

# Variable Annuities

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The variable annuity market has seen extensive growth in recent years, but these products are very complicated and hard for the average investor to understand. When making investment recommendations, be cautious about suggesting a variable annuity product.

Be sure to disclose the upside and the downside of products. Tell them about possible bonus credits that can be coupled with higher and longer surrender charge periods. Let them know that if they purchase a variable annuity through a tax-advantaged retirement plan, they will get no additional tax advantage. Provide fees and charges that are reasonable for the services rendered. Use honest advertising tactics that do not exaggerate a product's performance or mislead your customers in any way. Give your customers a detailed prospectus that outlines every aspect of the investment. Lastly, ask your customers these questions:

1. Is it possible that you may need access to half or all of these funds during the next three to five years?
2. Can you reasonably afford to lose 20-30 percent of these funds due to market fluctuation?
3. Are you placing a large percentage of your total net worth into this annuity?
4. Are you aware that replacing or exchanging annuities may extend the surrender charges another 10 years or more?
5. Do you fully understand the fees for withdrawing your funds during the next 10 years?

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SUITABILITY

# Life Insurance

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# Long-Term Care

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# Annuities

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# DIFP

Department of Insurance,  
Financial Institutions &  
Professional Registration

# ■ 4 standards for making suitable recommendations ■

## 1 Objectives

Find out what outcomes your customers want to achieve. Write down your customers' objectives and go over them each time you meet, so both you and your customers stay on task. Ask these questions:

1. Do you have short-term or long-term goals?
2. Do you have life insurance needs or have interest in a non-insurance product?
3. Do you have the financial knowledge and ability to manage complex products or do you need something that requires little work or monitoring?

In order for your customers to understand a product, you must have thorough knowledge of it. If you don't understand the product well enough to explain it to your customers, you won't be able to meet their objectives.

## 2 Needs

Don't try to sell your customers something they don't need. Everyone has different needs. Ask your customers these questions:

1. Do you need retirement income, investments or insurance?
2. What is your need for liquidity in a product?
3. What are some of your anticipated or future needs?

Listen to their concerns and try to decipher what is most important to them. Suggest options that provide them with the financial freedom and security they need.

## 3 Insurable Risk

Customers should be able to live comfortably without fear of financial loss. Help them understand the financial impact on loved ones if something were to happen to them. Ask your customer these questions - If you were to pass away or become chronically ill today:

1. Who is dependent upon your income for food, shelter and living expenses?
2. Will you want those close to you to continue living the same lifestyle?
3. Will your other assets provide your loved ones with proper financial security?

Get a complete list of all the things that are important to your customers, and use this in determining their insurable risk.

## 4 Financial Status

Help customers find products that fit within their financial means. Provide options to increase insurance or financial security of your customers. Ask these questions:

1. Are you taking advantage of other investment options such as IRAs and 401(k) plans which include significant tax benefits?
2. Are you willing to pay particular fees to set up a product or pay fees to back out of an agreement?
3. Do you have a high or low risk tolerance when investing your money?

Ask customers for a summary of their current assets and debts, investments and future financial outlook before determining which products will work with their financial status.