

FEDERAL LIFE INSURANCE COMPANY

ANNUITY SUITABILITY TRAINING

For Agents Licensed in: AL, CA, CO, GA, ID, IL, IA, IN, KS, KY, MD, MI, MN, MO, MS, NE, NJ, OH, OK, OR, SC, TN, TX, UT, WA, WI, and WV

NAIC Suitability in Annuity Transactions (2010 version)

These rules apply to any recommendation to purchase, exchange, or replace an annuity that results in the purchase, exchange or replacement recommended.

I. Agent Responsibilities

- A. An agent may not recommend to a consumer the purchase or exchange of an annuity unless the agent has reasonable grounds to believe that the recommendation is suitable for the consumer on the basis of facts disclosed by the consumer as to his or her investments, other insurance products, and financial situation and needs including the consumer's suitability information, and there is a reasonable basis to believe all of the following:
1. The consumer has been reasonably informed of the various features of the annuity such as 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, potential charges for and features of riders, limitations on interest returns, insurance and investment components and market risk;
 2. The consumer would benefit from certain features of the annuity, such as tax-deferred growth, annuitization, death benefit or living benefit;
 3. The particular annuity as a whole, the underlying subaccounts to which funds are allocated at the time of purchase or exchange of the annuity, and riders and similar product enhancements, if any, are suitable (and in the case of an exchange or replacement, the transaction as a whole is suitable) for the particular consumer based on his or her suitability information; and
 4. In the case of an exchange or replacement of an annuity, the exchange or replacement is suitable including taking into consideration whether:
 - a. The consumer will incur a surrender charge, be subject to the commencement of a new surrender period, lose existing benefits (such as death, living or other contractual benefits), or be subject to increased fees, investment advisory fees or charges for riders and similar product enhancements;
 - b. The consumer would benefit from product enhancements and improvements; and
 - c. The consumer has had another annuity exchange or replacement and, in particular, an exchange or replacement within the preceding thirty-six (36) months.
- B. Prior to the execution of a purchase, exchange or replacement of an annuity resulting from a recommendation, an agent shall make reasonable efforts to obtain the consumer's suitability information. Suitability information includes the following: age, annual income, financial situation and needs (including the financial resources used for the funding of the annuity), financial experience, financial objectives, intended use of the annuity, financial time horizon, existing assets (including investment and life insurance holdings), liquidity needs, liquid net worth, risk tolerance and tax status. **THIS INFORMATION IS TO BE DOCUMENTED ON FEDERAL LIFE FORM L-8163 ANNUITY SUITABILITY QUESTIONNAIRE AND SUBMITTED TO THE HOME OFFICE WITH ALL ANNUITY APPLICATIONS. CALIFORNIA RESIDENTS – USE FORM C-8163. NEW JERSEY RESIDENTS - USE FORM L-8061 NJ.** *Please scroll down to see copies of these forms.*

- C. An agent shall have no obligation under these rules related to any annuity transaction if:
 - 1. No recommendation is made;
 - 2. A recommendation was made and was later found to have been prepared based on materially inaccurate information provided by the consumer;
 - 3. A consumer refuses to provide relevant suitability information and the annuity transaction is not recommended;
 - 4. A consumer decides to enter into an annuity transaction that is not based on a recommendation of the agent.

- D. An agent shall at the time of sale:
 - 1. Make a record of any recommendation subject these rules;
 - 2. Obtain a consumer signed statement documenting a customer's refusal to provide suitability information, if any; and
 - 3. Obtain a customer signed statement acknowledging that an annuity transaction is not recommended if a customer decides to enter into an annuity transaction that is not based on the agent's recommendation.

- E. An agent shall not dissuade, or attempt to dissuade a consumer from:
 - 1. Truthfully responding to an insurer's request for confirmation of suitability information;
 - 2. Filing a complaint;
 - 3. Cooperating with the investigation of a complaint.

II. Agent Training

- A. An agent shall not solicit the sale of annuity product unless the producer has adequate knowledge of the product to recommend the annuity and the producer is in compliance with Federal Life's standards for product training.

- B. An agent who engages in the sale of annuity products shall complete a one-time four hour credit training course approved by their state.

- C. Kentucky agents who engage in the sale of annuity products shall maintain and be ready to make available to the department of insurance for a period of five years records documenting compliance with these training requirements.

III. Compliance Mitigation; Penalties

If a violation occurs either because of the action or inaction of an agent, the Director of Insurance/Commissioner of Insurance may:

- A. Order an agency/agent to take reasonably appropriate corrective action for any consumer harmed by the agent's violation of this rule.

- B. Order any appropriate penalties or sanctions applicable in your state

- C. Any applicable penalty for a violation of this rule may be reduced or eliminated at the sole discretion of the Director/Commissioner if corrective action for the consumer was taken promptly after a violation was discovered or the violation was not part of a pattern or practice.

IV. Record Keeping

Agents shall maintain and be able to make available to the Director/Commissioner records of the information collected from a consumer and other information used in making a recommendation that was the basis for an insurance transaction for

- Three Years – AL, MD, OR, UT
- Five Years – CA, CO, FL, KY, IN, MO, OK, SC, TN, TX
- Six Years – WI
- Seven Years - IL
- Eight Years - OH
- Ten Years – GA, IA, MN, NJ

after the transaction is completed.

Idaho requires that records be kept for as long as the insurance transaction remains in force.

(Note: MI, NE, WA, WV Suitability in Annuity Transactions regulation does not stipulate the number of year records must be retained.)

V. Noncompliance

Violations of these requirements may be considered evidence of misrepresentation and/or a deceptive act or practice prohibited under state rules and regulations.