Life Insurance Suitability & Best Practices Guide

For Accordia Life and Annuity Company Producers

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INTRODUCTION

This Guide is intended to provide you with valuable information that can assist you in making effective and appropriate life insurance recommendations to your customers. Life insurance is a critically important component of financial well-being. A formidable argument can be made that life insurance is the most valuable financial tool ever devised in human history. Its unique power to protect families and businesses from financial ruin due to the premature death of an insured is without question. But life insurance offers a great deal more than protection for unforeseen events. It enriches lives, constructs a foundation for financial security, provides financial stability, and enables plans, hopes and dreams to be fulfilled. Particularly with respect to permanent life insurance, today's innovative life insurance products offer dynamic propositions that can meet a variety of needs and objectives for virtually every stage of life.

The value that you provide every day to your existing clients, as well as new prospective customers, is unquestioned. But there are occasions when a life insurance professional's enthusiasm and deep conviction about the products he or she sells can challenge the due care that is necessary to make recommendations that result in demonstrable value and help sustain long term agent-client relationships. Each client, or prospective client, is unique and should be evaluated individually in order to ascertain the life insurance solution that seems to be the best fit for their needs, objectives, family structure and financial circumstances.

We believe in our producers – not just in your ability to successfully market and sell Accordia Life products but that you genuinely value your customers and strive every day to do the right thing for those customers. In a nutshell, why is suitability important?

- *It's about doing the right thing*
- *It's about matching the product to the customer*
- *It's about matching the sales concept to the customer*
- *It's about fostering a long-term relationship*
- *It's about being an insurance professional*

As we proceed through this Guide we will talk about several components of suitability and best practices for life insurance sales including:

- *The reasonable recommendation standard*
- *Identification of needs and objectives*
- *How to determine the most appropriate product, premium level and face amount of coverage*
- *How to use life insurance illustrations effectively and compliantly*
- *The importance of personal observation and your field underwriting responsibility*
- *Understanding Accordia Life's financial underwriting guidelines and process*
- *Proper and effective ownership & beneficiary arrangements*
- *The important concept of insurable interest*
- *Awareness of common life insurance "tax traps"*
- *Considerations for replacement recommendations*
- *Guidelines for using annuities to fund life insurance*

Unlike the NAIC Suitability in Annuity Transactions Model Regulation, there is no comparable Model Regulation for life insurance sales that provides a prescriptive list of suitability factors. However, you need to understand two important points – (1) some states actually do have specific regulations that set forth suitability standards for life insurance sales, and (2) even where not covered by a specific statute or regulation on suitability, Accordia Life's expectation is that all of the recommendations that you make to customers in the course of selling Accordia Life's insurance products are reasonable and based on assessment of the applicants insurance needs and overall financial objectives.

Although only nine states have suitability regulations or rules specific to the sale of life insurance, this subject has become a focal point of new regulatory activity. Clearly one of the drivers for this renewed emphasis was the regulatory vacuum created when the U.S Court of Appeals vacated the controversial DOL Fiduciary Rule in June, 2018 which created a very strong reaction from consumer groups and some regulators who were determined to establish more stringent standards for financial advisors and insurance agents to ensure that the best interests of the consumer is the paramount consideration in financial and insurance transactions.

When the New York Department of Financial Services announced a proposed Amendment to its annuity suitability Regulation 187 in December, 2017 and added life insurance transactions to the scope of that regulation, the subject of life insurance suitability reverberated through other state insurance departments. Several additional states have proposed their own new regulations that would introduce requirements for life insurance suitability and/or provide the establishment of a best interest standard for the sale of life insurance. At the same time, the insurance commissioners in several other states have been quite vocal that it is their belief that the current regulatory framework for life insurance sales is adequate, and that an annuity-like Model Regulation imposing specific agent and insurer requirements around life insurance suitability is not necessary. In any event, we will keep you abreast of such regulatory developments, and it is our belief that we are well positioned to respond to such developments as we have communicated on this subject of life insurance suitability for a number of years through the publication of this Guide and at agent training events.

For now, some fundamental questions to ask yourself to help ensure that your recommendations are suitable:

- *Does the client understand the transaction?*
- *What are the client's chief financial concerns/objectives?*
- *Is the product recommendation a good fit?*
- *Is the planning concept a good fit?*
- *Is the source of funds appropriate?*
- *If the case involves replacement, what are the upsides and the downsides of the transaction?*

Of course, in your dealings with the public, the best interest of the customer should be the highest priority. It's critical to establish and maintain an atmosphere of trust with both prospective customers and your existing clients. And, it's essential to provide a high level of ongoing customer service once a prospective customer becomes your client.

REASONABLE RECOMMENDATION

The evaluation of suitability should be guided by the "reasonable recommendation" standard. That is to say, you should be able to demonstrate that you had reasonable grounds for believing that the placement of life insurance coverage was based on a recommendation that was suitable for the customer.

Life insurance suitability considerations generally include:

- *The customer's financial needs and objectives*
- *The customer's current financial condition, net worth and income*
- *The customer's current and future income needs*
- *The customer's ability to pay planned premiums and sustain a commitment to paying such premiums*
- *The customer's family dynamics*
- *The customer's age/life stage*
- *The customer's existing life insurance coverage*
- *Appropriateness of the proposed ownership/beneficiary arrangement*
- *The source of funds for the initial and ongoing premium payments*
- *If replacement is involved, adequate comparison of the existing and proposed products*

The expectation is not that all life insurance recommendations are perfect or ideal. What seems to be appropriate or even the best idea for a client at the time of purchase may not be the case decades later, or may at least require adjustment or modification, based on changing circumstances and objectives. The life insurance professional does the best he or she can given the totality of the information presented, and calls upon their own training, knowledge, and experience to determine the appropriate product, face amount of coverage, and premium level for each customer.

What is important is that you take your suitability responsibility seriously and that you recognize that while some cases may be similar, suitability is individual customer-focused. In addition, it is vital that the customer understands the fundamental features and limitations of the product they purchase – and perhaps more importantly – why they purchased it.

From an agent's perspective, the more the customer understands the value proposition represented by the product the agent has recommended, the more rewarding that client relationship will be and the less likely the policy will lapse or be replaced. In this regard, remember that the purchase of life insurance, particularly of permanent forms of life insurance, is a long term proposition. Getting the client to engage and participate as actively as possible in all of the interactions surrounding the sale of the policy can help eliminate ambiguity and misunderstanding. Communication, positive reinforcement and good customer service after the sale all serve to solidify your relationship with your clients.

It has been suggested that veteran life insurance professionals often come to know more about their clients' overall circumstances, goals, and visions than any other individual professionals who may have relationships with the same client – be they the attorney, CPA, banker or stock broker. Most agents deploy various tools in order to make a substantial effort to evaluate customer needs, objectives, and overall financial condition. Over time, an agent learns the importance of asking both "fact finding" questions and "feeling finding" questions. In the next section, we discuss various approaches to uncovering and evaluating customers' needs and objectives for the purpose of making an effective life insurance recommendation.

IDENTIFICATION OF NEEDS AND OBJECTIVES

Personal Life Insurance

Life insurance can provide a solution for a wide variety of client needs and objectives. The identification of those needs and objectives is an integral part of the life insurance professional's formulation of a suitable recommendation. In the area of personal insurance, most prospective clients immediately recognize that there are costs associated with final expenses, and that their remaining family members need to somehow make up for the loss of income associated with their death. But most people have not given much thought to the quantification of those expenses or income replacement needs.

Other traditional needs for personal life insurance include the ability for the surviving family members to pay off major debts such as a mortgage obligation, to adequately fund the college education needs of the surviving children, or to make up for the loss of funding of retirement savings resulting from the death of a primary income earner. Quantifying and documenting the need for life insurance, and therefore the primary purpose(s) for the recommendation and sale, is an important part of creating a "suitability record" for each client.

But not all life insurance purchases are made based on the output from a comprehensive needs analysis software program. In some cases, the concentration of the customer may be focused more on one or two very specific objectives. Similarly, a particular planning concept may be the primary driver behind the insurance purchase. For example, pension maximization, annuity maximization, wealth transfer, utilization of life insurance as a source of supplemental retirement income, and charitable planning are all valid reasons for the purchase of life insurance. Accordia Life recognizes and supports many such marketing/planning concepts, and they can offer attractive solutions for the right customers.

Business Life Insurance

Many life insurance professionals have enjoyed successful careers through working in the business life insurance market. This may entail the utilization of life insurance for business continuation, key person indemnification, or executive benefit needs. Just as with personal insurance sales, life insurance recommendations are often the result of a combination of evaluating needs and objectives, and presenting conceptual ideas to the client. Programs designed for the analysis of business insurance needs have also been developed along with customized fact finders to assist in this process. Accordia Life's Advanced Markets department can assist you in determining the needs of your business clients and in providing a number of valuable sales concepts that may be appropriate for certain client profiles. In addition, there are a number of additional tools that can assist you with the overall suitability of your recommendations to business entities and their owners. Whether you recommend a particular product and face amount to adequately fund a buy-sell agreement among business owners, or you sell life insurance to a corporation for the purpose of recovering the costs associated with an executive benefit plan, it's important that you clearly document the basis for your recommendation. This could mean the evaluation of needs analysis output, a business valuation program, business financial statements or business agreements.

The importance of such information is not just related to the suitability of the sale, but it also may be relevant to the underwriter who reviews the case file from a financial underwriting perspective. The topic of Financial Underwriting is covered later in this Guide.

Regardless of whether you are placing a personal insurance case or a business insurance case, an essential element in making a suitable recommendation is that the client clearly understands what they are buying and why they bought it. By obtaining confirmation from the client that they clearly comprehend the basis for your recommendation, you have not only made a rewarding sale but you have solidified the relationship with that client for years to come.

LIFE INSURANCE AS A SOURCE OF SUPPLEMENTAL RETIREMENT INCOME

Early on in a life insurance professional's career, the value and versatility of permanent life insurance is one of the first lessons learned. "Live, die, quit, or become disabled" is a familiar theme that supports the idea that permanent life insurance offers protection for a number of contingencies beyond the risk of premature death.

Quit – if a policy owner determines at some point that their needs have significantly changed, he or she may decide to take a reduced paid-up policy (whole life) or decide to lower their face amount of insurance (universal life).

Become Disabled – if a policy owner finds him/herself in the unfortunate situation of suffering a loss of income due to a disability, a waiver of premium provision added to the policy at time of issue can provide a means of maintaining the policy in force.

Live – having the financial discipline to continuously pay premiums over a long period of time can provide downstream rewards. Over time, the policy owner can potentially utilize the policy's accumulated cash values for a variety of needs. One such need that could be addressed is retirement income. In addition to other sources of retirement income such as employer-sponsored qualified plans, IRAs and personal savings, permanent life insurance can be a terrific source of supplemental retirement income – and a very tax-efficient source at that.

At the same time, it should be understood that using a permanent life insurance policy in this way requires a long-term commitment to cash value accumulation goals, as well as careful monitoring by the policy owner both prior to and after cash flow from the policy commences.

Over the years, the life insurance industry has seen many examples of life insurance being portrayed as a retirement income vehicle without adequate explanation and disclosure, often resulting in misunderstanding by policy owners. Such a portrayal has sometimes led to unintended consequences such as regulatory inquiries and legal actions.

Additionally, in recent years, a number of state insurance commissioners have expressed concern about the promotion of life insurance as a retirement plan in literature, seminar presentations, sales presentations, illustration output and in other forms of advertising.

As a result, we have established a set of guidelines to assist you whenever you are developing any materials or making presentations that promote the concept of using life insurance to provide supplemental retirement income:

- *Carefully evaluate each individual customer's financial needs and objectives.*
- *Clearly identify life insurance as life insurance. Do not refer to life insurance as a "Personal Protected Retirement Plan," "Private Pension Plan," or any similar phrase.*
- *Position life insurance as a complement to, not a substitute for, other sources of retirement income.*
- *Do not disparage traditional retirement savings vehicles such as pension and profit sharing plans, 401(k)s or IRAs.*
- *Do not portray or promote life insurance as a replacement for existing retirement plans.*
- *Carefully distinguish between guaranteed and non-guaranteed rates and values. Make sure to explain to the customer that projected values and income streams are not guaranteed.*
- *Do not mischaracterize illustrated interest crediting rates to be a "rate of return" on premiums paid. Such a characterization fails to recognize the costs and charges associated with life insurance products.*
- *When contrasting the characteristics of life insurance with qualified accounts such as IRAs or 401(k)s, give recognition to the future value associated with the pre-tax nature of contributions to such plans.*
- *Make sure that any comparisons of the characteristics of such accounts are complete and accurate.*
- *Point out to the customer that the utilization of life insurance as a supplemental source of retirement income requires a long-term commitment.*
- *Use only Accordia Life approved materials to promote this concept.*

PRODUCT, PREMIUM AND AMOUNT OF COVERAGE

Product Considerations

So what's the right product for your customer? Well, that depends. Some prospective insureds have significant needs yet lack the current financial capability to pay the amount of ongoing premiums required for a permanent policy for the amount of coverage that they need. For those individuals, term insurance (or a combination of term and permanent insurance) may be the most viable product that meets their needs at this time and fits within their budget. Other prospective insureds may be very wealthy individuals whose primary need is to buy enough life insurance to provide adequate liquidity in order to cover the cost estate taxes and related costs. They generally have a clear demonstrable permanent need for life insurance, no matter how long they live. Such a need is best satisfied through a permanent life insurance product since the ability to renew term insurance may likely expire prior to death. Additionally, term coverage can become so prohibitively expensive at older ages.

Clearly, the vast majority of customers fall somewhere in between the "high needs/low means" customer and the wealthy estate owner. So, where permanent life insurance provides the best solution for a particular customer, what type of permanent life insurance – whole life?, universal life?, indexed universal life?, adjustable life? Some of the considerations for product selection include:

- *A comparison of basic product features*
- *"Sweet spots" based on issue age*
- *Client goals – emphasis on death benefit or a product that is designed to emphasize cash accumulation and relatively greater flexibility*
- *Surrender Charge amounts and duration*
- *Liquidity (cash flow provisions including loan provisions)*
- *Cost structure of the policy*

- *Likelihood of policy transactions (loan/withdrawal activity, changes in face amount, etc.*
- *Other Insurance in force*
- *Evaluation of guaranteed vs. non-guaranteed elements*
- *Premium levels*
- *Ability to pay planned premium levels – now and in the foreseeable future*

The appropriateness of a life insurance product recommendation should also encompass the selection of optional riders. Accordia Life's insurance product portfolio includes a variety of riders that offer compelling value propositions, and can be attached with little or no additional cost. Wellness for Life and the Accelerated Access Rider are examples of such propositions.

Some of the more traditional riders such as Waiver of Premium, Waiver of Monthly Deduction, Children's Insurance Rider and Guaranteed Purchase Option, present very valuable features at a very reasonable cost. So what is the agent's duty with respect to riders in terms of making an overall suitable product recommendation? Again, as with the base policy, a careful evaluation of client objectives and circumstances provides some insight here. Perhaps more importantly, the client should be made aware of what is available, particularly if it appears to you that a specific rider is acutely pertinent to their situation.

Premium Payments

The determination of the appropriate planned premium level for each client is also an important aspect of making suitable recommendations. Given that the majority of Accordia Life's insurance products are flexible premium products, there is an extensive range of premium levels that a policy owner can choose from ranging from product minimums up to federal definitional guidelines. Depending upon the objectives of the customer, the "planned premium" decision may be based on projected cash value targets, projected cash flow targets, or on a reasonable amount that supports projected cash values and death benefits throughout the life of the policy. The customer may elect a limited or finite premium approach which can range from a single premium to a multiple duration premium, or the customer can elect a continuous pay approach that contemplates the payment of the premium level selected all the way through the year of death.

There are a number of ways that the agent can assist the customer with determining the appropriate premium level for a universal life or indexed universal life policy. The illustration system is an extremely important tool to see how different premium levels for a given product, issue age and underwriting classification, project policy values on both a guaranteed and non-guaranteed basis. Regardless of the approach, it's always a good idea to do some amount of "sensitivity testing" within the illustration system since the results are based on current rate assumptions and projected over many years. Discussing the information contained in illustrations is an integral part of assisting the customer in the determination of their planned premium and in providing a level of direction and comfort around the selected amount.

Amount of Life Insurance

So what about the amount of coverage – what's an appropriate or "suitable" amount? Within our industry, many articles and texts have been written about the best ways for determining the appropriate face amount of coverage for a given applicant. In more recent years, computer-based needs analysis software programs provide agents with a valuable tool to use in facilitating the discussion with their clients about their needs and objectives, and ultimately in helping to determine the appropriate amount of coverage.

Some of the traditional approaches to this determination are the multiple-of-income approach, the financial needs analysis approach and the capitalization approach. The first one does not require any special software or number-crunching analysis. It merely uses a simple table that lists certain multiples of an applicant's current income, that vary depending on the applicant's issue age, as a starting point for determining the appropriate amount of life insurance, and perhaps as a general rule of an upper limit of coverage that an insurer may issue.

The other methods represent a more analytical approach that examines the needs and objectives of the applicant in determining the recommended face amount. They calculate and combine the amounts represented by various items such as final expenses (medical, funeral), probate fees, taxes, mortgage and debt payoff, college education funding, retirement funding, and possibly some percentage of income replacement needs. Whatever lump sum results can be a starting point for determining the face amount of coverage. But it's important to remember that just because the needs analysis indicates a suggested amount of insurance coverage that does not necessarily mean that the underwriter will approve such an amount for policy issue.

Obviously, the appropriate face amount will vary among different client profiles. A married individual has different needs, in general, than a single individual. A married couple with several children generally need a greater amount of coverage than a couple with no children. A stay-at-home parent has a need for life insurance that is often overlooked or at least undervalued. A single parent may have a more acute need for life insurance than a married individual since there is no surviving parent that can potentially replace the family's income. A wealthy individual with a large estate tax burden generally needs a greater amount of coverage than a middle income individual. A business owner needs an amount of coverage sufficient to take care of his or her personal needs as well as those for business needs.

So-called "juvenile insurance" – life insurance that insures the lives of children – requires additional analysis. Since a child does not have dependents of his/her own, it is more challenging to find justification for substantial amounts of insurance on their lives. On the other hand, life insurance purchased at a young age can offer an exceptional value and getting started early on a life insurance program can greatly enhance the future financial well-being of the that child and place them in a better position to protect against premature death when they start their own families. Including a GPO (Guaranteed Purchase Option) on such a policy bolsters that future protection even more. On that basis, one could argue that juvenile insurance might seem to be appropriate in nearly all cases. But to a large extent, the amount of insurance that can be justified on a juvenile relates to the amount of insurance in force on the child's parents and perhaps the amount on the child's siblings. Please see Accordia Life's Field Underwriting Guide for more details.

In any event, an appropriate amount of life insurance purchased at an early age can be a very valuable purchase for that child throughout his or her life.

APPROPRIATE USE OF ILLUSTRATIONS

We believe that the proper use of compliant illustrations facilitates the agent's explanation of our products to prospective customers. Properly used, illustrations can help promote the customer's understanding of the product they are purchasing. A customer's overall comprehension of policy features, guaranteed and non-guaranteed elements, access to policy values and policy limitations can be enhanced through illustrations.

The foundation for Accordia Life's guidelines on the use of illustrations is the NAIC Life Insurance Illustrations Model Regulation which has been adopted by the individual states, and in some cases with variations that are significant. The definition of an "illustration" is extremely broad – any presentation or depiction that includes non-guaranteed elements of a policy of life insurance over a period of years. The content and use of illustrations is highly regulated by the states and not just by regulations designed specifically for the subject of illustrations. Advertising laws and unfair trade practice statutes also come into play when an insurance product is portrayed or depicted in any product presentation, including illustrations. It's important to understand that some states have specific requirements outside the Model Regulation that may have been in place even before its adoption or added afterward based on the state's experience with customer complaints.

Here are a few simple "best practice" reminders for the effective use and presentation of life insurance illustrations:

- *Provide the customer with the basic illustration and describe its contents.*
- *Use supplemental illustrations to provide additional detail on the mechanics of the policy.*
- *Make sure that any supplemental illustration is accompanied by the basic illustration.*
- *Make sure the customer understands what is guaranteed and what is not.*
- *Explain the assumptions or conditions that are subject to change in the future, and the effect those changes could have on premiums, death benefits, cash values, and the length of time that the policy remains in-force.*
- *Avoid aggressive scenarios – e.g., illustrating max cash flows based on current assumptions.*
- *Make sure the customer understands how any loans or withdrawals could affect the benefits, cash values, the length of time that the policy remains in-force, and any downstream adverse tax consequences.*
- *Make sure the customer understands the timing of policy charges and interest credits.*
- *Be able to explain the 7-pay limit, the GSP/GLP and the basic tax aspects of life insurance.*

The NAIC Life Insurance Illustrations Model Regulation requires that a signed Basic Illustration, with all pages included, must be submitted at the time of policy application. The only exceptions to this requirement are if no illustration of any kind was used in the sales process, or if the policy is applied for other than illustrated. In that event, a certificate in lieu of an illustration may be submitted with the application.

In order to comply with the Model Regulation, the signature date of the illustration must be on or before the signature date of the application. In those instances in which a Policy Illustration Certificate is used, that form must similarly contain a signature date that is on or before the signature date of the application.

Please be aware that the states of Arkansas, Connecticut, Michigan, North Dakota, Oklahoma, South Dakota, and Wyoming require that a signed illustration be submitted with the application for an indexed life product. As a result, the illustration certification cannot be used for indexed products in these states.

FIELD UNDERWRITING

A rookie agent once said to an agency manager – "Field Underwriting? I thought that Underwriting was what the home office does before I can get a policy issued."

Although it's true that the home office underwriter evaluates applications for life insurance according to established company underwriting standards and guidelines, each individual agent should recognize that in representing the insurance company he or she is on the front lines of evaluating a prospective customer. In other words, one of the agent's key roles throughout the sales interview, application/issue process and delivery of a policy, is that of field underwriter.

It has been suggested that the agent's observation of and communication with a prospective insured may even be the most important part of the overall risk selection process. The agent is the person who physically observes the prospective insured, talks to them about their needs and objectives, asks questions about their financial situation, and records their responses to questions on the application and related documents. Indeed, underwriting a proposed insured relies on the agent accurately recording the answers to questions on the application.

But the application is neither the beginning nor the end of the field underwriting process. In some instances, the prospective insured's responses may seem inconsistent with an agent's personal observations or other information already collected. Sometimes the agent may observe what appears to be a physical, emotional or mental disorder or impairment but it is not disclosed by the applicant. The expectation of the agent is not that he or she becomes an amateur physician or psychologist, but rather that the agent relays any and all pertinent information to the home office. A key duty of the agent is to make the underwriting department aware of any information, records, history or anecdotes, for which the agent has knowledge, that may adversely affect the prospective insured's risk profile and underwriting classification. This includes information that arises before or after the application is taken and up through the time the policy is delivered.

Field underwriting is also an element in making suitable recommendations for the client. If an agent knows of a particular client's medical impairment, it might affect the recommendation of a particular product, the proposed amount of life insurance or the planned premium. It would likely prompt some preliminary discussion of the possibility of a rated case and how such a rating might affect the proposed coverage and the client's overall objectives.

Similarly, an agent might come across information that what appears to be ostensibly a very wealthy prospect is actually an individual facing potential financial difficulty due to significant debt, bankruptcy, loss of a business, or the imposition of a legal judgment. The agent may want to reassess a recommendation that requires a substantial premium commitment under such circumstances, and have an open and honest conversation of what makes sense for that client.

More information is better. When the agent's recommendation is evaluated by the home office, some of the items reviewed include insurable interest, the purpose(s) for the proposed insurance, ownership and beneficiary arrangements, the financial profile of the applicant, the source of premiums and in replacement cases, the reason for the proposed replacement. Between the application and the Agents Report, the agent provides the home office underwriter with a substantial amount of information. However, the responses on those documents sometimes trigger additional inquiries – most or all of which can be reasonably anticipated by the agent.

The presentation of the case to the underwriter is an important part of being a life insurance professional. Particularly on large cases, and cases for which an agent might anticipate additional questions from Underwriting on an ownership/beneficiary arrangement, an insurable interest issue, financial documentation, or the suitability of a replacement recommendation, the agent should provide a well written cover letter that explains the sales approach as well as the client circumstances and objectives in more detail. In other words, tell the story of how your recommendation was formulated and why it's in the best interests of the customer.

FINANCIAL UNDERWRITING

In the life insurance world, "underwriting" usually triggers thoughts of medical evaluation of mortality risk and a set of requirements that may accompany that evaluation such as paramedical or medical examinations, lab reports, attending physician statements, and requests for additional information.

But the home office underwriter also evaluates a variety of non-medical factors as well – including information about the applicant's occupation, income, net worth, general financial circumstances, the stated reason (s) for the proposed insurance, and the existence of a legitimate insurable interest in the continued life of the proposed insured. The examination of these factors, as well as some not specifically listed here, are collectively known as financial underwriting.

From a financial underwriting standpoint, the primary objective is to confirm that the proposed amount of insurance can be justified by an evaluation of the described need or objective and the financial information provided by the applicant. At the end of the day, life insurance is supposed to provide a measure of compensation to the beneficiaries of the policy. But it is not intended to be used as a financial instrument to place the beneficiaries in a better financial position than they would have been had the insured continued to live. In other words, the purpose of life insurance is not to enrich those who receive the death proceeds but to attempt to replace the economic value of what was lost. Although there is a long-held principle that, at least as a legal matter, an individual is said to have an "unlimited" insurable interest in his or her own life, the home office underwriter and the agent need to have a more discerning view. So, even in the usual case where the owner and proposed insured are the same individual, an insurance company's financial underwriting guidelines, and ultimate profitability, will require that only acceptable risks and appropriate face amounts of coverage are provided.

The financial underwriting process is also instrumental in assessing the suitability of the case, and it provides benefits for both the insurer and the client. It protects the insurance company from over-insurance and adverse selection. Over-insurance often leads to poor persistency which is contrary to the company's long-term profitability objectives. Adverse selection also affects company profitability and can occur when a proposed insured has a known and potentially serious health problem leading to an increased desire to obtain large amounts of coverage that might not be justifiable under traditional financial underwriting guidelines. To help minimize this risk, the underwriter must confirm the insurable interest and that there is a sound underlying economic basis for the requested face amount.

The financial underwriting process also protects the client by examining the purpose of the insurance, assisting the client and the agent in determining whether the amount of insurance is appropriate for the need and to ensure that the client is not over-insured to the point of becoming "insurance-poor" or unable to afford to pay ongoing premiums. In some cases, particularly those involving applications for large amounts of coverage, additional information in the form of a Financial Supplement is required.

In addition to medical underwriting requirements, tables and instructions, the Accordia Life Field Underwriting Guide contains a lot of useful information on non-medical risks and financial underwriting. Among the guidance presented are maximum face amount limits depending upon issue age, income, purpose for the insurance, whether the policy will be personally owned or business owned, and other factors. In addition, there are maximum limits imposed on the amount of planned premiums for the proposed coverage relative to the applicant's income and net worth. Please be advised that all of these measures constitute the upper limits of what will be considered, rather than a guarantee that the potential maximum amount of coverage that an individual could qualify for will be issued by the Company.

OWNERSHIP & BENEFICIARY ARRANGEMENTS

One aspect of the sale and servicing of life insurance which is all too often taken for granted is the proper arrangement of owner and beneficiary. The owner of an Accordia Life policy has all the rights and privileges of ownership. The policy owner has the right to change the beneficiary, the right to access policy values, change interest crediting strategies, death benefit options, delete riders, or surrender the policy, etc., subject to the rights of an assignee, if applicable. In cases where the policy owner is not the insured, all correspondence from the company, including premium notices, is addressed to the owner and not to the insured.

Personal Insurance Cases

In most cases involving typical family needs (i.e. income replacement, education funding, debt repayment, emergency fund, etc.); the insured generally wants to be the owner of his or her own policy. Unless a potential or currently identifiable estate tax problem or other special circumstance exists, this is the simplest and most manageable designation to use. This is the only ownership designation which will give the insured absolute certainty of control over the ultimate disposition of the death proceeds. The owner has access to policy values and is also the primary focus of the basic tax implications of the life insurance policy.

But for large estate planning cases where the client faces a substantial estate tax burden and desires a large amount of life insurance to provide the necessary liquidity on death, third party ownership alternatives need to be evaluated. These alternatives may include ownership by a spouse, an adult child, several adult children, a family limited partnership or an irrevocable life insurance trust (ILIT).

Some of these alternatives may have potential downsides, so due care must be exercised whenever a particular ownership and beneficiary arrangement is recommended. For any case involving estate planning, consultation, and coordination with an estate planning attorney is a critical component of the planning process in general, and for the ownership & beneficiary arrangement in particular.

Business Insurance Cases

Ownership and beneficiary arrangements are also vitally important in business insurance cases to ensure that the rights of ownership are exercisable by the right party, that the death proceeds are paid to the intended party and that the optimal tax characteristics are preserved. Here again, as with personal insurance cases, the ownership and beneficiary arrangement is a fundamental part of making a suitable recommendation and being a true insurance professional.

For entity purchase buy-sell agreements and key person life insurance sales, the owner and beneficiary of the policy should be the business entity itself. For a cross purchase buy-sell agreement, the owner and beneficiary will generally be the partner(s) or fellow shareholder(s) of each insured.

For cases involving executive benefit planning, the appropriate ownership designation depends on the type of executive benefit arrangement. For executive bonus arrangements, the owner is the employee him/herself and the beneficiary is selected by the employee – generally the employee's spouse or other family member. For split dollar arrangements, the appropriate ownership and beneficiary structure depends on the type of arrangement that will be used – i.e., a loan arrangement or the endorsement split dollar method. When life insurance is used in conjunction with a nonqualified deferred compensation plan, the corporation is generally both owner and beneficiary.

Life Insurance Tax Traps

In cases involving third party ownership (where someone other than the insured will be the owner of the policy), the agent and the client need to be on the same page on the specific reason(s) for the ownership designation. This is an integral part of the overall suitability of the sale. In addition, particularly in cases in which the insured will not be the policy owner, it's important to align the ownership and beneficiary designations.

Third Party Gift Tax Trap (Personal Insurance "Unholy Triangle"). Perhaps the most frequently encountered tax trap in life insurance planning involves ownership of a life insurance by someone other than the insured while someone else is the designated beneficiary. Such an arrangement has potentially devastating gift tax consequences when the insured dies. To the extent that the death proceeds of the policy are paid to someone other than the policy owner, he/she has made a taxable gift of those proceeds. The third party gift rule or Goodman Rule (named after a famous Second Circuit Court of Appeals case) manifests itself in a number of different situations.

Example 1: Husband applies for insurance on wife's life designating himself as the policy owner and naming their children as the primary beneficiaries. Wife dies. At the instant of her death, Husband has made a taxable gift of the entire proceeds to the children.

Example 2: Husband applies for insurance on his own life naming his children as primary beneficiaries. Several years later, to remove the policy from his estate, Husband transfers ownership of the policy to Wife. However, the beneficiary designation was not changed. When Husband dies, Wife has made a taxable gift of the entire proceeds to the children.

Example 3: Father understands the importance of having third party ownership of the $4,000,000 policy on his life in order to avoid inclusion of the policy proceeds in his taxable estate. However, he does not want the perceived inflexibility or the legal expense of an irrevocable trust. Father has four children and he also understands that making them all joint owners of the policy would create a rather unwieldy form of policy ownership, particularly since all four live in different states. He designates his oldest son to be the policy owner with all four children as the designated beneficiaries since he wants them to be treated equally. Unfortunately, Father's decision will have an enormous adverse tax consequence for his oldest son. When Father dies, the oldest son is deemed to have made a gift of three fourths of the policy proceeds ($3,000,000) to his siblings. He may well have to use most or all of his part of the proceeds to pay for his gift tax liability. To add to that blow, those dollars are not available to provide the estate with the liquidity it needs.

Business Insurance "Unholy Triangle." Similar to the Goodman Rule situations described above, misalignment of ownership and beneficiary designations can have adverse tax impacts in the business insurance arena as well. For example, if a corporation is the owner, beneficiary and premium payer on a policy on the life of an employee, it will receive the death proceeds income tax free. However, subsequent distribution of those proceeds to the employee's beneficiary, for example, to discharge the corporation's obligation under a deferred compensation agreement, will be taxable as compensation. If the employee is a shareholder, such a distribution may be treated as a dividend.

If the corporation is the owner and premium payer, but the beneficiary is another shareholder, the proceeds will likely be taxed as a dividend to the shareholder. The Circuit Courts are divided on the issue of whether dividend treatment would apply if the proceeds are payable to the insured shareholder's personal beneficiary. The IRS has taken the position that dividend treatment would apply. The IRS has also taken the position that if the proceeds of the policy are payable to a non-shareholder employee's personal beneficiary, the proceeds are taxable as compensation.

If the corporation is merely the premium payer, and the employee or shareholder owns the policy and has designated a personal beneficiary, the proceeds will be excludible from income under Section 101(a) (1). Of course, the premiums would be considered taxable income to the employee.

As you can see, consistent with your efforts in making suitable recommendations, the tax aspects of life insurance need to be considered. For more information or to discuss a prospective case, please contact Accordia Life Advanced Markets.

INSURABLE INTEREST

Although some sources describe insurable interest in terms of the potential loss suffered by a person or persons upon the death of another person, the better definition is one that presents a more positive, optimistic message. Insurable interest essentially stands for the proposition that a person has a demonstrable interest, and derives a financial benefit from, the continued existence and survival of another person.

This concept has deep historical roots dating back to laws established in England in the 18th century to ensure that life insurance would be carefully distanced from gambling and speculation. These laws essentially provided that contracts formed without a demonstrable insurable interest were void.

As previously noted, it is often said that any individual has an unlimited insurable interest in his or her own life. From a purely fundamental view, this seems correct. But ask any underwriter whether that is the end of the conversation, and you will get a resounding "NO." Just because an individual cares deeply about the objects of his or her affection does not mean that an insurance company is willing to issue an excessive amount of insurance that invokes the additional risks described in the previous section on financial underwriting. Certainly in the case where the applicant/owner is a different individual from the proposed insured, it must be apparent to the underwriter that the applicant/owner has a clear continuing financial interest in the continued existence of the insured. Otherwise, such a third party applicant may be motivated by prospects of enrichment or economic advantage in the event that the insured dies prematurely.

It's quite natural that the issue of insurable interest is based on the relationship of persons and that the closer the relationship, the more likely that the presence of an acceptable insurable interest can be demonstrated. Again, the presumption under insurable interest statutes is that there is a personal connection between a beneficiary (or a third party owner) and an insured that makes the insured more valuable alive than dead. Although in most cases the owner and insured are the same individual, there are numerous instances in which another individual, a trust or a business entity will procure insurance on the insured's life. As discussed in the previous section on Ownership & Beneficiary arrangements, in such cases it generally makes sense for the owner and beneficiary to be the same person or entity, although there may be cases in which the beneficiary is a different individual than the owner. While from a strict legal standpoint, it would be the owner rather than the beneficiary who should be scrutinized from an insurable interest standpoint, the underwriter will examine the relationships of all parties to the contract including the beneficiaries in order to evaluate the presence of insurable interest, the purpose for the insurance and whether it makes economic sense.

Note that most third party ownership designations provoke some inquiry, and unusual combinations of third party owners and beneficiaries are almost certain to result in requests for additional information. In recent years, probably no other marketing phenomenon has tested or irritated state insurable interest statutes than Stranger Originated Life Insurance (STOLI) or Investor Originated Life Insurance (IOLI) programs. These represent deeply troubling approaches to selling large amounts of life insurance where no demonstrable insurable interest exists and where the acquisition of life insurance is employed in such a way that a party unrelated to the proposed insured attempts to profit through the death of the insured. These arrangements violate the very essence of what insurable interest laws are designed to protect against. In addition to the insurable interest issue, such arrangements also pose additional risks to the applicants in terms of diminished coverage available for personal needs, rebating issues, and the potential for fraud.

Numerous variations have developed over the years to induce potential insureds to engage in such transactions. Sometimes applicants are offered an up-front fee for the use of their insurability and sometimes they are offered no-cost insurance protection for a period of time. In some cases, the inducement is connected to apportioning a segment of the death benefit of the policy to a charity or other designated beneficiary. Increasingly, significant efforts have been made by certain promoters to disguise what in essence are STOLI/IOLI transactions, with the intent of fraudulently inducing companies such as Accordia Life to issue policies that are destined to be used in such arrangements.

It is our position that STOLI/IOLI arrangements are contrary to public policy foundations associated with the life insurance industry, tend to jeopardize the tax-favored status that life insurance enjoys within the Internal Revenue Code, take advantage of unsuspecting consumers, and frequently involve misrepresentation or fraud in connection with applications presented to Accordia Life .

Accordingly, all agents need to recognize that Accordia Life prohibits the sale of its products in conjunction with any such arrangements. Simply put, if there is any evidence of a plan, at the time of application or after issue, that a customer is going to subsequently transfer the policy as part of a STOLI/IOLI transaction, we will take appropriate action which may include the cancellation or rescission of the policy. If detected at the time of application, we will not issue the policy. All Accordia Life agents have a duty to disclose information that is discovered at any time that indicates such a plan is in place. If an Accordia Life agent attempts to engage in such transactions by withholding or disguising information in the application process, it may lead to commission chargebacks and the termination of producer appointments, contracts and/or selling agreements.

REPLACEMENT CONSIDERATIONS

At Accordia Life, we want all of our producers to fully understand their responsibilities when making a replacement recommendation in the course of selling Accordia Life insurance products. We know that you take these responsibilities very seriously.

It's critical to keep in mind that the best interest of the customer is paramount in any product recommendations that you make, but particularly where the replacement or modification of an existing life insurance policy or annuity contract is involved. Alternatives to replacement should always be considered – a point emphasized by state replacement regulations and Accordia Life's own replacement guidelines.

It's vitally important that you understand that Accordia Life does not condone systematic replacement, and will not allow its agents to engage in such practices commonly referred to as "twisting" or "churning." Please understand that it is not Accordia Life's position that replacements are per se bad. On the contrary, in some cases it makes good sense to make such a recommendation, and it may be quite clear from the facts presented that the customer will be demonstrably better off by purchasing the new policy or contract. Probably the most important point here is that the replacement evaluation is inextricably tied to suitability. As with all of your recommendations in the course of selling life insurance and annuity products, it's vital that you adequately assess the customer's needs, objectives and financial circumstances.

The NAIC Model Regulation on Replacements of Life Insurance and Annuities has been enacted in a majority of states. There is a clear regulatory desire for more agent justification of replacement transactions as well as improved company oversight. In addition, state insurance departments are also increasingly concerned about the circumvention of their replacement regulations through unreported replacements. Several states, including the state of Iowa, have also issued bulletins reminding agents and companies that the Model Regulation's definition of replacements includes transactions in which values from one policy or contract are used to fund a new policy or contract. Therefore, agents must report, and companies must monitor, so-called "financed purchases."

It is important to understand some of the key fundamental aspects of the Model Regulation. They include:

- *The Model Regulation applies to both life insurance and annuity purchases.*
- *The Model Regulation provides a very broad definition of what types of transactions are considered to be replacements.*
- *The Model Regulation imposes strict requirements for agents and companies. Included in these requirements is a standard replacement form that must contain particular information, a certification by the agent that only company approved sales materials were used in the sale of the new policy and a demand that companies monitor replacement activity and have controls in place to monitor unreported replacements.*

Accordia Life encourages its producers to perform a side-by-side comparison whenever they are making a replacement recommendation, and maintain a copy in their client file. Doing so demonstrates that you have evaluated the advantages and disadvantages of the recommended replacement and that you have tried to make a recommendation that is suitable for the customer and is in their best interest. It's also important to realize that, in formulating the current Model Regulation, the NAIC was particularly concerned that there are many transactions that do not include a full surrender of the existing life insurance policy or annuity contract but would clearly have an impact on that coverage. For example, the commissioners were concerned about the practice of systematically extracting values from one policy or contract and funding a new policy or contract. They believed that the net effect of such withdrawals or "partial" surrenders in many cases may not be in the best interest of the customer, and further that such transactions are frequently not reported as replacement transactions. With respect to life insurance replacements, they were particularly concerned about transactions in which substantial loans were taken on an existing policy to fund a new policy, only to let the existing coverage eventually lapse. The commissioners noted that in these transactions, there was a clear intent to replace the current in-force policy, yet the practice of letting the current policy die a sort of "slow death" went unreported as a replacement.

As a result, under the Model Regulation, a replacement includes any transaction in which funds from one policy are used to fund a new policy. The Model Regulation Replacement Form is very instructive in this regard. It presents two key questions:

1.) *Are you considering discontinuing making premium payments, surrendering, forfeiting, assigning to the insurer, or otherwise terminating your existing policy or contract?*

2.) *Are you considering using funds from your existing policies or contracts to pay premiums due on the new policy or contract?*

A couple of items to keep in mind. In Question #1, we can see that, even if the customer is not completing a 1035 exchange or utilizing funds from the current policy to pay the premium on the proposed policy, if he or she is considering "otherwise terminating the policy," then a replacement transaction is occurring. For example, if premium payments are discontinued on the existing policy and it is simply going to be allowed to lapse at a later date, a replacement is taking place.

It's easy to see that Question #2 underscores the fact that any time you use funds from an existing policy to pay premiums on a new policy, you have a replacement situation.

One other very important item on the form has to do with the reason for the replacement recommendation. It is vital that you are able to document why the current policy no longer adequately meets the customer's needs and objectives, and why the proposed Accordia Life policy does.

Of course most replacement transactions are initiated prior to the underwriting decision on the proposed policy. But when an adverse underwriting decision is communicated to you by Accordia Life's underwriting department, it is important to reassess your recommendation and revise any comparison of the current and proposed policies accordingly.

Important: We have constructed the Agent's Report in order to assist you in documenting that you have considered various information in conjunction with a replacement recommendation. It assists Accordia Life in appropriately evaluating and monitoring replacement activity. Be sure to complete the Agent's Report accurately. These questions should seem straightforward and a couple of them deserve special attention. The primary reason(s) for the replacement is a key inquiry and something that should be clear to both you and the customer. It's important that you provide an understandable response that supports your recommendation that the customer replace his or her current coverage. Avoid vague responses such as "better policy" or "upgrade." It's also important to determine the amount of any surrender charges that will be assessed upon the replacement of the current policy. Other key questions involve the issue age and underwriting classification of the current policy. In the event that the proposed Accordia Life policy will be issued with a significant rating, the replacement of a policy with a standard or better underwriting classification would likely not be in the customer's best interest.

Appropriate Replacements

In order to determine if a replacement is appropriate, the agent and the client are encouraged to compare and contrast the benefits and limitations of the proposed policy with the benefits and limitations of the existing policy. If, after such a review, the client determines that the benefits of the replacement outweigh the limitations, the replacement may be justified. Some factors the agent and the client are encouraged to consider when comparing and contrasting a proposed policy with an existing policy include, but are not limited to, the following:

- *Issue age*
- *Face amounts of coverage*
- *Planned premiums*
- *Surrender Charges and durations*
- *Guaranteed and non-guaranteed rates or values*
- *Features, benefits, riders*
- *Cost of insurance rates*
- *Underwriting classifications*
- *Policy charges and expenses*
- *New contestability and suicide exclusion periods*
- *Loss of a lower loan interest rate and loss of other favorable contract provisions*
- *Financial status of client*
- *Company ratings*

There are circumstances in which a replacement may be appropriate – for example, the existing policy may no longer meet the needs of an individual, features or riders associated with the proposed policy may provide more meaningful benefits to the customer, or perhaps the proposed policy can be issued with a better rating classification.

Agents should also consider alternatives to replacement when attempting to satisfy the financial needs of their clients. Perhaps the existing policy can be updated or modified in some way to meet the needs of the customer. In some situations, a better solution might be leaving an existing policy in place, and purchasing the new policy to meet any additional needs or objectives that are discovered in the fact finding process.

On any replacement case, your own documentation within your client file is also crucial. You should always be in a position to demonstrate that (1) you conducted a thorough review of your client's needs/objectives, (2) you made a fair and careful comparison of the existing policy with the proposed policy, and (3) that you can readily articulate the primary reason(s) for the replacement recommendation – why it is suitable for the customer and in the customer's best interest.

ANNUITIES FUNDING LIFE INSURANCE

There are a number of appropriate uses of annuities to fund life insurance. For example, most insurance companies, including Accordia Life, have provided information and materials to promote the "annuity maximization" concept which positions life insurance as an alternative method of transferring wealth to beneficiaries that have potential advantages over an annuity in situations where the annuity owner has independently concluded that he or she will not need the annuity for its originally intended purpose. Generally, this concept is used only for certain clients, as appropriate, and when the existing annuity contract has been in force for a substantial period of time. It is not a concept which should ever be used in a "wholesale" manner to replace, or liquidate over time, existing deferred annuity contracts.

Another example where an annuity might be used to provide all or part of the premiums for a life insurance policy is where an existing or prospective customer has determined that he or she wants to purchase life insurance, and has identified a lump sum of money that they want to use for that purpose, yet want to avoid classification of the life policy as a modified endowment contract (MEC). A single premium immediate annuity (SPIA) could be used to spread the premium payments over the requisite period of time to avoid a MEC.

In contrast to these traditional uses of annuities to fund life insurance, there may be some approaches that appear less appropriate, or are even unacceptable, to Accordia Life. For example, when an agent sells a deferred annuity to a client and then a relatively short time later recommends the surrender of that contract in order to fund a new life insurance policy, it is difficult to see how the client's circumstances could have changed such that the deferred annuity is no longer the suitable product for that client.

Additionally, the annuity contract may have substantial surrender charges, and the transaction presents optical concerns associated with the replacement of the annuity in its early years and the sale of the life policy by the same agent along with the generation of two commissions in a short period of time on essentially the same funds.

As with any sales concepts and associated product recommendations, you should make sure to consider all of your client's financial objectives and circumstances prior to making any product recommendation. The source of funds that will be used for all or part of the premiums of a proposed life insurance policy is naturally a component of the overall suitability of your recommendation for each customer.

Accordia Life has identified a variety of sales and planning practices that involve, in some way, the use of annuities to fund life policies. These approaches may, or may not, be acceptable depending on the circumstances of the case. With recent innovations in deferred annuity products and associated riders, there are a number of creative uses of existing annuities to fund life insurance policies that may or may not be appropriate depending on a variety of factors.

The following are general guidelines to adhere to whenever you recommend that a customer uses funds from an annuity to pay premiums on a life insurance policy.

(1) Full Replacement of an existing deferred annuity with an Accordia Life policy.

- *Clear identification as a replacement and required paperwork completed*
- *No consideration of proposed replacement if the deferred annuity contract was sold within three years of the date of the life application*
- *No consideration of proposed replacement if the deferred annuity contract has more than a 6 percent net surrender charge, regardless of how long in force*
- *Consideration of the proposed replacement if the annuity contract has been in force between three and five years, and then only upon receipt of a cover letter that clearly and convincingly explains (1) why the original objective of the deferred annuity no longer makes sense for the client, (2) the client is aware of the costs (both surrender charges and tax costs, if applicable) of the transaction, (3) the client understands the liquidity limitations (surrender charges) associated with the proposed life policy, and (4) what the net benefit of the transaction is both at the time of application and at life expectancy.*
- *Consideration of all proposed replacements are subject to review by the Life Suitability (Replacements Review) team*
- *An adverse underwriting decision may make the recommendation untenable and not suitable*

(2) Use of systematic withdrawals from or "annuitization" of an existing deferred annuity to fund an Accordia Life policy – e.g. via a 'traditional' annuity maximization / wealth transfer concept.

- *Clear identification as a replacement transaction and required paperwork completed*
- *Subject to review by the Replacements Review team*
- *Systematic withdrawals must be penalty (withdrawal charge) free*
- *Client must be over the age of 59 ½*
- *The annuity maximization concept is generally used in situations in which a deferred annuity has been in force for some time, the annuity has begun to accumulate substantial taxable gain, remaining life expectancy is such that the potential taxable gain will continue to increase, and the client has concluded that they no longer need the annuity for its originally intended purpose. There could be cases where*
- *a recently issued contract is "tax-heavy" because it is a successor contract to an original annuity purchased a number of years ago.*

Example: Client purchased a nonqualified deferred annuity ten years ago at age 50 for the purpose of accumulating supplemental retirement funds. At age 60, the client concludes that he will have other retirement assets that are more than sufficient to provide for him throughout the course of retirement. Client currently plans on allowing the annuity to continue to accumulate until death, when it will be paid out to his children as beneficiaries, but he also realizes that the taxable gain in the contract will continue to build over time and that his children will have to pay income taxes on the amount of taxable gain at his death. The use of systematic withdrawals from the annuity to fund a life insurance policy that will provide income tax-free death proceeds may provide a very favorable solution and an increase in the net value received by the children.

(3) Use of "standalone" SPIA to fund an Accordia Life policy where the money funding the SPIA is from a source other than a deferred annuity contract (e.g. CDs, savings, sale of property, judgment, liquidation of other assets etc.)

- *Generally acceptable*
- *Agents who are not licensed to transact securities or to provide investment advice need to adhere to state securities laws that prohibit them from effecting transactions that involve the liquidation of securities or providing related advice.*

(4) Use of unneeded RMDs (Required Minimum Distributions) from a qualified annuity contract to fund an Accordia Life policy.

- *Generally acceptable*
- *Some indication that the client has independently concluded that he/she does not need/want the required minimum distribution (or the portion of the RMD used to pay premiums) for income to meet living expenses*
- *Premium payments should be able to be accommodated by the net after-tax amount of distribution; if not, the client should clearly understand that the gross distribution is subject to tax*

(5) Use of IRC Section 72(t) or 72(q) distributions to purchase an Accordia Life policy.

- *Not to be promoted as a general sales concept*
- *Acceptable based on facts and circumstances*
- *>Age 50 considered with showing of other adequate retirement income accounts*
- *<Age 50 only considered if unusual circumstances are present (e.g., independently wealthy, trust fund beneficiary, successful business owner/executive with substantial retirement savings from other sources, etc.)*
- *Requires a clear demonstration that client the understands the tax rules around such allowable premature distributions*
- *Life insurance is not presented as a "substitute retirement plan" in conjunction with such distributions*

SUMMARY

This Guide was designed to provide you with basic information that can assist you in making suitable life insurance recommendations to your customers. It also outlines some specific home office rules, guidelines and requirements. The purchase of life insurance is a very important decision, and with each customer comes a unique set of financial needs, objectives and circumstances. They look to your training, knowledge, and experience to examine alternatives and find the life insurance solution that best meets their needs.

There are many reasons that an individual customer will be motivated to purchase life insurance. Some sales concepts may make sense and present a compelling value proposition for some customers, but not for others. The amount of insurance, the type of product and the appropriate planned premium level are all considerations that should be carefully discussed with each customer. Evaluating and documenting each customer's needs and objectives is a very important step in determining what makes the most sense for them. Ultimately, what is probably most important is that each customer has a clear understanding of the policy they purchase and why they purchased it.

In conducting business with Accordia Life, please remember to take your field underwriting responsibility seriously, provide as much information as you can on each case, and follow Accordia Life's guidelines to produce high-quality, persistent business that fosters enduring relationships with your clients and with Accordia Life .

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Global Atlantic Financial Group

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