been in practice for the past 30+ years licensed in insurance, securities, options, as well as a registered principal and OSJ in my current capacity. I am writing to offer my comments NASD's proposed rule on Variable Annuities.

While I agree that there is much abuse in the sale of VA products, I think the NASD approach is missing the mark. The Proposed Rule spends much effort on disclosure, supervisory, education and training requirements in attempting to reduce sales abuses in the VA markets. I think you could better meet your objective of improving sales practices by encouraging VA product manufacturers to change their commission structures to remove the additional incentives to sell their products. Currently, the VA pays a commissions based on "B" shares with no break points creating an incentive for the salesman to "load up" on this product because of the higher front-end compensation being offered. By simply changing the pay structure, the VA provider could: 1) eliminate the need of the CDSC, 2) provide breakpoints for larger sales, 3) lower the internal expenses required to support the upfront commission payments 4) eliminate the mystique about hidden fees, and 5) remove the incentive of pushing a product because of the greater commission opportunity. The M&E charges would still cause some higher internal expenses above the sub-account fees, but this would truly be offset by the additional tax-deferral advantages built into the product.

Why should the VA marketers be allowed to market their products with these additional incentives? We have all heard the arguments supporting the need of a higher commission because of the additional complexities required in selling the product, but the product would be still be used when appropriate for the client's best interest. This would greatly reduce compliance issues associated with the salesmen who churn these accounts. The market thrust would shift to the financial planners who recommend these product as a fit for estate, tax and investment planning objectives. The "hustlers" most likely would move on to the next product that affords them the greatest rewards, but many would disappear from the market place since the incentives are not there.

This simple compensation change would resolve 95% of all complaint issues and, in the long term, provide a better product for the consumer. This issue will not go away until the NASD is willing to address these drivers. Financial planners have been using variable annuities for meeting long-term needs for years. VAs are important products for providing long-term tax deferral investment for our clients. Don't make its use so onerous that the true value will be lost to the public. More regulation ultimately gets passed on to the consumer in higher costs.

Sincerely,

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Registered Principal

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