

## ANNUITY SUITABILITY AGENT USER GUIDE

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EquiTrust is committed to meeting the needs of your clients through suitable annuity sales. All recommendations for the purchase or exchange of annuity products should be suitable for the clients based on information known by you at the time the recommendations are made. Prior to making recommendations, you must make a reasonable effort to obtain relevant information from your clients regarding their financial needs and objectives.

EquiTrust makes a practice to confirm by letter sent to each applicant the suitability information provided on the Financial Needs Analysis form. In addition, your clients should be aware that EquiTrust makes phone calls to randomly selected applicants to confirm suitability information. See "Suitability Calls" section for more information.

### What is Annuity Suitability?

Suitability refers to conducting appropriate reviews to determine whether purchasing annuities makes good financial sense for clients. A suitable recommendation is aligning an appropriate product with a particular client after reasonable diligence is conducted. You have an obligation to ensure the products you recommend are suitable for your clients, and insurance companies have an obligation to create a supervisory system that ensures agents are meeting their obligations.

Companies have the obligation to establish suitability standards and to make agents and clients aware of them. Client needs and financial objectives vary widely, and no single annuity product is right for everyone. Several criteria determine whether products are suitable for clients but in general, suitability establishes that:

- The products meet the clients' current and future needs at the time of sale;
- The products offer substantial benefits over the life of the contracts; and
- The clients do not incur significant penalties resulting from replacements (if applicable).

Prior to making recommendations, you must make a reasonable effort to obtain relevant information from your clients regarding their insurance needs and financial objectives.

Suitability information is gathered on the Financial Needs Analysis form (form number ET-2506, may vary by state). A separate form is required with each annuity application. The form acknowledges review of the product-specific disclosure statement, provides a method of collecting and communicating customer suitability information, acknowledges the suitability of the agent recommendation and helps maintain our system of supervision. This form does not represent the only information gathering you should do, but rather is an acknowledgment EquiTrust uses to confirm the receipt of certain relevant information and to ensure a system of supervision is followed.

Complete and accurate client information ensures that appropriate documentation exists to support recommended sales. This information includes, but is not limited to: personal situations, financial information/status, financial objectives, source of funds, etc. **If clients refuse or are unable to provide requested information, EquiTrust is unable to issue the contracts.**

### Your Responsibilities

You are responsible for knowing and following EquiTrust's guidelines for suitability and complying with all laws and regulations regarding suitability. EquiTrust requires you to make every reasonable effort to present clients with the necessary information to make well-informed decisions relating to the purchase, exchange, or replacement of any annuity product.

Before recommending products to clients, carefully consider and discuss the clients' needs. Each client's objectives and circumstances are unique and your analysis and recommendation should reflect that. A decision to recommend fixed annuities to your clients should be based on a careful review of the information gathered during the analysis. Your clients should understand the products and all of the features before making purchases. Your duties include:

- Provide clients with relevant and appropriate information so they can make informed decisions.
- Make sure you comply with all applicable suitability and replacement laws and regulations.
- Document conversations with clients and make notes about why you recommended specific products.
- Keep documentation in each client's file in case future questions arise. EquiTrust strongly recommends that you retain all suitability information in a client file for as long as the contract remains in force.
- Know and apply the definition of replacement (see page 4 of the Suitability Guide). **Be certain to disclose if a replacement is involved, this is required by law.**
- Thoroughly evaluate and discuss the circumstances of all replacements with clients to help them make decisions that match their financial needs and objectives.
- Ensure the required replacement notice is given to clients and signed and dated to match the respective application.

You must also thoroughly understand the products you are offering and how they serve your clients' unique financial situations and objectives. This includes but is not limited to:

- Analysis of your clients' income and expenses (including liquidity and net worth)
- Understanding their short- and long- term financial goals
- Assessing their risk tolerance
- Understanding their tax status (example: for clients in a low marginal federal tax bracket, deferred income will be of limited benefit)

Although there are no "right" or "wrong" questions to ask customers, below is a list of sample questions you may find helpful when doing a suitability analysis:

- In what stage of life are clients in currently?
  - Are they employed and accumulating assets?
  - Are they retired with assets that provide income?
  - Are they in transition with uncertainty about changes in income and/or expenses?
- What are their main financial objectives or concerns?
- Why isn't the client's current plan meeting this financial objective or concern?
- How will the purchase of an annuity help address this financial objective or concern?
- Will the clients have adequate liquid assets/income for current and future needs?
- Do the clients understand how annuities work and the associated surrender period/charges?
- If your clients were your close friend or relatives with similar needs and objectives, would you make the same recommendations?

Additional questions to consider if a replacement is involved:

- Are replacements of current contracts beneficial to your clients? Consider surrender charge periods, rates, riders, benefits, etc.
- Will there be surrender or withdrawal charges associated with replacements?
- If surrender charges apply with replacements, will the benefits of new contracts justify incurring surrender charges on the existing contracts and/or starting new surrender charge periods?
- Do the existing contracts have features or benefits not available with new contracts?
- Do the new contracts have features or benefits not available with existing contracts?
- Are there outstanding loans on existing contracts? If so, how will loans be repaid prior to replacements?
- Are clients taking interest income, required minimum distributions, or 72(t)/(q) distributions from existing contracts? If so, how will these issues be addressed with respect to the new contracts?

## Agent Training

EquiTrust requires that agents be familiar with EquiTrust products, Annuity Suitability Standards and Business Guidelines. This Annuity Suitability Agent Guide and our Business Guidelines are required to be reviewed by each agent on an annual basis.

Prior to recommending the purchase of an annuity product, you must have adequate knowledge of the product to recommend the sale. Certified completion of EquiTrust-provided product training is required prior to solicitation. You must complete any and all additional training courses required by state or federal law or regulation and submit proof to EquiTrust of completion prior to solicitation.

EquiTrust will offer other product-specific and sales training available on the EquiTrust Agent Website or in some other manner, where appropriate. There is no charge for this training. Updates and enhancements to EquiTrust products may require additional training.

## Internal Suitability Review Guidelines

Financial Needs Analysis forms are reviewed prior to the issuance of each annuity contract. Please keep in mind, simply completing the Financial Needs Analysis form does not fulfill your responsibility to make a suitable recommendation. You must be familiar with client needs and make recommendations that are appropriate.

There may be situations in which EquiTrust seeks additional information and require a letter signed by the client in order to proceed with suitability review. These situations include, but are not limited to:

- Clients have minimal liquid assets set aside for emergencies.
- Better growth potential being the only reason for replacement without providing additional information such as the interest rate, cap, or participation rate on the proposed replaced contract.
- Clients' expenses are greater than their income.
- Clients are replacing annuities and forfeit income riders with higher values than the surrender values.
- Clients are replacing contracts with higher death benefit values.
- Clients' benefits to transfer their assets from another carrier to EquiTrust are unclear based on the information provided.
- Clients have a high concentration of assets in annuities.

EquiTrust will automatically decline applications that include, but are not limited, to the following:

- Clients who reside in nursing homes.
- Clients who have a reverse mortgage.
- Source of funding is a home equity loan.
- Clients are left with little to no liquid assets for emergencies.
- High concentration of clients' net worth are in annuities.
- Substantial surrender charges or penalties will be applied by the replaced company at the time of transfer.
- EquiTrust's contacts with clients indicate a lack of awareness about the sales transaction in general.
- Any sales made for the purpose of planning or qualifying for Medicaid or Veteran's Administration benefits.
- Inconsistent information received from you or client or on the documentation submitted.
- Undisclosed replacements.
- Replacement of annuities issued within the preceding 36 months.
- Incomplete or insufficient information to support sales recommendations.
- Any sales that EquiTrust determines to not meet suitability guidelines.

## Suitability Calls

EquiTrust conducts random suitability calls to applicants before the annuity contract is issued. Calls consist of a short phone interview and review clients understanding of certain annuity features and to confirm information provided on the Financial Needs Analysis form. Be sure to provide current phone numbers for your clients on applications and let them know that EquiTrust may be contacting them to ask a few questions about the annuity purchase. If your clients are unavailable during certain times please make note of this on the applications in Section G.

## Replacements

The definition of “replacement” according to the NAIC Life Insurance and Annuities Replacement Model Regulation is:

A transaction in which a new policy or contract is to be purchased, and it is known or should be known to the proposing agent, or to the proposing insurer if there is no agent, that by reason of the transaction, an existing policy or contract has been or is to be:

- Lapsed, forfeited, surrendered or partially surrendered, assigned to the replacing insurer or otherwise terminated;
- Converted to reduced paid-up insurance, continued as extended term insurance, or otherwise reduced in value by the use of Nonforfeiture benefits or other policy values;
- Amended so as to the effect either a reduction in benefits or in the term for which coverage would otherwise remain in force or for which benefits would be paid;
- Reissued with any reduction in cash value; or
- Used in a financed purchase.

All replacements require close review by the EquiTrust suitability team. The team will consider surrender charge periods and charges, product enhancements, and rate comparisons among other factors in looking for apparent benefits for your clients.

Carefully consider the suitability of all replacements to ensure your clients understand the advantages, disadvantages, and potential impact of replacements.

Additional information regarding replacements can be found in the Business Guidelines document, located on the Agent Website.

## COMPLETING THE FINANCIAL NEEDS ANALYSIS FORM

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A Financial Needs Analysis form (form number ET-2506, may vary by state) must be completed in its entirety and signed by the applicant and by you when selling a fixed deferred or immediate annuity. This requirement applies to clients of all ages, and the form must be submitted with applications before annuity applications can be reviewed or the contracts can be issued. You are required to make reasonable efforts to obtain information concerning the Owner/Applicants' financial and tax status, investment objectives, and other information considered reasonable in making recommendations to clients. To do this:

- Ensure that the information provided on the Financial Needs Analysis forms is complete and accurate to the best of your knowledge.
- Review all the information and materials provided.
- Keep detailed and accurate records.
- Do not give tax or legal advice. If questions arise, encourage clients to seek professional advice.

Any change made to the form before it is submitted must be initialed and dated by the Owner(s) of the proposed Contract. EquiTrust does not accept forms when whiteout has been used.

### Owner/Applicant

Complete the form based on the owner's information. If the owner of the contract is a trust or entity, use the assets and objectives of the trust or entity. If the contract is UGMA/UTMA owned, complete the form based on the donor's information. For joint owners who are spouses provide the household financial information.

### Current Financial Status

**Question 1 - Annual Gross Household Income** - Include the spouse's/partner's income in this value, if applicable. Annuities in payout are considered a source of income.

**Question 2 - Source of Income** – Check all that apply.

**Question 3 - Annual Household Expenses** – Include the spouse's /partner's expenses in this value. Taxes should be included in expenses.

**Question 4 - Liquid Net Worth**

Considerations for Question 4:	Points to Be Emphasized, Further Explained and Discussed in Detail:
<p>Liquid assets are those that are not subject to penalty or surrender charges, or can easily be converted into cash. You can include penalty-free withdrawals from annuities. Liquid funds that are being used to purchase this annuity should not be included.</p> <p>Include spouse’s assets.</p> <p>Examples of liquid assets include: Checking/Savings/Money Market Accounts, Securities sold without penalties, cash value of life insurance policies and CDs that are less than one year from maturity.</p>	<ul style="list-style-type: none"> <li>• Surrender Charges</li> <li>• Market Value Adjustment features of contract</li> <li>• IRS penalties for surrenders prior to age 59 ½</li> <li>• Partial surrender features of contract</li> <li>• Nursing home waiver features, if applicable</li> </ul>

**Question 5 - Estimated Total Net Worth**

Considerations for Question 5:	Points to Be Emphasized, Further Explained and Discussed in Detail:
<p>Net worth = Total household assets – Total debts</p> <p>Total assets: Include the premium that is being used to purchase this annuity but exclude primary residence and personal belongings.</p> <p>Total debt: Exclude the mortgage on the primary residence but include credit card debt, student loans, mortgages on other properties, etc.</p>	<ul style="list-style-type: none"> <li>• Explore the reasons to put a certain percentage of the client’s net worth into one product.</li> </ul>

**Question 6 – Total amount of debt excluding primary residence**

Considerations for Question 6:	Points to Be Emphasized, Further Explained and Discussed in Detail:
<p>Disclose amount of debt including credit cards, student loans, personal loans, auto loans, etc.</p>	<ul style="list-style-type: none"> <li>• Explore both advantages and disadvantages related to purchasing a new annuity rather than paying off existing debt</li> </ul>

**Question 7 - Types of current assets** – Check all that apply. Include the Accumulation Value of all annuities currently in force.

**Question 8 - Source of funds used to purchase this annuity** – check all that apply. **If a replacement is involved, be sure to also complete the Disclosure and Comparison of Products (form number ET-4901, may vary by state) as well as any state required replacement form.**

Considerations for Question 7:	Points to Be Emphasized, Further Explained and Discussed in Detail:
<p>Will surrender charges apply to the existing contract?</p> <p>Will this be considered a “financed purchase?”</p> <p>Do the benefits of the replacement outweigh the disadvantages? Consider alternatives that may better meet the client’s needs.</p>	<ul style="list-style-type: none"> <li>• Discuss both positive and negative aspects associated with a replacement, such as surrender charges to be incurred and associated with the proposed product, access to funds (amount and time period associated with liquidity features) and</li> </ul>

	<p>ensure the client discusses with a tax advisor, if the situation warrants.</p> <ul style="list-style-type: none"> <li>• Financed purchases are situations where the values of one life insurance policy or annuity contract are used, through loans or cash values, to purchase a new policy or contract. The cash value of the existing policy/contract may be depleted to pay the premiums of the new contract. New contracts may exceed the dividend stream or cash value of the existing contract.</li> <li>• Possible benefits: Current mortality table; extended maturity; flexible versus single premium; features available; death benefit flexibility; consolidation of contracts; rate of return potential; tax efficiency; enhanced contract performance; cash value benefits; interest rates.</li> <li>• Possible Disadvantages: Surrender charges may apply to the new product in addition to the old contract; if existing cash values are used to fund new coverage, the existing contract will not accumulate value as originally expected; adverse tax consequences; differences in coverage or features; interest rates (current and guaranteed).</li> </ul>
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**Question 9 - Do you have a reverse mortgage on your primary residence?** – Answer Yes or No .

**Question 10 - Do you have an emergency fund for unexpected expenses?** – Note: If the client answers No to this question, the annuity purchase is likely not suitable.

<b>Considerations for Question 10:</b>	<b>Points to Be Emphasized, Further Explained and Discussed in Detail:</b>
<p>Does the Owner/Applicant anticipate the need for use of these funds in the immediate or near future?</p> <p>What is the length of time the Owner/Applicant intends to leave the funds in the contract?</p>	<ul style="list-style-type: none"> <li>• Surrender charges</li> <li>• Market value adjustment features of the contract</li> <li>• IRS penalties for surrenders prior to age 59½</li> <li>• Partial surrender features of the contract</li> <li>• Nursing home waiver features, if applicable</li> <li>• Income Rider availability, if applicable</li> </ul>

**Financial Objectives**

**Question 11 - Why are you purchasing this annuity?** What are the client’s objectives for purchasing this annuity? Check all that apply. If there are objectives not listed, specify in the “Other” section.

**Question 12 - Indicate your risk tolerance** – Risk tolerance is the degree of uncertainty that your client can reasonably tolerate with regard to a negative change in his or her portfolio.

**Question 13 - What is your financial experience?** – Indicate the number of years of the client’s financial experience.

Considerations for Question 13:	Points to Be Emphasized, Further Explained and Discussed in Detail:
<p>Does the client have a past history of investment experience?</p> <p>Does the client have a diverse portfolio of current assets?</p>	<ul style="list-style-type: none"> <li>• Explore the reasons to put a certain percentage of the client's assets into this product</li> <li>• Clients with a diverse portfolio and/or past financial history and/or higher total value of investments may be better able to understand the features of the contract</li> <li>• Consider the client's need for diversification and tolerance for volatility</li> </ul>

**Question 14 - Federal tax bracket** – The federal tax rate is the rate at which the client is taxed. Review your client's previous year's tax return, compare their taxable income to the table and choose the appropriate percentage.

**Question 15 - Do you anticipate material changes in your income, expenses, or assets during the surrender charge period of the annuity you are purchasing?** The surrender charge period refers to number of years that a surrender charge applies. This question refers to a reduction or increase during the period. If the answer is Yes, he or she should explain how and when they expect the change in their financial situation to occur. Consideration should be given to whether or not the annuity is suitable due to the possible need for additional income.

**Question 16 - How long do you plan to keep this annuity?** The purpose of this section is to document the approximate timeframe when the client expects to need income from the annuity product, and their preference for withdrawing funds. If a surrender charge would apply at the end of the applicant's time horizon, the product is likely not suitable.

**Question 17 - When do you anticipate taking your first distribution from this annuity?** Check only one box.

Considerations for Questions 15, 16 and 17:	Points to Be Emphasized, Further Explained and Discussed in Detail:
<p>Do liquidity needs and timeline correspond to the surrender charge period of the annuity?</p>	<ul style="list-style-type: none"> <li>• Surrender Charges</li> <li>• Market Value Adjustment features of contract</li> <li>• IRS penalties for surrenders prior to age 59 ½</li> <li>• Partial surrender features of contract</li> <li>• Nursing home waiver features, if applicable</li> <li>• Income Rider availability, if applicable</li> </ul>

**Question 18 – In consideration of your answer to item 17, how do you anticipate taking distributions from this annuity?** If the client is unsure of how he or she will take distributions, select the most likely choice. The client's responses are not binding.

**Question 19 - Are you aware that the fixed annuity contract for which you are applying may be a long-term contract with substantial penalties for early withdrawal?** – Check only one box.

Considerations for Question 19:	Points to Be Emphasized, Further Explained and Discussed in Detail:
<p>Is the combination of the Owner/Applicant's annual income, net worth, and source of funds indicating a possible immediate or short-term need for use of these funds?</p> <p>Is an excessive amount of the Owner/Applicant's portfolio being invested in one product?</p>	<ul style="list-style-type: none"> <li>• Surrender charges</li> <li>• Market value adjustment features of the contract</li> <li>• IRS penalties for surrenders prior to age 59 ½</li> <li>• Nursing home waiver features, if applicable</li> </ul>

**Question 20 - Are you aware that withdrawals prior to age 59½ may result in a 10% IRS penalty tax? –**  
Check only one box.

### **Insurance Agent/Producer Disclosure for Annuities**

To be completed by the agent

**Question 1** – Complete all agent information

**Question 2** – Complete all owner information

**Question 3** – Check all products you are authorized to sell

**Question 4** – Check how many insurers you are authorized to sell on behalf of. If applicable, indicate the primary insurer you sell annuities from.

**Question 5** – Check only one box. If compensation other than commission is received, provide details.

### **Acknowledgements and Signatures**

#### **Statement of Purchaser**

Check only one box. If the client refuses or is unable to provide the requested information, EquiTrust will not issue the contract.

#### **Purchase Recommendation**

Check only one box. If the purchase is not based on the recommendation of the agent, an acceptable explanation must be provided in the Agent/Producer Acknowledgement section below.

- If the proposed Owner is a trust, the trustee must sign.
- If the proposed Owner is a corporation, the appropriate corporate representative must sign.
- If the contract is an UGMA or UTMA, the custodian must sign.

#### **Agent/Producer Acknowledgement**

The basis for the recommendation is required. If the purchase was not based on your recommendation, provide an explanation in this section. You must also sign and date the form.