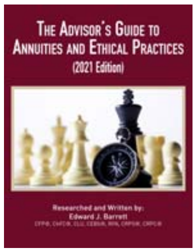
Welcome to our Virtual Super CE Event:

Suitability of Annuities/The Advisor's Guide to Annuities and Ethical Practices



We will begin shortly…
(event begins promptly at 3:00PM Eastern Time)

VIRTUAL WEBINAR PRESENTATION

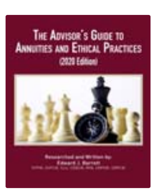
Suitability of Annuities

***Presented by*:**

Stephen P. Clifford

Virtual Super CE Program

- 1-hour Live Webinar Presentation:
  - Suitability of Annuities:
    - No CE credit
- Electronic Exam: Self-study/Correspondence Course:
  - The Advisor's Guide to Annuities and Ethical Practices (2020 Edition):
    - State Insurance CE credit (varies with state)
      - Exam 50 /100 questions
    - CE credit for CFP and CIMA/CPWA
      - CFP 50 question exam = 10 credits
      - CIMA/CPWA 50 question exam = 5 credits
      - CIMA/CPWA 100 question exam = 10 credits
    - Must receive a passing grade of 70% or higher



Agenda

> What we will cover today:
- The Annuity Market
- Classifications of Annuities
- Income Annuities
- Annuity (Suitability) Regulation

THE ANNUITY MARKET

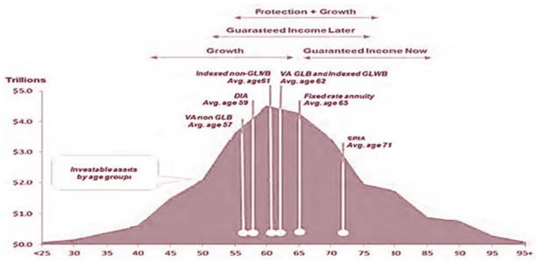
Total U.S. Annuity Sales and Assets*

Year	Total Annuity Sales	Total Annuity Assets
2010	$222	$2,163.0
2011	$238	$2,178.3
2012	$220	$2,331.5
2013	$230	$2,589.7
2014	$237	$2,667.5
2015	$236	$2,653.6
2016	$222	$2,847.2
2017	$204	$2,847.2
2018	$234	$2,716.6
2019	$242	$2,884.5

Source: *IRI 2019 Fact Book; LIMRA SRI; Fourth Quarter Sales; 2019 Year End Sales Results; https://www.limra.com/globalassets/limra/newsroom/fact-tank/sales-data/2019/q4/4q-2019-annuity-sales-estimates.pdf

Who Buys Annuities?

Average Buyer (2017) Age by Annuity Types

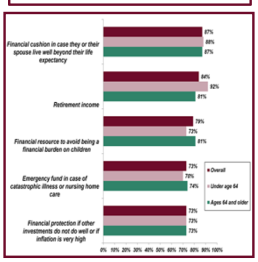


Annuity buyers ages 62 and older tend to focus on creating guaranteed income[1]

Source: *Annuity Buyer Metrics (2017)*, LIMRA Secure Retirement Institute.

Intended Uses of Annuities*

Intended Uses of Annuities



> LIMRA SRI Research:[1]
- 47% of both retirees and pre-retirees say owning an annuity made them more confident they could maintain a financial healthy lifestyle in retirement.
- Nearly seven in 10 retirees who own an annuity are more confident their savings and investments will not run out if they live to age 90 compared with 57 percent of retirees who don't own an annuity.
- 73% of retirees who own an annuity believe they will be able to live the retirement lifestyle they want, compared to just 64% of retirees who don't own annuities.

Source: *LIMRA SRI, Annuity Buyer Metrics, (November 2018)
https://www.planadviser.com/limra-study-shows-interest-annuities/

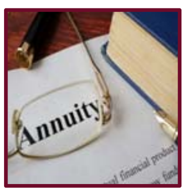
The SECURE Act

> Provisions that will expand the use of annuities in qualified retirement plans:
- **Section 203** requires retirement plan statements to include a lifetime income disclosure at least once during any 12-month period
- **Section 204** creates a fiduciary "safe harbor" for plan administrators (fiduciaries) to include annuities in 401k plans as an 'investment' option
- **Section 109** (Enhanced Portability) permits qualified DC plans, 403(b) plans or government 457 plans to make a direct trustee-to-trustee transfer to another ESRP or IRA if a lifetime income investment is no longer authorized to be held as in investment option under the plan

CLASSIFICATION OF ANNUITIES

Classification of Annuities

> Annuities can be categorized along many dimensions, including:
- Date Annuity Payments Begin;
- Investment Options; and
- Payment (payout) Options



Date Annuity Payments Begin

Deferred Annuity

> Annuity payments are deferred (a waiting period) to a later point in time. Accumulation (savings) phase:
- Maturity (annuitization) date no later than age 95

Immediate Annuity (IA)

> IAs have a very short accumulation period. IAs can only be purchased with a single premium payment.
- SPIAs are the simplest individual annuity contract. First payment usually one month (30 days) from purchase. date.
- DIAs are deferred income annuities (longevity insurance)

Year	Deferred	Immediate	Total
2010	$206.6	$8.1	$215
2011	$222.6	$8.5	$231
2012	$202.6	$9.2	$211
2013	$209.9	$11.0	$221
2014	$216.3	$13.1	$229
2015	$216.2	$21.6	$229
2016	$198.9	$12.5	$211
2017	$181.6	$10.6	$192
2018	$222.3	$11.4	$234
2019	$222.9	$18.8	$242

Source: LIMRA SRI 2019; IRI 2019 Annuity Fact Book Year End Sales Results; https://www.limra.com/globalassets/limra/newsroom/fact-tank/sales-data/2019/q4/4q-2019-annuity-sales-estimates-vfinal.pdf

Investment Options

> Fixed Annuity (FA)
> Variable Annuity (VA)

Year	Fixed Annuity	Variable Annuity	Total
2010	$82	$141	$222
2011	$80	$158	$238
2012	$72	$147	$220
2013	$84	$145	$230
2014	$97	$140	$237
2015	$103	$133	$236
2016	$117	$105	$222
2017	$108	$96	$204
2018	$134	$100	$234
2019	$140	$102	$242

Source: LIMRA SRI 2019; IRI 2019 Annuity Fact Book Year End Sales Results; https://www.limra.com/globalassets/limra/newsroom/fact-tank/sales-data/2019/q4/4q-2019-annuity-sales-estimates-vfinal.pdf

Fixed Annuity (FA)

> An investment vehicle offered by an insurance company, that guarantees a stream of fixed payments over the life of the annuitant.
  - Represent the majority of the annuity market with 58% market share, as of the 4th quarter of 2019.[1]

> Premiums are invested in the insurer's general account, the insurance company guarantees* a minimum interest rate and a current interest rate and assumes all investment risk.

> The advantage of a FA is safety of principal (except, MVA & CDSC)

> The disadvantage of a FA is they do not provide a constant real (i.e. adjusted for inflation) payout stream of income.

*Guarantees are based on the claims paying ability of the insurance company. Source:[1] LIMRA SRI

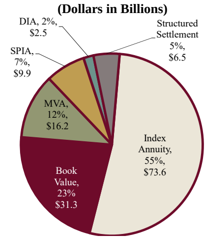
Types of Fixed Annuities

> Deferred:
  - Book Value Annuities (earn a fixed rate of interest)
  - Market Value Adjusted Annuities (surrender value subject to a MVA based in interest rate changes)
  - Fixed Index Annuities (FIA)

> Immediate Income:
  - Single Premium Immediate Annuity (SPIA)
  - Structured Annuities

> Deferred Income Annuity
  - Deferred and a payout at a set date (pure longevity insurance)

FA Sales Component 2019
(Dollars in Billions)



Source: LIMRA SRI 2019; IRI 2019 Annuity Fact Book Year End Sales Results; https://www.limra.com/globalassets/limra/newsroom/fact-tank/sales-data/2019/q4/4q-2019-annuity-sales-estimates-vfinal.pdf

Fixed Annuity Costs

- Insurance company recovers expenses by charging any and all of the following, (administrative fee)
  - Interest rate spread
  - Contract charges
  - Surrender charges
- Income Riders – several insurers are now attaching income riders to their FIA products (additional costs).

Fixed Index Annuities (FIAs)

- First marketed in 1994, a fixed annuity that earns interest that is linked to a stock or other equity index (e.g., S&P® 500)
  - Provide consumers the best of both worlds: a market-driven investment with potentially attractive returns, plus a guaranteed minimum return. In short: Less upside but much less downside.
- Hybrid Indexes have grown to be the second most popular index choice.[1]
- FIA represent 55% of the FA market in 2019, with total sales of $73.5 billlion.[2]

Year	Total FIA Sales	% of Total FA Sales
2010	$32	43%
2011	$33	44%
2012	$33	47%
2013	$39	51%
2014	$48	50%
2015	$55	57%
2016	$60	55%
2017	$57	53%
2018	$70	52%
2019	$73.5	55%

Source: LIMRA SRI 2019; IRI 2019 Annuity Fact Book

Source: [1],[2] IRI 2019 Fact Book; LIMRA Secure Retirement Institute,

FIA Terminology

- **Index Period** - the period of time during which the change in the applicable index or indexes is measured, for the purpose of calculating Index Credits.
- **Participation Rate:** the percentage of the positive movement in the index that will be used in in the crediting calculation.
- **Cap Rate:** the maximum interest rate (upper limit) that will be used in the crediting calculation
- **Spread Rate:** (a.k.a. administrative fee, index margin): a deduction that comes off of the positive index growth at the end of the index term in the crediting calculation

FIA Interest Crediting Methods

> **Annual Point-to-Point** – perhaps the simplest and most common crediting method available. Compares the change in the index at two discrete points in time, such as beginning and ending dates of the index period.

> **High Water Mark -** aka *"look back method"* looks at index value at various points during contract term, crediting highest annual value

> **Annual Reset -** (aka, "*annual ratchet method*") credits interest at the end of each contract year. Interest earned is "locked in", and declines are ignored

FIAs Waivers and Riders

> FIAs contracts offer a number of waivers and riders:
- A Waiver allows the policy owner to withdraw funds from the FIA without incurring a surrender charge. There are no additional charges for a waiver.
- On the other hand, a Rider is an extra feature that can be added to an FIA and there are additional costs.

> Types of Riders:
- Death Benefit Rider
- LTC Rider
- Guaranteed Living Benefit (GLB) Riders

> FIA bonuses:
- Income bonuses; or
- Premium bonuses

Variable Annuity (VA)

> VAs address the risk of purchasing power. VAs offers a range of investment (subaccounts) options
- The value of the investment will vary depending on the subaccounts performance

> During the accumulation phase premiums purchase accumulation units:
- Net investment factor
- Accumulation unit value

> Contract owner assumes the investment risk of the subaccounts and is responsible for any taxes on payouts during accumulation phase of the VA.

> In 2019, 63% of all new VA sales were in qualified plans.[1]

Source:[1] IRA 2019 Annuity Fact Book; LIMRA SRI, 2019 Year End Sales Results; https://www.limra.com/globalassets/limra/newsroom/fact-tank/sales-data/2019/q4/4q-2019-annuity-sales-estimates-vfinal.pdf

Asset Management Tools*

- Dollar Cost Averaging (DCA) - invest equal amounts at regular intervals.
- Transfers between investment portfolios (may be limited)
- Portfolio Rebalancing (Monthly, Quarterly, Semi-Annual, Annual)
- Asset Allocation model portfolios
  - Volatility driven strategies
  - Momentum driven strategies
  - Tactically driven strategies
- Alternative investment portfolios

*The above mentioned asset management tools do not guarantee any investment return.

VA Fees and Charges*

- The charges and fees levied under a VA contract, while somewhat similar to those charged by FA contract, are subject to a greater degree of regulation due to the fact that VA are considered to be securities*.
  - Contract Expenses
  - M & E (asset based) charges
  - Management (Fund) Expenses and Fees (asset based)
  - State Premium Taxes (8 states: CA, FL, ME, NV, PR, SD, WV and WY)
  - Sales Charges/Surrender charges

*__Securities Act of 1933__ requires all fees and charges must be disclosed in the prospectus. The prospectus must be delivered to purchaser prior to sale. The __Securities Act of 1934__ requires VAs to be distributed through registered broker-dealer firms and their registered representatives.

M & E Fee

- The M&E Fee is based on investor's account value and pays for three important insurance guarantees:
  - A payout option that provides an income that cannot be outlived (annuitization) at rates set forth in the contract at the time of purchase; (Morbidity).
  - A death benefit to protect beneficiaries (Mortality);
  - The promise that the annual insurance charges will not increase (Expenses).
- M & E charges typically range from 0.85% to 1.95% (average of 1.25%)[1]
  - M & E charges are assessed daily and deducted on an annualized basis
  - Charges are only applicable to assets allocated into the variable subaccounts (Asset based pricing). Consist of the highest charges in the VA.

Source: [1] Morningstar; Insured Retirement Institute (IRI) 2019 Annuity Facts; https://awgmain.morningstar.com/webhelp/glossary_definitions/va_vl/pol_M_E_Risk.html

VA Sales Classes

> Determines the length of the surrender schedule on the contract:
- **A-share:** Up-front sales charge, instead of surrender charges. Offer breakpoint pricing. Have lower on-going annual M&E charges
- **B-share:** Contingent deferred sales charge schedule greater than three years, no front load (most prevalent VAs are B-share products).
- **C-share:** No surrender charges, offer full liquidity to clients at any time. C-shares make up 13% of VAs sold today.
- **I-share:** Purchased by investors who favor paying one fee to have their investment portfolio managed by a RIA, or fee-only advisor ("wrap-fee"). Represent about 6% of VAs sold today.
  L-share: No up-front sales charge, but usually 3-to 4 year surrender charge. M&E and administration fees higher than other share classes.
- **O-share:** Features of A&B shares. No up-front charges, but does have a deferred sales charge. During the surrender period, M&E expenses decline.
- **X-share (Bonus)**: Credit an additional amount or bonus to the contract value. Range from 1% to 6%.Contingent deferred sales charge, no front load, and contractual (i.e. non-optional) up-front premium bonus.

Access to Funds

> Prior to the annuity date (annuitization) the contract owner may request to receive the proceeds of a full or partial surrender (but may incur surrender charges)*
- Waiver of withdrawal charge for terminal illness
- Waiver of withdrawal charge for nursing home or hospital confinement (LTC Rider, or Chronic Illness Rider)

> Each contract year a free withdrawal amount is available without a withdrawal charge (typically 10% of purchase payments)
- Subject to ordinary income tax and possibly a 10% premature distribution penalty prior to age 59½ Qualified [IRC § 72(t)(1) and Non-Qualified IRC § 72(q)(1)]

* Investment return and principal value of an investment will fluctuate so that an investor's unit values, when redeemed, may be worth more or less than his or her original cost.

Death Benefit Protection Options

> A common feature of a VA is the death benefit if the contract owner dies during the accumulation phase, a deferred annuity will, at a minimum, pay the accumulation value to a named beneficiary.
- Some contracts allow the beneficiary to continue the contract.

> Most but not all, VA contracts provide a standard Guaranteed Minimum Death Benefit (GMDB) during the accumulation phase that is generally equal to the greater of:
- The contract value; or
- Premium payments less prior withdrawals.

> During the 2008-2009 financial crisis estimates of the unhedged GMDB exposure was as high as $15 billion.[1]

Source: [1]Insured Retirement Institute (IRI) 2018 Fact Book

Enhanced Death Benefit (EDB) Riders

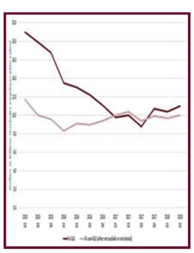
- EDB Riders to the contract for an additional charge
  - Contract Anniversary, or Ratchet GMDB (“look-back option”)
  - Initial Purchase Payment With Interest or Rising Floor
  - Enhanced Earnings Benefit helps pay Federal and State Income Taxes on gain of the contract (e.g., 40%)
  - Integrated Death Benefit (return of premium/no reduction)
- Additional considerations:
  - The EDBs described above may terminate once an income option starts and enters the payout phase of the contract;
  - Withdrawals during the accumulation (savings) phase will reduce the DB; and
  - Most optional EDBs must be elected when the contract is issued and cannot be canceled.

Living Benefit Protection Options

- Guaranteed living benefit riders were created back in 1996 - Implicitly create a “safety net” by creating:
  - Portfolio insurance - Which is especially valuable early in retirement.
  - Longevity insurance - By generating and guaranteeing lifetime income.
- Types of GLB riders:
  - Guaranteed Lifetime Withdrawal Benefit (GLWB) – most dominant/do not annuitize the contract.
  - Guaranteed Minimum Income Benefit (GMIB) – “annuitization”
  - Guaranteed Minimum Accumulation Benefit (GMAB) – “walk away”
  - Guaranteed Minimum Withdrawal Benefit (GMWB)
- These riders are optional and include an additional cost to the contract

GLB Election Rates

- Historically speaking GLB riders have been a driver of VA sales
  - In 2007 election rates for GLB riders were more than 90%.
  - As of the 4th Quarter of 2018, the GLB election rate was 75% of new premium, when a GLB was available.[1]
- Average age for buyers for VAs w/GLB riders is age 62.[2]
- The GLWB rider accounts for a significant majority of all GLB premium.



Source:[1,2]LIMRI SRI Annuity Buyer Metrics; LIMRA SRI GLB Election Rates 2nd Qtr. 2018; [2]LIMRI SRI *Annuity Buyer Metrics (2017)*.

GLB Rider Terms

> Benefit Base vs. Contract Value
> Rollups – Benefit base will grow at a fixed rate. Usually guaranteed minimum growth rate.
> Steps Up – steps up benefit base to a higher value. Increases the benefit base to the contract value
> Deferral Bonus –reward contract owner for delaying, or deferring withdrawals
> Combination of Step Up and Deferral Bonus (a "stackable" bonus)

LTC Protection

> PPA Act of 2006, Section 844 allows annuity contracts to have LTC riders designed to address aging Americans' concerns about long-term care [IRC § 7702B(e)(1)].
- Contracts permit owners to withdraw money from their contracts for LTC needs without incurring surrender charges.

> Some VA contracts provide GLWB features that double the income payment during a qualified LTC event, for example admission to a LTC facility or the inability to perform two or three activities of daily living (ADLs).
> Additional benefits may also be offered, such as eldercare resources, referral and consultation services from a specified group of providers.

Investment Only Variable Annuities

> A type of VA that allows your clients access to the tax-deferred wrapper and a wide range of investment options minus other benefit riders such as GLB riders.
> IOVA Features
- Advantageous for those facing higher tax rates
- Extensive array of investments (subaccounts 100+) including some "alternative investments" (real estate, hedge funds, emerging market debt, arbitrage and commodities) that institutional investors use
- Tendency towards lower M&E fees
- No guaranteed living benefit riders or only basic GMDB

> May not be suitable for older investors because clients' investment horizon is too short to make tax-deferral valuable enough to justify the purchase.

Registered Index Linked Annuities*

- RILAs (aka, structured or buffer annuities) are designed to balance personal risk tolerance with desire to access growth potential by combining hedging protection benefits with opportunities for growth.
- RILVAs propel VA growth[1]:
  - In 2019 RILAs sales were $17.4 billion, up 55%. RILA sales represent 17% of the VA market
  - Excluding RILA sales VAs would have dropped by 5% in 2019

Year	Total Sales
2014	$2
2015	$4
2016	$7
2017	$9
2018	$12
2019	$17.4

Source: LIMRA SRI, U.S. Annuity Year End Sales

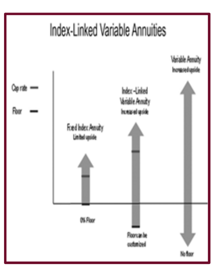
Source: LIMRA https://www.limra.com/globalassets/limra/newsroom/fact-tank/sales-data/2019/q4/4q-2019-annuity-sales-estimates-vfinal.pdf

How RILAs Work

- Returns are linked to an index over a period of time (1, 3, 5 or 6 years). Indexes: S&P 500®, NASDAQ 100, Emerging Markets and REIT Indexes. As well as money management indexes.
- Returns are subject to a performance cap or limit determined periodically by the insurer.
- Insurers use options to duplicate the performance of the index and to buffer a percentage (ie,-10%, -20% -25%, -30%) of the downside risk.
- Suitability: Investors with a risk tolerance less than that of a traditional investment-focused VA but greater than that of an FIA.

RILA Protection Strategies

- The protection strategies generally require the policy owner to assume some risk of loss.
  - As a result, RILAs generally offer higher cap rates than FIA, which provide principal protection.
- Generally, there are two RILA strategies:
  - One tends to offer more protection from lower-frequency, higher severity losses; and
  - Offers protection from higher-frequency, lower-severity losses.
- Buffer vs. The Floor



INCOME ANNUITIES

Income (Payout) Annuities

- The annuitants receive payouts contingent upon their survival or accord with other terms specified in the annuity contract
  - Convert existing annuity (Annuitization)
  - Single Premium Immediate Annuity (SPIA)
  - Deferred Income Annuity (DIA)
- The annuity payout rate is based on life of the annuitant (measuring life) and the rate of return that the annuity provider can earn on invested assets.
  - Fixed, Variable; or Combination (fixed and variable)
- Exclusion Ratio - IRC § 72(b)

SPIA

- A stream of income based on life of the annuitant (measuring life). Generally, makes first payment 30 days after purchase.
  - Fixed, Variable, or Combination (fixed and variable)
- Key Benefit: The Mortality Credit
  - Transfer income from individuals with shorter than expected life spans to those with longer life spans (mortality credits)
- Both the market risk and longevity risk are mitigated

Reminder: A SPIA can always pay out *more* than a bond ladder over a similar maximum retirement time horizon with identical underlying investments, simply because the investor can only spend principal and interest, while the insurance company can pay out the same principal and interest, *plus* mortality credits to account for those who won't live the whole time period.

Payout Options

- Single Life Only (purest form of annuitization)
- Refund Life
- Life with Period/Term Certain
- Joint Survivor Life
- Fixed-Period
- Fixed-Amount

Income Payment Options	Male Estimated Monthly Income	Cash Flow Payout Rate	Female Estimated Monthly Income	Cash Flow Payout Rate
SL no payments to beneficiaries	$483	5.79%	$458	5.49%
SL w/10 years certain	$480	5.76%	$457	5.48%
SL w/Cash Refund	$438	5.26%	$423	5.08%

Income Payment Options	Estimated Monthly Income	Cash Flow
JL 100% Survivor (no payments to beneficiaries)	$408	4.89%
JL with Cash Refund	$409	4.74%
5-Year Period Certain	$1,655	19.86%

Source: http://www.immediateannuities.com/; **Projected monthly payout on a $100,000 annuity purchased by a hypothetical 65-y.o. M/F.** Date 5-20-**20.** Cash flow –monthly income times twelve divided by the deposit amount. Cash flow percentage is significantly higher than the internal rate credited to the premium.

Deferred Income Annuity (DIA)

- With a DIA (aka, longevity insurance) a retiree can purchase a contract at one point in time (age 65), but defer payments for a later time (age 85). A hybrid SPIA - with an accumulation and distribution phase.
  - Provides a stream of guaranteed income payments for life beginning at a date chosen by the contract holder (e.g.; 2 - 40 years).
- The income guarantee is unaffected by fluctuations in market interest rates. And like a SPIA, the contractually guaranteed rate of the DIA is based on current mortality tables and rates.
  - The insurer can offer the guarantee because the date of annuitization is known in advance.
- The DIA's future guaranteed income requires a substantially lower outlay than that required of a SPIA. The average age of DIA purchaser is age 59[1]

Source: [1]LIMRA SRI, Annuity Buyer Metrics

Qualified Longevity Annuity Contracts

- QLAC is a form of DIA, that can be purchased inside an IRA and 401(k).
  - QLACs can lower RMDs by up to 25%[1]
- QLAC Rules:
  - Cannot be a VA or Index Annuity
  - Lesser of 25% or $135,000 (2020), (index to annual inflation amounts of $10,000 in future years).
  - Income start date must be no longer than one month past participant's birth month at age 85.
  - Income payments can increase in the future by additional riders: cost-of-living adjustments that are constant (1% to 5% increase) or by a index such as the CPI-U inflation index.
  - Income payments can be single or joint life, either life income or life income with cash refund and return of deposit death benefit is allowed before and after income commencement date, however amount can not be more than deposit.

Source: [1] MarketWatch, "How to reduce your RMD by up to 25%, August 13, 2014; http://www.marketwatch.com/story/how-to-reduce-your-rmd-by-up-to-25-2014-08-13

Annuity Regulation

Regulation of Insurance

> All fixed and variable annuities are governed by a comprehensive state regulatory framework.
- State laws govern the organization and licensing of insurance companies, and state insurance departments oversee insurance company operations.

> Annuity contracts and amendments must be filed with, and approved by, each state in which contracts are sold.
- Insurance agents (often referred to as "producers") need to be licensed in each state in which they operate. Only licensed insurance agents may sell annuity contracts. Insurance agents must be appointed with the insurance company (must also meet training and CE requirements).

> National Association of Insurance Commissioners – the nation's oldest association of state officials (1871).

Role of the NAIC

> Suitability in Annuity Transactions
- 2004 Senior Protection in Annuity Transaction Model Regulation - designed to help protect senior consumers when they purchase or exchange annuity products. Involves the sales of both fixed and variable annuities to seniors (age 65 and older).
- 2006 NAIC Revised the "Suitability Model" to have its requirements apply to all consumers regardless of age.
- The 2010 NAIC Suitability in Annuity Transactions Model Regulation (#275) amended the 2006 Suitability Model.
- On February 13, 2020, the NAIC Executive Committee and the Plenary voted to accept the recommendations to amend the Suitability in Annuity Transaction Model (#275) with a best-interest standard.

NAIC Amended Model #275

> The amended Model articulates a best interest standard:
- Section 1A Purpose: Require producers to act in the best interests of consumer when making a recommendation of an annuity
- Section 6A: Producer shall act in the best interests of consumer by meeting the following obligations: Care; Disclosure; Conflict of Interest; and Documentation.
- Section 6E: Provides a safe harbor for recommendations and sales of annuities made in compliance with comparable standards (SEC) shall satisfy the requirements under this regulation.
- Section 7A: A producer shall not solicit the sale of annuity product unless the producer has adequate knowledge of the product and has gone through insurer's product training standards and has met new minimum 4 credit CE course

New Consumer Profile Information

Information (14 points) that is reasonably appropriate to determine whether a recommendation addresses the consumer's financial situation, insurance needs and financial objectives including:

Age*	Insurance Needs	Existing assets of financial products, including investment, annuity and insurance holdings	Financial resources used to fund the annuity
Annual Income	Financial Objectives	Liquidity needs	Tax status
Financial situation and needs, including debts and other obligations	Intended use of the annuity	Liquid net worth	
Financial (Investment) Experience*	Financial time horizon*	Risk tolerance, including but not limited to, willingness to accept non-guaranteed elements in the annuity;	

In performing a suitability analysis for an annuity, the producers must collect information on insurer's *Suitability Profile* form (check with your insurer). * FINRA 2111 requirements. California added a point requesting information on reverse mortgage liabilities.

Dodd-Frank Wall Street Reform Act

> States must comply with the Federal Dodd-Frank Wall Street Reform and Consumer Protection Act, specifically Title IX, Subtitle I, Section 989a of the state's adoption of suitability requirements that meet or exceed the 2010 NAIC's Suitability in Annuity Transactions Model Regulations
- Harkin Amendment-The Restoring American Financial Stability Conference Amendment.

> States must adopt if they are to regulate Index Annuities
- Prior to the amended Model regulation, 46 states and the D of C had adopted the 2010 Suitability in Annuity Transactions (AR, NM, NV, VT, did not adopt, and NC developed their own training requirement). States will have to now decide to accept the amended version of the Suitability in Annuity Transactions Model (#275).

SEC/FINRA Suitability

- **FINRA Rule 2090** - The know-your-customer rule will require every member firms to "use reasonable due diligence" in regards to the opening and maintenance of every account, and to know the essential facts concerning every customer.
- **FINRA Rule 2111** - The new "suitability rule" requires a member firm or associated person to have a reasonable basis to believe that a recommended transaction or investment strategy involving any security or securities is suitable for the customer, based on the information obtained through the reasonable due diligence.
- **FINRA Rule 2330** - Applies to recommended purchases and exchanges of Deferred VAs and recommended subaccount allocations.
  - Suitability and Disclosure (FINRA Rule 2111).
  - Principal review and approval
  - Supervisory procedures.
  - Training policies

SEC Best Interest/Fiduciary

- SEC: Regulation BI becomes effective July 1, 2020
  - Establishes a standard of conduct for BDs when making recommendations to a retail customer of any securities transaction or investment strategy involving securities
  - Reg. BI enhances the BD standard of conduct beyond existing suitability obligations, and aligns the standard of conduct with retail customers' reasonable expectations
  - BD's are now required to act in the best interest of the retail customer at the time of the recommendation is made, without placing the financial interest of the BD ahead of the interests of the retail customer, address conflicts of interest.

State Initiatives

- NY Regulation 187
- Massachusetts (does not cover sales of variable annuities)
- Nevada
- Connecticut
- New Jersey
- Illinois

The End

Electronic Exam

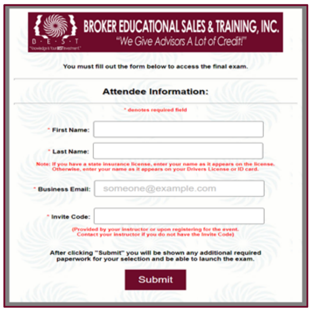
- State may require a Disinterested Third Party Form.
  - Fill out form on the computer and submit to BEST; or
  - Copy and fill out, scan and email to BEST.
- Exam will be available for 10 business days to complete.
- Exam will be graded instantaneously (unlimited retakes)

Electronic Exam Link

https://selfstudyce.brokered.net/virtual/

Invitee Code: 41100

Virtual Super CE – Step by Step



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States With Monitor/Attestation Form

AR	HI	MS	VA
CT	IN	MT	WV
DC	ME**	NC*	WY***
FL*	MI*	OH*	
GA	MO	OR	

States requiring a Third Party Monitor; * States that require a Personal Attestation Form. ** ME no requirement if credit is under 16 hours. WY allows a family member as a Monitor. To receive CE credit the Form must be returned to BEST.

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Thank You
for attending the webinar

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