



Replacement Policies and Guidelines

This guide is intended to help you, the independent agent, comply with replacement regulations in general, and to assist you in making appropriate replacement recommendations. **As you know, any replacement recommendation should be in the client's best interest.** In developing this guide, United Home Life Insurance Company / United Farm Family Life Insurance Company (collectively, "we," "us," and "our") have established procedures and guidelines that do more than just meet the requirements of any one state. Because each state has its own regulations and requirements, and they may change from time to time, **you are expected to know and follow our policies and guidelines, as well as replacement regulations in all states where you do business.** If you have questions, contact us, and we will help you find the answer.

OUR POSITION ON REPLACEMENTS

We do not encourage or condone the systematic or deliberate replacement of existing life insurance and/or annuity policies and contracts (sometimes referred to as "churning and/or twisting") as a marketing practice or method of doing business. This includes not only replacement of other companies' policies and contracts, but the replacement of our policies and contracts as well. At the same time, we acknowledge that not all replacements are improper, and indeed, some may be in the best interest of the client. In considering any replacement recommendation, the best interest of the client must be paramount.

WHEN A SALE IS ALSO A REPLACEMENT

Regulations and laws concerning replacement apply when existing coverage or contracts are canceled or terminated in addition to many other situations as described below. A majority of states have adopted the NAIC Life Insurance and Annuities Replacement Model Regulation ("Model Regulation"). Our guidelines are derived, to a large extent, from the Model Regulation. It is also vital that you understand what is considered a replacement transaction and what the applicable requirements are in all states where you do business.

The replacement of life insurance and/or annuities occurs when:

A client applies for any type of individual life insurance policy with us; AND

The client owns an existing policy or contract, including any life insurance policy or annuity issued by us, even if still within the free look period, and any life insurance policy or annuity issued by another company, even if still within the free look period; AND

The agent knows, or with reasonable amount of inquiry should know, that an existing policy or contract has been or will likely be:

- lapsed, forfeited, surrendered, partially surrendered, assigned to the replacing insurer, or terminated;
- converted to reduced paid-up insurance, continued as extended term insurance, or reduced in value by use of a nonforfeiture benefit or other policy value;
- amended to effect either a reduction in benefits or the term of coverage;
- reissued with any reduction in cash values; or
- used in a financed purchase.

While not specific to the products we market in the independent distribution channel, replacement regulations and laws also apply when an existing life insurance policy is being replaced by an annuity or when an existing annuity is being replaced by an annuity.

It is critical you understand the broad definition of a replacement under the Model Regulation. The definition applies not just to full surrenders of life insurance policies or annuity contracts, but also extends to new policies or contracts purchased with funds (e.g. loans or withdrawals) from existing policies or contracts.

Under the Model Regulation, a financed purchase is included in the definition of a replacement transaction. A financed purchase is described as *“the purchase of a new policy involving the actual or intended use of funds obtained by the withdrawal or surrender of, or by borrowing from values of an existing policy to pay all or part of any premium due on the new policy”*. Further, the Model Regulation provides that:

“For purposes of a regulatory review of an individual transaction only, if a withdrawal, surrender, or borrowing involving the policy values of an existing policy is used to pay premiums on a new policy owned by the same policyholder and issued by the same company, within 4 months before or 13 months after the effective date of the new policy, it will be deemed prima facie evidence of the policyholder’s intent to purchase the new policy with existing policy values.”

APPROPRIATENESS OF REPLACEMENTS

In order to determine if a replacement is beneficial to the client, you and your client together should look at all aspects of the new policy or contract compared to the old policy or contract as well as the financial needs and objectives of the client. If the benefits of the replacement appear to be in the best interest of the client on both a short-term and long-term basis, the replacement may be justified.

Factors to Consider Before Recommending a Replacement

Before recommending a replacement, be sure to obtain up-to-date information regarding the existing life insurance policy or annuity contract, and compare and contrast the existing coverage with the proposed product.

You should take a number of factors into consideration including, but not limited to the following:

Life Insurance to Life Insurance Replacements

- underwriting classification of existing policy;
- underwriting classification decision on proposed policy;
- original issue age vs. attained age;
- death benefit provided by existing policy;
- death benefit provided by proposed policy;
- new incontestability and suicide provisions;
- surrender charges incurred if existing policy is replaced;
- surrender charges of proposed policy (duration and amount);
- guaranteed and non-guaranteed values;
- tax implications for the client (including discharge of outstanding policy loan);
- policy charges including cost of insurance;
- available riders/benefits and their associated costs;
- matching ownership/beneficiary arrangements;
- financial status of client;
- retirement income needs of client; and
- policy loan interest rates (both current and guaranteed).

Additional Factors for Annuity to Life Insurance Replacements

- tax ramifications;
- identified need for life insurance/objective to be accomplished;
- has the original need/objective for the annuity disappeared/changed;
- age of applicant at time of purchase;
- can life insurance be issued on a favorable underwriting basis; and
- can the client meet the ongoing premium payment obligation.

ALTERNATIVES TO REPLACEMENTS

You should always consider whether alternative solutions to your client's needs will work instead of replacing existing coverage. In any case, you should present other options to your client to weigh against replacement. These options may include, but are not limited to:

- updating an existing policy to provide better cash value growth;
- leaving existing coverage in place, and purchasing a new policy to meet additional needs;
- finding out if the client qualifies for an improved rating classification on the existing policy. This may provide lower premiums and increased cash values;
- exploring whether there are allowable adjustments to values, premiums, etc.;
- reviewing and/or choosing other dividend options, if applicable;
- using dividends to purchase paid-up additions or to pay off existing loans;
- partially surrendering a policy to pay off an existing loan; or
- if allowed, changing a current policy to the paid-up option and using premium saved to purchase a new policy.

Some of these options may still constitute replacement transactions, but they may represent more appropriate recommendations for the client.

AGENT RESPONSIBILITIES AND REQUIREMENTS

To ensure the replacement transaction is appropriate, each agent, prior to application submission, has a responsibility to:

- identify the client's current needs and objectives;
- determine whether the client's current needs and objectives can be met by the existing policy or contract, a modification of the existing policy or contract, or a new policy;
- determine whether the purchase of the new policy meets the definition of a replacement;
- provide, help the client obtain, or direct the client to information necessary to determine the appropriateness of the proposed replacement transaction (e.g., policies, annual statements, and illustrations);
- provide complete disclosure and analysis of all relevant replacement information and factors; help the client understand the advantages and disadvantages of the replacement transaction;
- determine whether the replacement is appropriate and tailor recommendations accordingly;
- recommend to the client that he or she keep the existing coverage in place until the new coverage is in force;
- leave a copy of all consumer approved sales material(s) used in the transaction with the client;
- document and maintain in your files a complete and accurate record of client discussions, including all materials reviewed, relating to the appropriateness determination and the replacement decision; and
- comply with our replacement policies and guidelines and with all relevant state requirements.

In addition to the above, make sure the replacement question on the application is correctly answered and, if applicable, appropriate replacement forms completed. Refer to our website for the appropriate replacement forms.

MONITORING REPLACEMENT BUSINESS

We take our replacement monitoring responsibility seriously, and we want our agents to be diligent in making only appropriate replacement recommendations for the client.

Replacement activity is increasingly an area of significant focus by state regulators, as evidenced through bulletins, inquiries, surveys, and market conduct examinations. We regularly monitor replacement activity for signs of inappropriate replacements, including twisting and churning, and swiftly deal with situations that are excessive or inappropriate.

Replacement activity is monitored in a number of different ways including, but not limited to:

- reviewing the ratio of replacements in an agent's new business submitted to us;
- reviewing the number of replacement submissions;
- customer complaints;
- inquiries from other companies; and
- state investigations and market conduct examination results.

We also seek to detect both internal and external undisclosed replacements. As part of the monitoring process, we may identify agents for further review of their replacement activity. As part of that review, additional information may be requested of the agent, such as submission of forms comparing both the past and present policies and providing a further explanation of why the replacement was recommended. Depending on the result of such a review, further action may be required including, but not limited to:

- requirements to provide additional documentation for all new replacement business;
- additional training;
- formal and informal warnings; and
- disciplinary action up to and including termination.

Protect your reputation with your clients, us, and state regulators. Disclose all replacement transactions and refrain from engaging in inappropriate replacement activity. Above all, make sure that the client fully understands the reasons for any replacement recommendation you make and that you are able to support any and all such recommendations through proper documentation.