

Thursday TIP

Variable Annuities


Mike just returned from the Principals Meeting in Omaha where he attended a number of informative compliance sessions. We will use a series of Thursday Tips to disseminate the important information from these sessions to our group.


Today we will focus on Variable Annuities. There was a representative from FINRA in attendance who stressed the changes in the current environment regarding the sale of Variable Annuities. Regulators are making it very clear that they do not consider these an appropriate option for entire segments of the population. If you are selling a VA to individuals under the age of 45 or over the age of 70 be prepared for extra scrutiny. If more than 50% of the client's liquid net worth is in Variable Annuity products you will have to provide not only a rationale for the purchase, but clear documentation that the client is aware of the concentration level of their holdings and the implications that may have on their overall financial picture. Additionally, they will question your product knowledge if you are recommending an exchange from a product you previously sold the client. Regulators are going to ask why you sold them the original product if it isn't appropriate for the client now that it no longer has a surrender charge. What has changed within the product or for the client that negates the viability of the existing holding?

Attached are the VA Review Guidelines which will be utilized to determine whether purchases/exchanges are appropriate for clients. Please review the list of required paperwork and Suitability Considerations. If you have any questions about the information on the attachment please call our office for clarification. Although this tip and the attachment reference Variable Annuities, the same scrutiny will apply to Indexed Annuities so use these same guidelines when completing paperwork for those transactions.


As a result of the information delivered at the Principals Meeting, Mike is implementing the following changes within our OSJ effective immediately.


To facilitate the review of any annuity purchases or exchanges:

 It is recommended that you generate a RightBridge Annuity Wizard report (Advantage>RightBridge>click the hamburger stack to open menu so you can select Open AW). Per the 5/10/18 Thursday Tip this was available for use when you anticipated recommending an annuity to a client with a qualified account. Per the 7/27/18 follow-up it was no longer a requirement by SAI. However, as indicated above, due to the current regulatory environment regarding VA's we recommend it as a tool so we have relevant data when reviewing all VA purchases/exchanges.

 include a copy of the Annuity Intelligence report for the specific product you are recommending for the client for purchase, or a side by side comparison of the product client currently owns and new product recommendation for exchanges (home page>Products & Research>Research>Variable Annuity Research and Tools>Annuity Intelligence)

We continue to stress the importance of documentation. When in doubt, over document.

 Was there a family member involved with the decision making process to purchase or exchange?

 If you sold the original VA, what has changed that now makes the original VA the wrong choice for the client vs the new product recommendation?

👉 What is the rationale behind any riders being selected and are expenses of those riders fully disclosed to client so they can adequately determine their value as it relates to their overall financial situation?

👉 Can the client make modifications to their existing product to capture the benefits being proposed in the new product without incurring a new surrender charge schedule?

👉 What is the source of funds for the purchase? Just because the client brings in a check doesn't mean the source of funds is cash. If the client liquidated their mutual fund account and this purchase is being made with the proceeds from that account, mutual funds should be selected as source of funds. The source of funds is not limited by a time frame. In past years the rule of thumb was a 90 day look back. The current perspective is, if the client cashes out an investment and lets the cash sit in their bank account for an extended period of time while deciding how they want to reinvest it, the source of funds will still be the investment cashed out, not check from client savings account. If they are paying with a check, a copy needs to be included with the sponsor transaction for review.

As you know, paperwork cannot go out to the sponsor company until the transaction has been OSJ approved. However, if a client is investing \$500,000 or more in a VA, the transaction will have to be reviewed by our home office principal after OSJ approval, before paperwork can go out. Transactions of \$1Million or more will go through a third level of supervisory review before they are considered fully approved and ready for delivery to product sponsor company. Please be aware of the extended time frames required to effectively review these transactions.

As always, please reach out to our office if you have any questions.

Paperwork:

- New Account Form (NAF); required for new registration or new client
- Variable Annuity Share Class Supplement (VAPS). NY uses the VAPN & CA uses the VAPC
- Variable Annuity Purchase Agreement (VAPA)
- Sponsor Company application
- IRA Rollover Acknowledgment (EIRA) required if funding comes from ERISA defined rollover
- Supporting source of funds documentation (copy of statement, check, letter of instruction)

Approval Rational Components:

- Age (address age issues if any and any family members who may have been involved in the decision to move assets or invest in this product)
- Type of move, surrender, transfer or rollover and source of funds (if a replacement, provide date the original product was purchased) and why funds are being moved
- Surrender Schedule
- M&E Costs
- Rider Name & Cost
- Total Costs
- Reiteration of explanation of purchase based on benefits to the client and if losses, why you are okay with them
- Suitability which can include:
 - Income
 - NW
 - LNW
 - Risk Tolerance
 - Investment Objective
 - Time Horizon
 - % of NW and % of overall NW this purchase represents for this client
 - Sub-account allocations **must** fit the Investment Objective of the account (*see Securities America's Suitability Guidelines chart)

| Suitability Consideration | Parameters | Description |
|-------------------------------|--|---|
| Age | Under 45 years of age | Younger individuals have unknown liquidity needs, lower mortality risk, and are often in lower tax brackets. An income rider may be an unnecessary added expense for a younger client that would need to hold a VA for many years as enhanced products may be made available or the client's needs may change. |
| | Over 70 years of age or older | Seniors typically have liquidity needs and short time horizons. VAs impose surrender charges on withdrawals. If the client plans on taking income right away, this may not be a benefit for the client. A family member that was involved in the decision to purchase this type of product should be documented as well as the client's cognitive abilities and investment experience. |
| Source of Funds | Rollover from an ERISA protected retirement plan | VAs will not provide any additional tax deferral benefits in a retirement account that is already tax deferred. In order to receive a benefit, a living benefit rider should be added to the contract or the explanation of purchase should reflect a guarantee death benefit. IRA Rollover Acknowledgement Form (EIRA) form required |
| | Replacements/1035 exchanges | Any proposed replacement should put the client in a better product with better riders that meet the client's needs. The proposed contract may have less expenses or fees, new annuity features such as enhanced death or living benefits, changes in the client's life where features in the current contract are no longer needed or additional benefits are added to suit the new circumstances. Be mindful of the following: <ul style="list-style-type: none"> • The proposed contract that offers the same features and/or riders as the existing contract at the same cost (or higher). • The client is exchanging the annuity right after the surrender period is over. • The client has a need to withdraw funds in a short period of time. Review the client's recurring expenses. • The client does not have a need for the new features that come with the proposed contract. • There is a CDSC. While this is not always unsuitable, it's important to document the economic benefit of the replacement. Copy of recent statement required |
| | Checking/Savings | Funds should not have been liquidated from another product within the last 90 days. If this is the case, review the transaction as if the source of funds were from that product. Copy of check required |
| | | |
| Time Horizon | Less than 5 years | VAs are long-term investments that typically impose surrender charges on withdrawals. |
| Tax Bracket | 15% or less | Clients derive little benefit from the tax-deferral of the VA. |
| Income | Less than \$25,000 | Clients may not have enough liquidity to cover living and/or emergency expenses. |
| Total Annuity Holdings | More than 50% of Net Worth | Clients may not have enough liquidity to cover living and/or emergency expenses. |
| Signatures | Client and Rep | Verify signatures across all forms by comparing the signatures for accuracy and consistency. Verify the dates are accurate. |



Rep # 99999 _____ VAPA
Client SSN/TIN 123-45-6789 _____

VARIABLE ANNUITY PURCHASE ACKNOWLEDGEMENT

Customer Name(s) John Smith Product Name Elite Access B Prospectus Date 1/1/2018

VARIABLE ANNUITY DISCLOSURES, FEES & CHARGES

You will pay each year

You will pay ongoing fees every year you hold the contract. These fees include Mortality and Expense, administrative fees, sub account charges, and optional rider fees. Variable annuity fees that are not included in the prospectus but are charged with the investment will vary on the asset class and the fees charged on the contract.

Yellow highlight = verify for accuracy and suitability.

You pay when you sell

You may pay a surrender charge if you withdraw money from your contract within a certain period of time. The charge is based on when you make the withdrawal, and the amount withdrawn. Variable annuities generally have a "free withdrawal" amount that they allow investors to withdraw and which is not subject to these surrender charges. Withdrawal amounts in excess of this "free" amount may be subject to these charges. If you also received a bonus credit on the purchase of the annuity, a portion of that bonus may also be taken away. The illustration to the prospectus shows the surrender charge you would pay if you were to make withdrawals over time. The prospectus provides more information regarding these charges.

Verify on Annuity Intelligence

Free look right

You may be able to terminate your contract within the "free look" period and receive a refund of your payments or your contract value, which may be less. See prospectus for details.

Find Out More

PROPOSED PRODUCT INFORMATION

Investment Amount \$100,000
Mortality, Administration, & Distribution Fee 1.00 %
Optional Rider Fees Name: Basic Death Benefit / 0.00%
Optional Rider Fee 0.00%
Total Fees* 1.00%

Verify on Annuity Intelligence

*The total fees listed are based on the value of the underlying sub accounts. These fees vary and are typically between 0-2.5% of the value of the underlying sub accounts. Please see prospectus for details.

CUSTOMER INFORMATION

This specific investment constitutes approximately 10 % of my reported net worth as listed on the Securities America new account application. Additionally, after this purchase, my overall holdings in annuity (fixed and variable) products represents approximately 35 % of my net worth.

SURRENDER CHARGE SCHEDULE

| 1yr | 2yr | 3yr | 4yr | 5yr | 6yr | 7yr | 8yr | 9yr | 10yr |
|--------|-----|-----|-----|-----|-----|-----|-----|-----|------|
| 6 1/2% | 6% | 5% | 4% | 3% | % | % | % | % | % |

Estimated Maximum Surrender Charge \$ 6,500

REPLACEMENTS (pursuant to FINRA Rule 2330)

Is this investment a "replacement" of another annuity? Yes No

If 'Yes', has the customer engaged in other variable annuity replacement transactions within the previous 36 months? Yes No

EXISTING PRODUCT INFORMATION

Existing Product Information: This section must be completed when proceeds from prior investments liquidated within the past 90 days, 1035 Exchanges, transfer of assets, or qualified plan rollovers are funding this purchase (one form required per source of funds).

| Existing Product | Approximate Dollar Value | How Long Held? | Initial Sales Charge (%) | Surrender Charge (\$ amount) |
|---------------------------------------|--------------------------|----------------|--------------------------|------------------------------|
| Sentinel Advantage Variable Annuity 5 | 75,000 | 10 years | 0 | 0 |

RIDER BENEFIT & EXPENSE DISCLOSURE

Riders: Complete the following section if this transaction involves a 1035 exchange or qualified transfer from an existing VA.

| Name of Rider(s) on Proposed VA Contract | Name of Rider(s) on Existing VA |
|--|---------------------------------|
| Basic Death Benefit | Standard Death Benefit |

Verify page 2 by review of recent statement or call the sponsor company

Living Benefit: Complete this section if this transaction involves the replacement of an existing insurance product with a living benefit rider. Please provide the benefit base amount that will be lost with replacement of the contract (See Client Acknowledgment #9 for additional information).

| Existing Contract Cash Value | Existing Contract Benefit Base | Gain/Loss in Benefit Base |
|------------------------------|--------------------------------|---------------------------|
| \$ | \$ | \$ |

Guaranteed Death Benefit: Complete this section if this transaction involves the replacement of an existing insurance product. Please provide the benefit base amount that will be lost with replacement of the contract (See Client Acknowledgment #9 for additional information).

| Proposed Contract Benefit | Existing Contract Benefit | Gain/Loss in Death Benefit |
|---------------------------|---------------------------|----------------------------|
| \$ 50,000 | \$45,000 | \$ 5,000 |

Review for benefit or loss to the client.

Estimated Annual Expense Comparison: Complete this section if this transaction involves the replacement of an existing insurance product. This should include all fees associated with the contract (i.e., M&E, Administrative, Distribution and Rider Fees).

| Proposed Contract | Existing Contract | Increase/Decrease in Expenses |
|-------------------|-------------------|-------------------------------|
| 1.00% % | 1.40% % | - .4 % |

Please provide a description of the reason(s) for your decision to purchase this variable annuity contract:

Explanation should be detailed to provide why this product is in the client's interest to purchase the VA at this time and if a rider is included, how it benefits the client.

Jackson National Perspective II Variable Annuity Share Class Supplement

VAPS

Step 1 — Client Information

| | | |
|-------------------------------------|-----------|------------------------|
| Primary Account Holder First Name | Last Name | Social Security Number |
| Secondary Account Holder First Name | Last Name | Social Security Number |

Step 2 — Purchase Acknowledgement

You have decided to purchase a Jackson National Perspective II variable annuity. The variable annuity you have selected is available with multiple share class options. In many cases the same or similar features and benefits are available with each of the share class options listed below. The share class you are selecting will have an impact on the length and percentage of your account value subject to the length of the variable annuity, and compensation options available to your financial advisor. Your variable annuity is subject to the terms and conditions of the share class options. Review these options with your financial advisor to ensure the selected share class best meets your needs.

| Share Class Selected | <input checked="" type="radio"/> Select | <input type="radio"/> Select |
|--|---|--|
| Product Name | Perspective II B | Perspective II B w/Liquid |
| Product Company | Jackson National | Jackson National |
| Total Annual Expense (M&E, Administrative, and Distribution Charges) | 1.30% | 1.70% *M&E charge reduces to 1.15% after the 4th contract year. |
| Premium Based Charges (Annual percentage) | N/A | N/A |
| Surrender Charge Schedule | 8%, 7%, 6%, 5%, 5, 4, 2 | 8, 7, 5%, 3% |
| Surrender Charge Duration | 7 | 4 |
| Free Withdrawals | Greater of earnings or 10% of purchase payments. An optional 20% withdrawal feature available for a charge of 0.30% is no longer available as of 7/11/2016. | Greater of earnings or 10% of purchase payments. |

Review for correct sponsor and client/advisor signatures