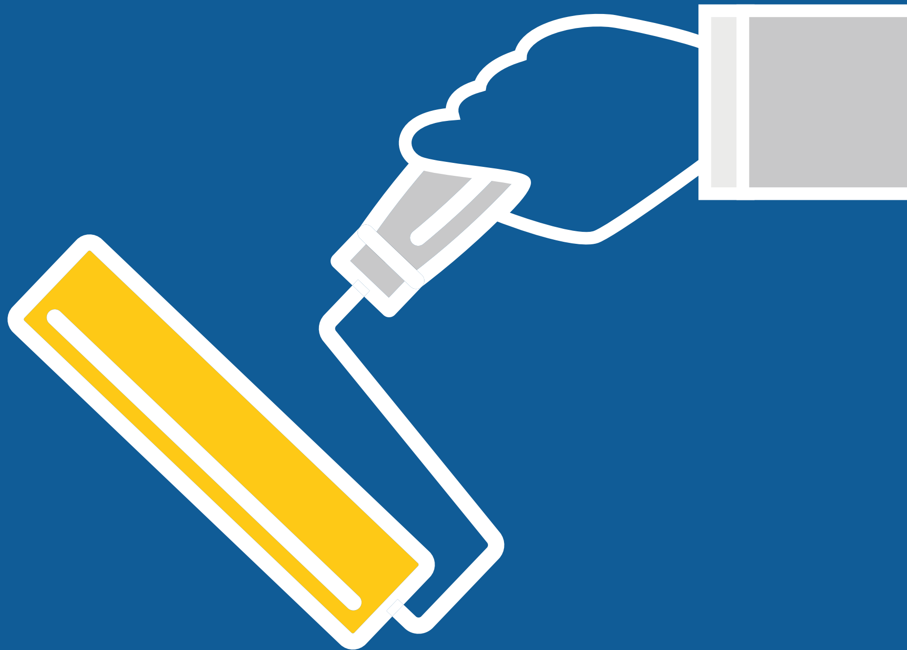
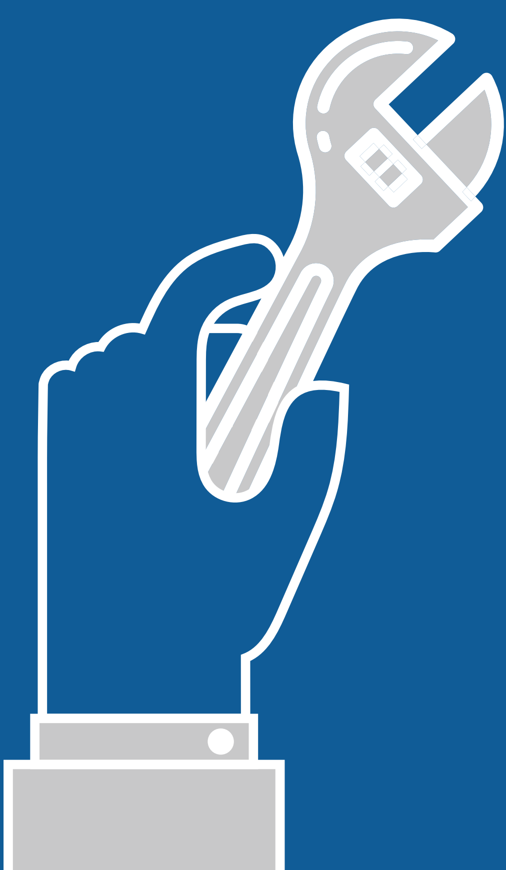


BEST INTEREST BEST PRACTICES TOOLKIT

A GUIDE FOR INSURANCE AGENTS AND ANNUITY PROFESSIONALS



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THE BEST INTEREST STANDARD FOR ANNUITY TRANSACTIONS

In February 2020, the National Association of Insurance Commissioners (NAIC) adopted revisions to its Suitability in Annuity Transactions Model Regulation (MDL 275) that replaces the suitability standard with a best interest standard. This new best interest obligation requires an annuity professional to act in the best interest of the client when making an annuity recommendation under the circumstances known at the time the recommendation is made, without putting his or her financial interest ahead of the client, so that the insurance needs and financial objectives of the client are effectively met.

To comply with this standard, four obligations must be satisfied: Care, Disclosure, Conflict of Interest, and Documentation.

This guide is intended to provide annuity professionals with information and suggested best practices regarding their duties to act in their clients' best interest under the 2020 model regulation.[1]

FOUR OBLIGATIONS REQUIRED UNDER BEST INTEREST

I. CARE OBLIGATION

When making an annuity recommendation, you must exercise reasonable diligence, care, and skill in doing ***all*** of the following:

1. KNOW YOUR CLIENT'S FINANCIAL SITUATION, INSURANCE NEEDS, AND FINANCIAL OBJECTIVES.

   - ✔ You must **make reasonable efforts to obtain your client's profile information** prior to making the recommendation. If you haven't already done so, create an intake form for use in discussing with your client the information necessary to understand his or her financial situation, insurance needs, and financial objectives, including all of the information listed under the "consumer profile information" as defined in the revised model regulation. NAFA has developed a sample consumer profile information intake questionnaire for your use.

[1] Note: This guidance does not include a discussion of the additional producer training requirements required under the revised MDL 275. Generally, the producer training requirements remain the same, requiring product specific training and the completion of a one-time four (4) credit training course; however, the topics to be covered in the 4 CE course now include training on the new best interest standard of conduct. For producers who have already taken the training course under the old version of the model regulation, they must take either a new 4-credit course or an additional one-time 1-credit training course on the appropriate sales practices, replacement and disclosure requirements under the amended regulation.

2. MAKE A REASONABLE INQUIRY REGARDING THE ANNUITIES AVAILABLE TO YOU AND UNDERSTAND THOSE OPTIONS.

   ✔ You must **consider the type of products that you are authorized and licensed to sell**. You are not required to consider any products outside your authority or licensure, nor are you required to consider other possible alternative products or strategies available in the market.

   - However, producers appointed with multiple carriers will need to review and consider the annuities offered by each of those companies when conducting their analysis.

3. HAVE A REASONABLE BASIS TO BELIEVE THE ANNUITY OPTION YOU RECOMMEND WILL EFFECTIVELY ADDRESS YOUR CLIENT'S FINANCIAL SITUATION, INSURANCE NEEDS, AND FINANCIAL OBJECTIVES OVER THE LIFE OF THE PRODUCT AS EVALUATED IN LIGHT OF THE CLIENT'S PROFILE INFORMATION.

   ✔ You must **have a reasonable basis to believe your client would benefit from certain features of the annuity**, such as annuitization, a death or living benefit, and other insurance-related features. Such consideration applies to the recommended annuity as a whole, as well as the underlying subaccounts to which funds are allocated at the time of purchase or exchange and any riders or similar product enhancements.

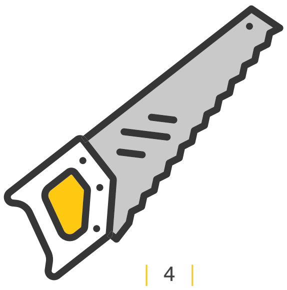
   - The factors you consider in making a determination to recommend a particular annuity product — such as product costs, rates, benefits and features, as well as insurer characteristics and client information — may vary depending on the facts and circumstance of each case, but **you must not consider these factors in isolation**.

   ✔ In the case of an exchange or replacement of an annuity, you must **consider the whole transaction and take into consideration whether the replacing annuity will *substantially* benefit your client over the life of the product in comparison to the replaced product** and whether the client has had another annuity exchange or replacement, in particular within the preceding five years.

   - MDL 275 does not define or elaborate on what is meant by "substantially." Financial professionals should nevertheless carefully consider the extent to which the replacing annuity would better address the consumer's insurance needs and financial objectives.

4. COMMUNICATE TO THE CLIENT THE BASIS OR BASES FOR YOUR RECOMMENDATION.

   ✔ You must **communicate to your client why you are making the annuity recommendation that you are**. Note that this communication may be provided verbally or in writing; however, you are required under the Documentation obligation (and also under record-keeping requirements) to make a written record of your recommendation and the basis for the recommendation, even if you don't provide such a written summary to your client.



II. DISCLOSURE OBLIGATION

Under the Disclosure obligation, producers must "prominently disclose" to the consumer certain things related to (1) the producer's business and professional information; (2) the types of financial products the producer is licensed and authorized to sell; (3) whose annuities that the producer is authorized to sell; and (4) how the producer is paid.

In addition, the producer is required to provide notice to the consumer that he or she may request additional information regarding the cash compensation received for the annuity transaction. Both the producer and the consumer are required to acknowledge that these disclosures have been made and that the consumer understands the disclosure information. The NAIC model regulation includes all of this disclosure information in a form appended to the regulation: **Appendix A – INSURANCE AGENT (PRODUCER) DISCLOSURE FOR ANNUITIES**. Producers are required to use this form or one that is substantially similar to Appendix A.

If the consumer does request additional information related to cash compensation, the producer is required to disclose a reasonable estimate of the amount of cash compensation (stated either as a range of amounts or percentages) and whether the cash compensation is paid as a one-time or multiple occurrence.

The model regulation's Disclosure obligation also requires the producer to have, prior to or at the time of the recommendation, a reasonable basis to believe that the consumer has been informed of the various features of the annuity, including: the potential surrender period and surrender charge; potential tax penalty if the consumer sells, exchanges, surrenders, or annuitizes the annuity; mortality and expense fees; investment advisory fees; any annual fees; potential charges for and features of riders or other options of the annuity; limitations on interest returns; potential changes in nonguaranteed elements of the annuity; insurance and investment components; and market risks. (Note: Having a reasonable basis to believe that the consumer has been informed of these various features of the annuity is not part of the information that is required to be included on the disclosure form/Appendix A. Nevertheless, it is a good practice to document that you have provided this information to the consumer.)

III. CONFLICT OF INTEREST OBLIGATION

Within the Conflict of Interest obligation, producers are required to "identify and avoid or reasonably manage and disclose material conflicts of interest, including material conflicts of interest related to an ownership interest." Having an ownership interest refers to having a legal or financial interest in the company issuing the annuity that the producer is recommending. Examples of other potential material conflict of interest could include situations where:

- The producer has made a personal loan of money to the client (or has accepted such a loan from the client)
- The producer is acting in the capacity of both a producer and attorney for the customer
- The producer acts as an owner, beneficiary, or assignee of the annuity being recommended and sold, either directly or indirectly through a corporation, partnership, or other legal entity

The regulation defines material conflict of interest to mean "a financial interest of the producer in the sale of an annuity that a reasonable person would expect to influence the impartiality of a recommendation." However, cash compensation or noncash compensation received by a producer in connection with the recommendation or sale of an annuity is not considered a material conflict of interest.

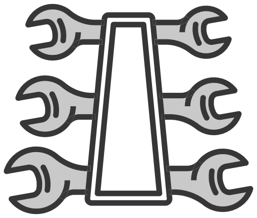
The NAIC has issued an exposure draft of an FAQ document that is intended to provide guidance on how to satisfy the Conflict of Interest obligation. In some instances, material conflicts of interest can be managed by (1) informing the client of the conflict; (2) answering any questions that the client may have regarding the conflict; and (3) confirming that the client is willing to continue working with the producer on the particular transaction. In other instances, informed disclosure and client consent may not be sufficient. The NAIC suggests that, in those situations, the producer could consult with his or her manager, supervisor, and agency principal to assess whether the conflict is inappropriately influencing the impartiality of the recommendation. If potential material conflicts of interest cannot be effectively mitigated through these measure, producers would have to avoid the activity or relationship that gave rise to the conflict or, in the alternative, abstain from making the recommendation.

IV. DOCUMENTATION OBLIGATION

Under the requirements to satisfy the Documentation obligation, a financial professional must make a written record of any recommendation and the basis for that recommendation. Recall that the basis or bases for the recommendation must be communicated to the client, but the model regulation allows producers to communicate that information either orally or through writing. Therefore, while the basis/bases of the recommendation need not be provided to the client in a written format as part of the sales transaction process, the producer must nevertheless document in writing the reasons why a particular annuity was recommended.

And, while not part of the best interest Documentation obligation, under the revised model regulation's record-keeping requirements, producers must maintain and be able to make available to the Commissioner of Insurance disclosures made to the consumer, including summaries of oral disclosures, as well as other information used in making the recommendation that was the basis for the transaction for a certain number of years (as determined by each state) after the transaction is completed.

Because documentation and record-keeping protocols and the requirements around that documentation are so critical to demonstrating a producer's compliance with the new best interest standard for annuity transactions, the remainder of this guide addresses the creation, management, and maintenance of the client file.



Best Interest Documentation Obligation and Record-Keeping Requirements:

CLIENT FILE GUIDANCE FOR PRODUCERS

As discussed previously, one of the four obligations that must be met under the new best interest standard in the revised Suitability model regulation is Documentation. In addition, the revised MDL 275 requires producers to maintain and be ready to make available to the Commissioner of Insurance records relating to the sales transaction process, as well as the disclosures (both oral and written) that were made to the client.

Documentation can be one of the most powerful methods of reducing risk. In many cases that involve consumer complaints or regulatory investigations, there will be two versions of the event in question — your version and the version put forward by the consumer or the regulator. What typically "breaks the tie" in these cases is documentation.

Accordingly, the quality of your documentation process — what you document, how you document it, and how you maintain it — creates critical evidence that can help or hurt you.[2] Ideally, a client file will include evidence that all aspects of the solicitation, sale, and servicing of the client were handled properly.

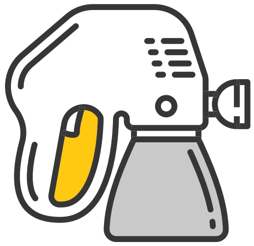
A client file should, to the extent possible, tell the complete story of everything that happened with the client and be able to "stand on its own."

A regulator, litigation attorney, or other reviewer of a client file could draw conclusions and make decisions based solely upon their review of the client file. As a result, it is important to fully document activities involving the solicitation, sale, and servicing of the client. And, to the extent possible, you should keep all of the documentation together as it relates to a particular client to facilitate efficient retrieval for both business purposes and in response to a potential regulatory demand.[3]

To accomplish these goals, you should have a process in place that helps ensure consistency in how client files are created and demonstrates that your client files are handled the same way for all clients. Inconsistent use of documents or recording of notes could raise questions about why information is gathered from some clients and not others, why some disclosures are made to some clients and not others, etc. A process helps eliminate these potential issues. As with any process, if an exception is needed for practical reasons, it should be documented in the file accordingly.

[2] This guidance document is provided as a reminder of what should be included in your documentation. It is intended to provide you with general information about documentation and should not be considered all-inclusive. Situations vary and should be considered on a case-by-case basis. You should conduct your own research to determine documentation requirements and consult with your attorney if you have any questions. **This is not intended to be, nor is it, legal advice**.

[3] It is advisable to maintain separate RIA files, broker-dealer files, other insurance product files, and files for other lines of business in order to produce only that which is required in response to a regulatory or legal demand for client files.



General Guidelines for Client Files

A client file should:

- Only contain accurate and truthful information.
- Contain documentation that clearly demonstrates what happened in all aspects of the solicitation, sale, and servicing of the client, such as sales materials used with the client; notes regarding your discussions with the client, any analysis of the client's financial situation, insurance needs, financial objectives, and other consumer profile information; product recommendations and the basis or bases for the recommendations; product applications, etc.
- Contain information that is not contradictory or conflicting (for example, a CRM note that indicates the client declined to meet with you, but then shows that the client purchased a product should be explained, as it would seem to be contradictory on its face).
- Reference any insurance carrier materials utilized in the transaction.

  NOTE: Product and/or insurer-related sales and marketing materials should not be altered in any way (e.g., highlighted, items circled, items crossed out, written on, or otherwise contain any markings) to avoid the appearance that certain information was emphasized or create doubt that certain information was neglected or de-emphasized.
- Be legible (if handwritten) and dated.
- Be written in a professional and factual manner and not include emotional or unprofessional commentary. Consider the implications of having a plaintiff attorney show an unprofessional note in your client file to a judge/jury.
- Be detailed enough to explain what happened, but not so specific that it can create additional questions about what happened or didn't happen. (Additional guidance on this topic is provided in this document.)
- Be complete, with all relevant documentation included and unaltered.
- Be retained for at least the minimum period of time required by applicable laws and regulations.

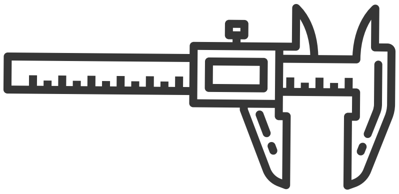
If you are requested to provide client files in response to a regulatory demand or legal subpoena, do not "scrub" the files or discard anything (one possible exception would be something that was misfiled and belongs in a different file). And, do not alter any of the contents of a client file or create any fictitious documentation.

Examples of things that *should be* in a client file:

- Advertising and marketing materials that were used with the client (seminar mailer, website response, seminar handouts, response forms, fliers, charts, etc.).
- How appointments were set (emails, phone call notes, virtual meeting service, etc.), and appointment details such as where the appointment occurred (in-person, over the phone, online, etc.), date/time, and who attended.
- All sales materials, illustrations, brochures, drawings, etc. that were used with the client.
- Notes from all contacts (meetings, phone calls, emails, policy delivery, annual reviews, etc.).
- Notes and documentation from the analysis utilized to determine the recommended product(s) for the client, including products considered and presented, and why they were in the client's best interest.
- All insurance carrier documents (product applications, disclosure documents, consumer profile/best interest forms, financial questionnaires, illustrations, change of beneficiary forms, allocation change forms, etc.) or other documents used with the client. These should be properly completed.
- Copies of documents supporting information obtained from the client including, but not limited to, profile information intake forms, account statements, bank statements and contracts.
- Other documents (output from software utilized, documents provided after the sale, written consumer complaints, correspondence with insurance carriers or other relevant parties, etc.) and any other relevant materials, notes, communications, or analysis.
- Notes regarding all client contacts (e.g., calls to confirm attendance at seminars, calls to confirm appointments with agents).
- All other events (e.g., sent application to insurance carrier, follow-up for missing information, or receipt of new signed document from client).

Examples of things that *should not be* in a client file:

- If a paper document has both an "agent copy" and a "client copy," then the "client copy" should not be in the client file because it should have been provided to the client.
- Blank, signed documents or partially completed, signed documents. Clients should never sign blank or partially completed documents. The client signature is attesting to the information on the document at the time it is signed.



- Documents that have been altered after the client signature has been obtained. The client signature is attesting to the information on the document at the time it is signed. Insurance carriers have different standards and procedures for handling situations where information is missing or needs to be amended after the client has signed the document. Insurance carriers should be contacted to receive guidance on how to properly convey the information or changes to them.
- "Ad hoc" drawings, charts, etc. should generally be avoided when working with clients. If used, they should become part of the client file as they were part of the sales/solicitation/servicing process.
- Short notes that would likely not make sense to someone reviewing the client file.
- Contracts/policies. These should be delivered to the client and not retained by you.

DOCUMENTING CLIENT MEETINGS AND OTHER COMMUNICATIONS WITH CLIENTS

Notes documenting client meetings should, at a minimum, include:

1. Who was at the meeting
2. The date and time of the meeting
3. The type of meeting (in person, over the phone, via internet, etc.)
4. The location of the meeting, if in person
5. The reason for the meeting (referral from another client, follow-up meeting after the [date] lunch seminar, existing client called with question, etc.)
6. A description of what was discussed and any decisions that were made, if applicable
7. An indication of any subsequent action that is needed or contemplated (e.g., scheduled a follow-up meeting at client's home on [date/time] to complete product application)

You should take notes during client meetings and phone calls on a dedicated notepad or through digital means to assist with recalling what transpired. These notes should not be shown to, or shared with, the client. The initial notes taken by you for your personal use to record the final notes do not need to be retained once the final notes have been recorded. Notes should not be taken on a physical client file folder or any other documentation within a client file (for instance, on the product application or disclosure form), as the notes would need to remain part of the client file, which could be subject to interpretation by a reviewer, creating potential risk.

"Ad hoc" drawings, charts, notes, etc. should generally be avoided when working with clients. If they are used, they become part of the client file, as they were part of the sales/solicitation process. This can create many problems; these types of informal notations are generally incomplete or immaterial and may suggest that key information was not covered or was miscommunicated to the client. To the extent possible, insurance carrier materials should be utilized with clients to describe products and answer questions. All materials shown to clients (including handwritten descriptions, drawings, etc., if used) should be retained in the client file as they are part of the solicitation, sale, or servicing of the client.

After the client meeting or phone call, you should refer to your notes and formulate how to record the notes. It is important to remember that the notes will become a permanent part of the client file. Accuracy and context are important. It is therefore recommended that you take a moment to consider the language that will be used.

For example, suppose you meet with a client who is considering the purchase of an FIA. The client asks how the bonus works for a specific product, and you walk her through the applicable section of the insurance carrier's consumer brochure. After the meeting, you could choose to record, "The client asked about the bonus, and I answered her question." This approach would help document that the client was interested in how the bonus worked and that you answered her question. However, it still leaves some questions. ***Did you answer the question correctly? Did the client understand the answer?***

Suppose you had instead chosen to record, "The client asked about how the bonus works, and I explained how the 22% and 50% bonuses work on the product. She was satisfied with the answer." This approach provides greater specificity regarding your answer, but still leaves some potential concerns. ***Did you answer the question correctly? Did you distinguish that the 22% premium bonus applies to the premium placed into the annuity in the first contract year and that the 50% bonus is an interest bonus that applies to interest credited to the contract? Did you explain the conditions under which the client can realize the benefit of the bonuses?*** *It can be helpful to provide some detail in the client notes, but too much specificity can create risk by causing a reviewer to question the accuracy and completeness of what was said, and whether relevant information was excluded from the explanation.*

Now suppose that you had instead chosen to record, "The client asked about how the bonus works on the ABC 123 Product, and I walked her through the bonus section in the ABC Company consumer product brochure. She indicated that she understood how the bonus works, and I gave her the brochure to take home." While an experienced regulator can always come up with additional questions, this approach will likely reduce risk for you. It demonstrates that the answer provided was from compliance-approved, insurance carrier-provided materials; provides specificity about how the question was answered without going into unnecessary detail; and shows that the client was given an insurance carrier resource to refer to at her convenience if she had additional questions.

Notes should also be made to document policy delivery. It should be documented in the client file that the client received the contract, even though it is documented on the policy delivery receipt.

DOCUMENTING THE BASIS OR BASES FOR THE RECOMMENDATION

As previously discussed, to satisfy the Care obligation in making an annuity recommendation, a producer must know the consumer's financial situation, insurance needs, and financial objectives; make a reasonable inquiry into the annuity options available to the producer and understand those options; have a reasonable basis to believe the recommended product effectively addresses the consumer's financial situation, insurance needs, and financial objectives as evaluated in light of the consumer profile information; and communicate the basis or bases of the recommendation to the consumer. *Recall that this communication to the client may be provided orally or in writing, but the producer is required to make a written record of the recommendation and the basis for that recommendation as part of the best interest standard's Documentation obligation.*

A needs analysis must be completed for the client to ensure that any product recommendation effectively addresses the client's financial situation, insurance needs and financial objectives, and this process begins with obtaining the client's profile information. Gather supporting documentation from the client whenever possible to corroborate the information they provide you. Retaining copies of bank statements, brokerage account statements, and other financial documentation demonstrates a higher level of due diligence when making best interest recommendations and helps producers and carriers defend against potential consumer complaints. Make copies of supporting documentation to keep in the client file. (Do not keep originals; originals should remain with the client.)

Having a "reasonable basis to believe" that the recommended annuity is in the client's best interest requires more than just completing the consumer profile information intake form or agent disclosure form. In addition to knowing the client's financial situation, insurance needs and financial objectives, the characteristics of the insurer and the annuity costs, rates, benefits and product features — such as annuitization, death or living benefits, or other insurance-related features — are other relevant factors in making a best interest determination. Satisfying the best interest requirements involves discussing the recommended product, its available features, benefits, charges and restrictions, and documenting the reasons why you determined it to be in the client's best interest. Documenting your analysis and reasoning behind the recommendation is critical to helping provide evidence that you did your job and recommended an annuity that was in the client's best interest.

The selection of products to be presented to a client should be based on an analysis of the client's financial situation, insurance needs, and financial objectives and the recommendation should be tailored to the client's specific needs. For example, if the client is primarily concerned with accumulation potential, then products better suited to accumulation should likely be selected. If the client is primarily concerned with income, then perhaps products with better income riders or other income features may be appropriate. If multiple products are presented to the client, the analysis for how those products were selected, and any applicable riders, should also be documented. Why the client selected a specific product should also be documented to demonstrate the analysis utilized by the client in choosing the recommended product.

DOCUMENTATION CHECKLIST FOR YOUR RECOMMENDATION

- Did you obtain all of the client's profile information?
- What products were considered for the client? (e.g., MYGAs, SPIAs, FIAs, etc.)
- Why were those products considered out of all the products currently available to you?
- How do the products you considered meet the client's financial situation, insurance needs, and financial objectives over the life of the product(s) (immediate annuitization for retirement income, tax deferred interest, death benefit, etc.)?
- What product or products did you ultimately select to recommend to the client?
- What analysis was utilized to select the recommended product(s), and why do you reasonably believe the recommended product(s) effectively address the client's financial situation, insurance needs, and financial objectives? (Did you consider insurance carrier ratings, available riders, product costs, underlying subaccounts, length of the surrender charge period, crediting rates, and other features?)
- Did you communicate the basis or bases of your recommendation to the client?
- How did you communicate this to the client?
- Have you reviewed your documentation to ensure, when regarded as a whole, there is:
    - Adequate documentation of the analysis of the client's profile information to determine or "know" their financial situation, insurance needs, and financial objectives?
    - Adequate documentation of your analysis of the products available to you to offer and a reasonable basis for determining that your recommendation is in the best interest of the client?

IN THE CASE OF AN EXCHANGE OR REPLACEMENT

- Did you consider any surrender charge that may be incurred, the new surrender charge period, any loss of existing benefits (such as death, living, or other contractual benefits), potential fees and/or charges for the new annuity, rider charges, etc.?
- Does the recommended replacement annuity substantially benefit the client in comparison to the replaced product over the life of the contract?
- Has the client had another annuity exchange or replacement — in particular within the preceding five years (60 months)?

DOCUMENTING SITUATIONS WHERE A SALE DOES NOT OCCUR

If, in the end, the client or prospective client does not purchase an annuity, a note should be made to document that fact along with a brief explanation of why. For example, you might note *"An FIA didn't appear to be suitable due to the client's lack of liquidity,"* or *"The client chose to keep her existing portfolio and isn't interested in a purchasing an annuity at this time."* It is important to document situations when a sale isn't made to provide additional evidence that a best interest analysis was nevertheless completed and that you made an annuity recommendation that was is in the client's best interest.[4] If you plan to follow up with the client at some later date, this should also be documented with a brief explanation: *"The client agreed that we would schedule a meeting in a year to discuss her financial situation/insurance needs/financial objectives again."*

DOCUMENT MAINTENANCE AND RETENTION

Client files should be retained in accordance with regulatory requirements; the number of years that documents are required to be retained varies by state. You should be able to easily and reliably gather all relevant documentation that is considered to be the "client file," whether that file is hardcopy, digital or some combination of both.

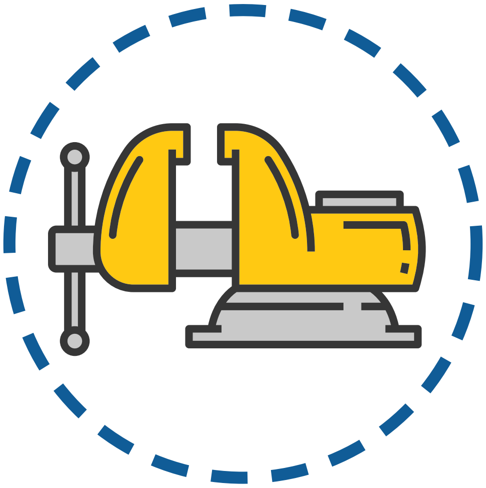
If you rely on hardcopy (paper) client files, but input all of your client interactions and other notes into a CRM, you should be able to easily print the relevant client activity from the CRM and place it into the hardcopy files. However, it can become very cumbersome — and thus more difficult to reliably produce a complete client file — if the critical information is stored in too many places (e.g., seminar invitations in an email to a third-party vendor, versions of a seminar in a marketing database, meeting dates/times in an electronic calendar on your cell phone, phone call notes handwritten in a day planner, product applications in a paper file, etc.). Consolidating all relevant documentation into a single client file will help ensure that a client file can be more readily defined and accessible in the event that files must be produced in response to a regulatory or legal demand. It will also allow for all materials to be easily backed up if they are retained digitally.

If you rely on digital client files, ensure that digital storage is Write-Once, Read-Many (WORM) compliant and follows acceptable data back-up protocols. Don't destroy paper documents until you verify that the digital copy is complete and legible and has been saved into your electronic storage system. Safeguard against the ability to delete files, limit who is granted access to the files (give permission to only those people who need access), and ensure robust data security exists for the digital client files.

[4] The revised MDL 275 provides two additional appendices for situations where the consumer refuses to provide some or all of the consumer profile information (Appendix B) and where the consumer decides to purchase an annuity that is not based upon a recommendation by the producer or agent (Appendix C). In both these situations, the consumer acknowledges that he or she may lose protections under state insurance laws.

CONCLUSION

Since finalizing the revisions to MDL 275 in February 2020, a number of states have already adopted, or are in the process of adopting, the new best interest standard. In several of these states, the new regulations became effective January 1, 2021, and, as anticipated, we are experiencing even greater state activity in 2021. Meanwhile, insurance companies are busy putting in place internal systems and protocols to comply with the new standard. Accordingly, producers and annuity professionals should expect to operate in a "best interest world" going forward, and these best interest best practices guidelines are intended to assist you in developing the tools you need to act in the best interest of your clients when making annuity recommendations, demonstrating that you have satisfied your obligations under a best interest standard of conduct.



Acknowledgement: NAFA would like to extend a sincere "thank you" to Summit Compliance Group for their contributions to and support in generating this toolkit.

CONSUMER PROFILE INFORMATION INTAKE QUESTIONNAIRE

NAFA®

NATIONAL ASSOCIATION FOR FIXED ANNUITIES

CONSUMER PROFILE INFORMATION INTAKE QUESTIONNAIRE

Date: ______________________________

CONSUMER PROFILE INFORMATION

1. Current Age   Annuity Owner 1 ____________   Annuity Owner 2 *(if applicable)* ____________

2. Annual Gross Income *(include all sources of income)* $ ______________________________

   Sources of Income *(please check all that apply* ☐ Salary (W-2) ☐ Pension Plans ☐ Investments

   ☐ Reverse Mortgage ☐ Social Security ☐ Other ______________________________

3. Financial Situation/Needs (including debts and other obligations)

   Do you have outstanding mortgage debt? ☐ Yes ☐ No

   Do you have other outstanding loans *(e.g., student loans)*? ☐ Yes ☐ No

   Do you have significant and/or atypical financial obligations? ☐ Yes ☐ No

4. Financial Experience

   Have you had experience with any of the following investment and/or insurance products? If yes, for how long?

☐ Mutual Funds ______ Years	☐ 401(k) Plans ______ Years	☐ Stocks ______ Years
☐ Bonds ______ Years	☐ CDs ______ Years	☐ Savings Accounts ______ Years
☐ Life Insurance ______ Years	☐ Annuities ______ Years	☐ Other ______ Years

5. Insurance Needs *Describe your current insurance needs:* ______________________________

   ____

6. Financial Objectives *Describe your current financial objectives:* ______________________________

   ____

7. Intended Use of the Annuity

   Why are you purchasing this annuity? *(check all that apply)*

☐ Immediate Income	☐ Death Benefit	☐ Retirement Security	☐ Estate Planning
☐ Safety of Principal	☐ Stable Income Growth	☐ Tax Deferral	

   ☐ Other Assets ______________________________

8. Financial Time Horizon

If you are currently employed or working, when do you plan to retire? ____________

If you are not currently receiving SSI, when do you plan to begin taking SSI? _____________

9. Existing Assets or Financial Products *(including investment, annuity and insurance holdings)*

☐ Whole Life ☐ Mutual Funds ☐ 401(k) Plans ☐ Indexed Annuities
☐ Indexed Life ☐ Stocks ☐ CDs ☐ Fixed Annuities
☐ Term Life ☐ Variable Annuities ☐ Savings
☐ Other Assets ____

10. Liquidity Needs

What do you project you will need for living expenses, including medical expenses and emergencies?

____

11. Liquid Net Worth *(including assets that can be easily converted to cash, without incurring penalty charges, after purchasing this annuity; do not include funds from a reverse mortgage)* $ _________________________

After the purchase of this annuity, will your income and liquid net worth be enough to cover living expenses, including medical expenses and emergencies? ☐ Yes ☐ No

After the purchase of this annuity, how many months of living expenses can your current Liquid Net Worth cover?

☐ 1-3 months ☐ 4-6 months ☐ 7-12 months ☐ 13+ months

12. Risk Tolerance What is your risk tolerance?

☐ Conservative (low risk) ☐ Moderately Conservative ☐ Moderate

☐ Moderately Aggressive ☐ Aggressive

Some elements of an annuity used to calculate its benefits may be subject to the discretion of the issuer and are not guaranteed at issue, such as the interest crediting method. Are you willing to accept such non-guaranteed elements? ☐ Yes ☐ No

13. Financial Resources Used to Fund the Annuity

What source (s) of funds will you use to purchase this annuity? Check all that apply.

☐ Savings ☐ Annuity ☐ Stocks ☐ Retirement Account
☐ Reverse Mortgage ☐ Bank CD ☐ Bonds ☐ Home Equity Loan
☐ Money Market ☐ Life Insurance ☐ Mutual Funds ☐ Gift
☐ Other *(please list)* ____

Will you incur any potential charges or penalties from using the above funds?

☐ Yes ☐ No *If YES, amount* $_________________

Is the source of funds from a previously owned life insurance policy or annuity contract?

☐ Yes ☐ No *(If YES, see Question 16)*

14. Tax Status What is your estimated federal income tax bracket?

☐ 0% ☐ 10% ☐ 15% ☐ 25% ☐ 28% ☐ 33% ☐ 35% ☐ 39%

15. Reverse Mortgage Have you taken a reverse mortgage, or do you intend to take a reverse mortgage in the next 12 months?

☐ Yes ☐ No

16. Will the annuity be funded by an Exchange or Replacement of an existing annuity?

☐ Yes ☐ No

If YES, when did you purchase the annuity?

Date________________ # of months prior to purchase of this annuity________________

Exchanges/Replacements

The following section seeks information to help justify exchanging or replacing an existing annuity contract in order to purchase, in whole or in part, the new (proposed) annuity. Annuity exchanges and replacements are scrutinized by regulators and require enhanced review. Any charges to be incurred or loss of benefits must be explained.

If the answer to Question 16 is "yes", complete the following questions. Do not leave any answers blank; if the question does not apply, indicate N/A. If the consumer is exchanging or replacing more than one annuity contract to purchase the annuity, questions a – r must be answered for each replaced contract.

a) *List the product name and company that issued the annuity being replaced or exchanged.*

PRODUCT ____ COMPANY ______________________________

	REPLACED/EXCHANGED	*PROPOSED ANNUITY*
b) Is there a surrender charge? If yes, list the current dollar amount.	☐ *No* ☐ *Yes $_________*	*N/A*
c) What is the remaining Surrender Charge Period?	_________ *Years*	_________ *Years*
d) Is the replaced/proposed annuity qualified or non-qualified?	☐ *Qualified* ☐ *Non-Qualified*	☐ *Qualified* ☐ *Non-Qualified*
e) Is there a Premium Enhancement or Bonus? If yes, list amount.	☐ *No* ☐ *Yes $_________*	☐ *No* ☐ *Yes $_________*
f) Will the Premium Enhancement or Bonus be forfeited?	☐ *No* ☐ *Yes $_________*	☐ *No* ☐ *Yes $_________*

	REPLACED/EXCHANGED	PROPOSED ANNUITY
g) Is there an Interest Rate Enhancement?	☐ No ☐ Yes $________	☐ No ☐ Yes $________
h) Is there a Market Value Adjustment (MVA)?	☐ No ☐ Yes	☐ No ☐ Yes
i) What is the Minimum Guaranteed Interest Rate?	__________ %	__________ %
j) What is the Guaranteed Declared/Fixed Interest Rate?	__________ %	__________ %
k) Is there an Annual Surrender Charge Free Withdrawal Privileged? If yes, what year is this available in the proposed contract?	☐ No ☐ Yes	☐ No ☐ Yes ☐ Year 1 ☐ Year 2
l) Is there a Confinement Waiver Benefit? If yes, what is the age limitation for the benefit on the annuity?	☐ No ☐ Yes Age________	☐ No ☐ Yes Age________
m) Is there a Terminal Illness Waiver Benefit?	☐ No ☐ Yes	☐ No ☐ Yes
n) Are there Optional Rider Benefits available?	☐ No ☐ Yes	☐ No ☐ Yes
o) Are there any Optional Rider Benefit fees?	☐ No ☐ Yes $________	☐ No ☐ Yes $________
p) Please explain the benefit of the proposed annuity contract compared to the contract you are replacing. (DO NOT LEAVE BLANK)		
q) Besides this exchange have you exchanged/replaced an annuity within the last 60 months (five years)?		☐ No ☐ Yes
r) If you answered yes to the previous question, please list the reason for the exchange.		

APPENDIX A

NATIONAL ASSOCIATION FOR FIXED ANNUITIES

INSURANCE AGENT (PRODUCER) DISCLOSURE FOR ANNUITIES

Do Not Sign Unless You Have Read and Understand the Information in this Form

Date: ______________________________

INSURANCE AGENT (PRODUCER) INFORMATION ("Me", "I", "My")

First Name:__________________________ Last Name: __________________________

Business\Agency Name ____

Website: ____

Business Mailing Address:____

Business Phone: ______________________ Business Email:______________________

National Producer Number ____________________________ State ________________

CUSTOMER INFORMATION ("You", "Your")

First Name:__________________________ Last Name: __________________________

What Types of Products Can I Sell You?

I am licensed to sell annuities to you in accordance with state law. <u>If I recommend that You buy an annuity, it means I believe that it effectively meets Your financial situation, insurance needs, and financial objectives. Other financial products, such as life insurance or stocks, bonds and mutual funds, also may meet Your needs.</u>

I offer the following products:

☐ Fixed or Fixed Indexed Annuities ☐ Variable Annuities ☐ Life Insurance

I need a separate license to provide advice about or to sell non-insurance financial products. I have checked below any noninsurance financial products that I am licensed and authorized to provide advice about or to sell.

☐ Mutual Funds ☐ Stocks/Bonds ☐ Certificates of Deposits

Whose Annuities Can I Sell to You?

I am authorized to sell:

☐ Annuities from only one (1) insurer ☐ Annuities from two (2) or more insurers

☐ Annuities from two or more insurers, although I primarily sell annuities from: ____________________

____

How I'm Paid for My Work:

It's important for You to understand how I'm paid for my work. Depending on the particular annuity You purchase, I may be paid a commission or a fee. Commissions are generally paid to Me by the insurance company while fees are generally paid to Me by the consumer. If You have questions about how I'm paid, please ask Me.

Depending on the particular annuity You buy, I will or may be paid cash compensation as follows:

☐ Commission, which is usually paid by the insurance company or other sources. If other sources, describe:

____

____

____

☐ Fees (such as a fixed amount, an hourly rate, or a percentage of your payment), which are usually paid directly by the customer.

☐ Other (Describe):______________________________

____

____

If you have questions about the above compensation I will be paid for this transaction, please ask me.

I may also receive other indirect compensation resulting from this transaction (sometimes called "non-cash" compensation), such as health or retirement benefits, office rent and support, or other incentives from the insurance company or other sources.

By signing below, you acknowledge that you have read and understand the information provided to you in this document.

______________________________ ______________________________

CUSTOMER SIGNATURE DATE

______________________________ ______________________________

AGENT/PRODUCER SIGNATURE DATE

APPENDIX B

NATIONAL ASSOCIATION FOR FIXED ANNUITIES

CONSUMER REFUSAL TO PROVIDE INFORMATION

Do Not Sign Unless You Have Read and Understand the Information in this Form

Why are you being given this form?

You're buying a financial product – an annuity.

To recommend a product that effectively meets your needs, objectives and situation, the agent, broker, or company needs information about you, your financial situation, insurance needs and financial objectives.

If you sign this form, it means you have not given the agent, broker, or company some or all the information needed to decide if the annuity effectively meets your needs, objectives and situation. You may lose protections under the Insurance Code of ______________________ if you sign this form or provide inaccurate information.

Statement of Consumer/Purchaser:

☐ I **REFUSE** to provide this information at this time.

☐ I have chosen to provide **LIMITED** information at this time.

____ ______________________

CONSUMER SIGNATURE DATE

APPENDIX C

NATIONAL ASSOCIATION FOR FIXED ANNUITIES

CONSUMER DECISION TO PURCHASE AN ANNUITY <u>NOT</u> BASED ON A RECOMMENDATION

Do Not Sign Unless You Have Read and Understand the Information in this Form

Why are you being given this form?

You're buying a financial product – an annuity.

To recommend a product that effectively meets your needs, objectives and situation, the agent, broker, or company has the responsibility to learn about you, your financial situation, insurance needs and financial objectives.

If you sign this form, it means you know that you're buying an annuity that was not recommended.

Statement of Purchaser:

I understand that I am buying an annuity, but the agent, broker or company did not recommend that I buy it. If I buy it **without a recommendation**, I understand I may lose protections under the Insurance Code of_____________.

____ ______________________

CUSTOMER SIGNATURE DATE

____ ______________________

AGENT/PRODUCER SIGNATURE DATE