

March 25, 2011

TO: Amerigo Agents in Iowa, Colorado & Wisconsin

Guidelines for Annuity Suitability

Below is information on annuity suitability and details on the new “Suitability in Annuity Transactions” model regulation. Please read the following information carefully. If you have any questions, please contact Amerigo Sales Support at 800.231.0801.

What is suitability?

The appropriate sale of our products is something that Amerigo takes seriously. As an agent it is your responsibility to carefully consider the suitability of each sale you make. Most states have enacted legislation which requires the company and the agent to have “reasonable grounds for believing the recommendation is suitable for the consumer...”

Suitability refers to the determination of whether the annuity sale is reasonable considering the applicant’s needs, objectives, and current financial status. In making the suitability assessment, you must consider your client’s risk tolerance, current income, access to cash, age of the owner, and the customer’s retirement needs and objectives. Money used for an annuity should be from funds that can be allowed to grow and not from funds needed to meet current financial obligations.

NAIC Model Regulation

To address the issue of suitability in annuity sales, the National Association of Insurance Commissioners (NAIC) created model regulations with requirements for both agents and insurers. In 2006, the NAIC released the “Suitability in Annuity Transactions” model regulation. This revised regulation applied to all consumers regardless of age. Variations of the 2006 model regulation have been adopted by the majority of states.

In 2010, the NAIC updated the model regulation with more requirements for both agents and insurers. Several states have adopted or proposed adoption of the 2010 version. Below are highlights of the new requirements for insurance agents:

- ▶ The insurance producer should believe that the consumer would benefit from certain features of the annuity such as tax-deferred growth, annuitization, or living benefit.
- ▶ The annuity they are recommending (and any riders or product enhancements) must be suitable for the consumer based on the information provided on the suitability form.
- ▶ In the case of exchange or replacement, the agent’s recommendation for replacement must be suitable. The agent should take into consideration surrender charges, if the client will lose existing benefits, be subject to increased fees, or charges for similar product enhancements. The agent should ensure that the client would benefit from the new product.
- ▶ Insurance producers are required to take 4 credit hours of annuity training and product specific training.
- ▶ Producers should maintain and be able to make available to the commissioner records or information collected from the consumer and other information used in making the recommendations that were used in the determination of the product recommendation.

Because of the new requirements, Amerigo has created a revised suitability form and revised annuity disclosures. These new forms are available and required for all states. As states adopt the revised regulation, we will send notifications and instructions on how to complete the required training.

Suitability Review

It is very important that you carefully consider the suitability of any replacement and ensure your client understands the potential impact of replacement.

Although there are no “right” or “wrong” questions to ask each customer, below is a list of sample questions you may find helpful when doing a suitability analysis:

- What is the client’s main financial objective?
- How will the purchase of this annuity help achieve this objective?
- Will the consumer have adequate liquid assets/income for current and future needs?
- Does the consumer understand how the annuity works and the associated surrender period/charges?
- If a replacement: Are there any surrender charges associated with a replacement transaction? Will the consumer lose any benefits by replacing their current product?
- If the client was a close friend or family member would you make the same recommendation?

We require the use of the Financial Suitability form for all annuity sales to seniors, and to consumers of all ages where required. Please keep in mind, simply completing the suitability form does not alleviate your responsibility in making a suitable recommendation. It is your responsibility to be familiar with the customer’s needs and make recommendations that are appropriate for individual customers.

A New Business representative may contact you or the client to obtain additional information if they have questions as a result of their review of the annuity application and suitability form.

Your Responsibilities as an Agent:

- Before recommending a product to a consumer, gather information and carefully consider and discuss the client’s needs. You should not have a “cookie cutter” approach to recommending products.
- Be sure the client understands the advantages and the disadvantages of a replacement.
- Carefully go through the suitability form with your client. Ensure each section is filled out completely and accurately.
- Document your conversations with the client and make notes about why you recommended the product. It is important to keep this documentation in each client’s file in case there are ever future questions. We strongly recommend that you retain all suitability information in a client file for as long as the contract remains in force.