ACLI
Financial Security...for Life.

Variable Annuities: Protections for Consumers

Variable annuities are among the most regulated financial products in the marketplace, subject to scrutiny from multiple regulators. From product development to advertising to sales, life insurers must comply with state and federal laws and rules that help prevent fraud and protect consumers' interests.

- **Federal securities laws give the Securities and Exchange Commission (SEC) significant authority to supervise the sale of variable annuities.** The acts granting SEC its authority are the Investment Company Act of 1940 and the Securities Exchange Act of 1934.
- **Rules from the Financial Industry Regulatory Authority (FINRA) govern the conduct of variable annuity salespersons.** A variable annuity can only be sold by a registered representative of a broker-dealer that is a member of FINRA. The representative also must be licensed by the state to sell variable insurance products.
- **The SEC and FINRA have rules that strictly govern the activity of variable annuity salespersons**, and impose detailed standards concerning advertising, supervision, and suitability of individual sales. SEC disclosure rules require that consumers receive a prospectus that includes important information about a variable annuity including risks and fees. Variable annuity advertising must be pre-approved by FINRA.
- **Life insurance companies that issue variable annuities are closely regulated by state insurance departments.** Each state has a comprehensive set of laws and regulations, to protect consumers and to ensure the safety and soundness of the company. These laws and regulations include, but are not limited to, company and agent licensing requirements, rules for the suitability of individual sales, market conduct and financial examinations, as well as product approval procedures that companies and agents must follow.
- **The National Association of Insurance Commissioners (NAIC)** is a standard–setting organization of state insurance commissioners that develops model laws and regulations for states to consider. Annuity model laws and regulations include:
  - **NAIC Disclosure Model Regulation**, which requires consumers to receive information about how an annuity works—including rates and how often they change, options and restrictions for withdrawing money, and fees (versions adopted in 33 states).
  - **NAIC Suitability in Annuity Transactions Model Regulation** establishes standards for determining whether an annuity is suitable for a particular client and requires life insurers to oversee recommendations to purchase a variable annuity (versions adopted in 49 states plus the District of Columbia).
  - **NAIC Model Regulation on the Use of Senior-Specific Certifications and Professional Designations** establishes a standard of whether the use of a particular designation indicates or implies, in a way that misleads consumers, that the agent has special training or knowledge in advising seniors (versions adopted in 32 states plus the District of Columbia).
  - **NAIC Life Insurance and Annuities Replacement Model Regulation** ensures that the consumer receives all the necessary information to understand the effect of exchanging one life insurance policy or annuity contract for another (versions adopted in 44 states).
- **In most states, annuity contracts are required to contain a "free look" period for consumers.** If an annuity purchaser is not satisfied with the product, it can be returned to the insurance company for a full or partial refund depending on the type of annuity. Most "free look" periods last 10 days but rules vary by state. Neither mutual funds nor any other financial product have this feature.

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