

Best practices: Documenting recommendations for annuity exchanges or replacements

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We're providing a set of best practices below to help financial professionals understand the requirements for documenting an exchange or replacement of an annuity. Financial professionals should evaluate the impacts and benefits for the client, and thoroughly document the reasons for the recommendation.

Quick tips: Exchange or replacement recommendation

State laws and regulations, including those covering annuity replacements and Annuity Suitability and Best Interest, require that a financial professional take into consideration and document the specific benefit improvements and enhancements provided in the proposed contract over the existing contract, including details regarding any lost benefits from the existing contract being replaced.

Financial professionals **are required to thoroughly document** any and all considerations that were evaluated when recommending the exchange or replacement.

Factors to consider should include, but not be limited to, whether the client:

- will lose existing benefits (such as death, living or other contractual benefits)
- will incur a withdrawal charge and/or any Market Value Adjustment (MVA)
- will be subject to the commencement of a new withdrawal charge and/or MVA period
- would be subject to increased fees or charges for riders and similar product enhancements
- would benefit from product enhancement and improvements
- has recently had another exchange or replacement (e.g., within the last 60 months), excluding this replacement

For specific examples and additional details, see the guidelines section below.

Best practices: Documenting an exchange or replacement recommendation

When documenting reasons for the annuity exchange or replacement, it is important that the explanation:

- be **individualized** and specific to the client
- include **thorough, accurate and complete information**
- avoid general or vague statements such as “higher rates” or “product features.” Instead, include detailed feature comparisons of the proposed and existing contracts that formed the basis of the replacement recommendation
- include the benefits of the proposed contract and the reasons the existing contract can no longer meet the client’s needs and financial objectives.
 - If the exchange or replacement will result in a loss of significant benefits or guarantees, the losses must be disclosed and an explanation for the losses be provided to the client (i.e., loss of death benefit guarantee, living benefit guarantee, liquidity, time served, guaranteed minimum interest rate, etc.).
 - If a fixed or index annuity is being recommended, a documented comparison of the specific rate information for both the proposed contract and existing contract should be provided to the client.

Some examples:

- Specific rate information for a fixed annuity recommendation: current interest rate, length of time current interest rate is guaranteed, guaranteed minimum interest rate, etc.
- Specific rate information for an index annuity recommendation¹: crediting strategy rate caps, rate spreads, participation rates, guaranteed minimum interest rate, etc.

¹As noted in the Owner Acknowledgment and Disclosure Statement, the index interest rate will never be less than zero. If an index interest calculation results in a negative number, no interest would be credited.

- If the proposed contract contains a living benefit that could provide higher income, include specific details for the existing and proposed contract such as:
 - the value that income is based upon, credits available, and withdrawal amount for both contracts when the client plans to begin taking income
 - the current income available on the existing contract, including the income available if the contract were annuitized, which should also be provided to the client

Availability of records

If AIG conducts suitability supervision, then all details regarding the exchange or replacement recommendation should be provided on the AIG Client Profile form and required state-specific replacement form, as applicable. Generally, no additional documentation regarding the exchange or replacement recommendation will need to be provided.

If suitability supervision is conducted solely by your firm, based on an executed agreement with us, then the documented reasons for the exchange or replacement recommendation must be maintained in the client's file and be promptly provided to AIG or a regulator upon request. As part of AIG's monitoring and surveillance program of firms that conduct their own supervision, post-issue audits of exchange or replacement transactions are performed, including a review of the justification for the annuity exchange or replacement to ensure that a financial professional thoroughly and accurately documented the reasons for the annuity exchange or replacement. Firms selected for audit will be asked to provide all documentation related to a sampling of exchange or replacement recommendations.

Questions and contact information

If you have any questions, please contact the AIG Annuity Sales Desk at (888) 438 - 6933 Option 2, or your agency's back office.

Reminder: Wholesaler's role in the annuity sale

The Wholesaler's role is to educate the financial professional about the annuity product. The Wholesaler may not provide product or investment recommendations to, or for, a specific retail customer.

The Wholesaler may participate in sales meetings or conduct a presentation with retail customers, as long as the financial professional is present. Under such circumstances, the Wholesaler must refrain from making any recommendations to individuals or entities regarding particular products or investment strategies.

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