Common Issues When Completing the Basis of Recommendation

27) Basis of Recommendation: Answer the following questions related to the basis for your recommendation. Be sure to include **client-specific and product-specific** information that supports your explanation. If more space is needed, a separate page can be used. If a separate page is used, the client should initial the additional explanation page(s).

a. Explain the reasons for recommending this product, including how the client intends to use the new annuity contract.

Lifetime income

All annuities can produce lifetime income. What features or benefits of this annuity led to the recommendation of this product to meet their need for guaranteed income.

b. Explain why the current account or investment cannot meet the applicant's goals/objectives. If the client is replacing an existing life insurance or annuity policy, provide specific details about the comparison of the two products (For example, include interest rate comparison, income amount or income potential comparison, etc.). This should support the reasons for recommending listed above.

Current annuity is coming due. We are moving to get a higher rate of return.

What is the renewal interest rate in the existing annuity compared to the interest rate in the proposed annuity?

27) Basis of Recommendation: Answer the following questions related to the basis for your recommendation. Be sure to include **client-specific and product-specific** information that supports your explanation. If more space is needed, a separate page can be used. If a separate page is used, the client should initial the additional explanation page(s).

a. Explain the reasons for recommending this product, including how the client intends to use the new annuity contract.

Client wants no market risk. Client was a fixed rate of return. Client has no intention on spending this money until he is forced to withdraw at RMD age.

Client is replacing a fixed annuity and all the reasons listed are already being met in that existing annuity. What features or benefits are available in the proposed annuity that are not available in the existing annuity that led to the recommendation?

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What helps make a comprehensive Basis of Recommendation?
Questions 27a and 27b (31a and 31b in New York)

- Address why the client is making this change in investment. What circumstances have changed that their current investment no longer meets their needs?

- Address any items that may contradict each other. Common examples include a time horizon less than the surrender charge period and purchasing an income rider with a short time horizon.

  - If the time horizon is less than the surrender charge period, is there a feature of the annuity that will be exercised? If they are purchasing an income rider with less than a 10+ year time horizon, explain how they will benefit from paying for a lifetime income rider they don't plan to keep for their lifetime.

- Include all the reasons why you have recommended the annuity being purchased. Be sure any goals that were checked in Question 5 are addressed in the written statement. If this is a replacement, any reasons selected in Question 23 should also be addressed. If a goal or reason for replacement is not addressed, the suitability team may follow up.

- The explanation should address specific features or benefits of the proposed annuity that is not available in their existing product and will benefit the client. Generic statements may result in follow up by the suitability team.

- The explanation should be client-specific and align with the recommendation. Each policy and client are unique and the written statement should reflect that. Generic statements that are copied from one application to the next should not be used.

- Regardless of replacement status, a valid response to question 27b (or 31b) is required for **ALL** applications. A response consisting of "None", "N/A", etc. is not acceptable.

- When responding to Question 27b, if the reason for your recommendation is related to higher interest rates, better performance, or higher income, be sure the values of the existing account compared to the proposed annuity is provided. If a SPIA is being purchased as a replacement, an annuitization quote for the existing annuity is required.

Additional considerations if there is a replacement:

- When completing Question 26 (or Question 30 in New York), be sure that the statement made aligns with the information provided in the annuity grid on the previous page of the Client Profile Form.
  - For example, if the annuity grid indicates the death benefit is higher than the account value, or the existing annuity has an income rider, be sure these items are listed in Question 26 as benefits being lost.
- If the reason for replacement is Higher Interest Rates, provide and compare the existing interest rate and duration to that in the proposed annuity.
- If the reason for replacement is Higher Income, provide and compare the income the client would receive in the existing annuity to the income in the proposed annuity. If a deferred annuity with an income rider is being replaced with a SPIA, we would expect the annuitization quote of the existing annuity be provided.
- If a deferred annuity is being replaced for a SPIA, address why the existing annuity is not being annuitized. Please provide and compare the annuitization quote reviewed in the existing annuity to the proposed SPIA. A comparable annuitization quote from the existing annuity must be provided for all deferred to immediate annuity replacements, even if the proposed payout is not available in the existing annuity.
  - For example, if they are applying for a Life with Installment or Cash Refund, we would expect to see a Life with 10-year period certain or another lifetime payout with a guarantee. If they are applying for a 5-year period certain but their existing annuity only offers 10-year period certain, we would expect to see the 10-year quote.
- All annuities have the option to be annuitized for a guaranteed lifetime income stream, even without an income rider. If the reason for replacement is lifetime income or guaranteed income, address why the existing annuity is not being annuitized to meet this goal.
- If the client will incur a surrender charge, address how the proposed annuity will better meet the client’s needs than the existing annuity. Keep in mind, AIG does not accept any replacement when the surrender charge (net of any Market Value Adjustment (MVA)) is 3% or over.