

Company Position on Replacements



NASSAU

Nassau has a strong commitment to adhere to the replacement requirements set forth in the Life Insurance and Annuities Replacement Model Regulation and applicable state laws. Nassau has developed requirements and forms for you to use to ensure that you satisfy all of the necessary replacement requirements at the time of sale. Nassau relies on your insight and personal knowledge of your client's financial situation to identify and disclose any purchase that could be considered a replacement. A replacement transaction should only be recommended if it is in the best interest of the client. Replacements under 36 months (60 months in CA & MN) will be subject to heightened review, especially in cases where another annuity exchange or replacement occurred in the preceding 60 months. We will not consider any replacements under 24 months, or any replacement under 36 months if the producer who sold the existing contract is also selling the replacement contract.

Definition of a Replacement:

A transaction in which a new life insurance policy or annuity contract is purchased and it is known or should be known that an existing life insurance policy or annuity contract has been or will be:

- Lapsed, forfeited, surrendered, partially surrendered, assigned to the replacing carrier, or otherwise terminated
- Converted to reduced paid-up insurance, continued as extended term insurance, or otherwise reduced in value by the use of non-forfeiture benefits or other policy values
- Amended to result in a reduction in benefits or coverage
- Reissued with any reduction in cash value
- Used in a financed purchase. A financed purchase is the purchase of a new policy involving the actual or intended use of funds obtained by the withdrawal or surrender of, or by borrowing from values of an existing policy, to pay all or part of any premium due on the new policy

It is still considered a replacement to surrender (in whole or in part) an existing life insurance policy or annuity contract, place the funds in a cash-like account (e.g. checking account, money market account, etc.) and then use those funds to purchase a new life insurance policy or annuity contract. If the original source of the funds was another life insurance policy or annuity contract, that fact must be disclosed.

Prohibited Sales Practices

Nassau does not condone or encourage the systematic or deliberate replacement of existing life insurance policies or annuity contracts as a marketing or business practice.

Specifically, Nassau prohibits the following sales practices:

- Failing to disclose that a transaction involves a replacement
- Recommending a replacement that is not in the best interest of your client
- Churning – the unnecessary replacement of a client's life insurance policy or annuity contract designed to generate commission and not provide a substantial benefit to the client
- The use of misrepresentation or omission to induce the sale, purchase or transfer of a life insurance policy or annuity contract

Producers found violating Nassau's replacement requirements or engaging in prohibited sales practices may be subject to discipline, up to and including monetary fines, forfeiture of commissions and termination.

Producer Responsibilities

Regulatory Requirements

- Make sure your client understands the definition of a replacement.
- Make sure your client understands whether or not the purchase involves a replacement, as well as the advantages and disadvantages of replacing the existing contract.
- Make sure both you and your client understand the replacement questions on the application and answer them accurately and completely.
- Before recommending a replacement, make sure you thoroughly understand your client's existing contract and consider all of the advantages and disadvantages of replacement, including, but not limited to if:
 - The contract has been in force for less than 36 months (60 months in CA and MN)
 - Paying surrender charges to replace the existing contract
 - Beginning a new surrender charge schedule with the new contract
 - Losing any existing benefits (such as a death benefit, guaranteed interest rates, or riders) by replacing the existing contract
 - Being subject to increased or decreased fees with their new contract
 - Benefiting from product enhancements or new features available on the new contract that are not available on the existing contract
- Comply with the regulations and requirements of the states in which you solicit Nassau products.

These requirements include completing the applicable replacement forms, leaving copies of the replacement forms with your client, submitting original replacement forms with the application and retaining copies of all documentation for your records.

Procedural Requirements

- Present and explain the state-specific Replacement Notice and any other required forms to your client.

In states that have adopted the Replacement Model Regulation, the Replacement Notice must be completed in all cases where the applicant has existing policies/contracts, even if the purchase does not involve a replacement. The notice must be read aloud to your clients unless they indicate they do not want it read aloud. All forms must be signed and copies must be left with your client.

- Familiarize yourself with Internal Revenue Code rules relating to 1035 exchanges.

To request a 1035 exchange, complete form OL2400N (annuities) or OLI998 (life insurance). The IRS will not recognize a transaction as a valid 1035 exchange if the premium is not transferred from the existing carrier directly to Nassau. The client cannot receive the premium and then transfer it to Nassau.

- Copies (or originals) of any illustrations, disclosure documents, replacement forms and other materials used during the sales process must be left with your client, including typed, handwritten or electronic materials.

Printed copies of any electronic sales materials used must be provided to the client no later than at the time of policy or contract delivery. Make sure you submit any replacement forms requiring a signature with the application. Be sure to retain copies of all materials for your own records.

- Submit the OL3164 Sales Material List with the application.

In states that have adopted the Replacement Model Regulation, this form is required for all replacements, even if sales materials are not used.

For Producer Use Only. Not for use with the general public as sales literature.

Lifetime payments and guarantees are based on the claims-paying ability of the issuing company.

Annuities issued by Nassau Life and Annuity Company (Hartford, CT) except in New York where annuities are issued by Nassau Life Insurance Company (East Greenbush, NY). In California, Nassau Life and Annuity Company does business as "Nassau Life and Annuity Insurance Company." Nassau Life and Annuity Company is not authorized to conduct business in MA, ME and NY, but that is subject to change. Please visit the State/Product Availability page on salesnet.nsr.com for current state-specific issuing company information. Nassau Life and Annuity Company and Nassau Life Insurance Company are subsidiaries of Nassau Financial Group. The insurers are separate entities and each is responsible only for its own financial condition and contractual obligations.

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