



COMPREHENSIVE REGULATIONS PROTECT CONSUMERS' INTERESTS IN ANNUITY SALES

From product development to advertising to sales, life insurers offering annuities must comply with state and federal laws and rules that help protect consumers' interests.

State Regulation

As insurance products, annuities are regulated by the states that have laws and regulations for the content and marketing of the product. State regulations include extensive product disclosure, strong suitability standards, as well as truth-in-advertising and credentialing requirements.

Product Content and Marketing Rules

- Rules regarding truthful disclosure in advertising. Includes print, audiovisual, and web-based materials used in any mass communication media.
- Laws and regulations calling for approval by state officials of every annuity contract before it can be sold in a state.
- Requirements for extensive product disclosures, including a buyer's guide developed by the National Association of Insurance Commissioners (NAIC). The guide contains basic information, written in plain English, that consumers should understand about variable annuities including how money is invested, fees, and other benefits.
- Advertising rules that prohibit misrepresentation of a policy's benefits.

Sales Practices Requirements

- Unfair trade practice laws that regulate virtually all aspects of the sale of insurance products.
- Regular market conduct and financial examinations during which state officials review company sales and compliance programs.
- Requirements for company and agent licensing specific to variable insurance products.
- Rules requiring review of the suitability of recommendations to purchase certain annuities.
- Required disclosure for consumers when replacing one annuity for another is recommended.

Free Look

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.

NAIC

State insurance commissioners collaborate through the National Association of Insurance Commissioners (NAIC) to develop new laws and regulations to protect consumers' interests and ensure fair business practices. These 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.
- **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.

- **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 the consumer, that the agent has special training or knowledge in advising seniors.
- **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.

Federal Laws and Regulations

Federal securities laws give the Securities and Exchange Commission (SEC) authority to supervise securities including variable annuities. The Financial Industry Regulatory Authority (FINRA), a self-regulatory organization, which the SEC oversees, sets rules that govern the sales practices of broker-dealers.

- Federal securities laws impose broad antifraud prohibitions and give the SEC significant enforcement authority.
- SEC requires that potential buyers of an individual variable annuity receive a prospectus of the annuity's funds. Content of variable annuity prospectuses, particularly the disclosure provisions including fees and risks, is reviewed by the SEC.
- FINRA issues member conduct rules to govern the activity of variable annuity salespersons, including standards concerning the suitability of variable annuities for customers as well as advertising and supervision standards.
- Variable annuity advertising must be filed with and reviewed by FINRA.
- Variable annuity contract owners may use the FINRA arbitration process to rectify grievances concerning the sale of the product. Federal securities laws also give the variable annuity purchaser a private right of action against the issuer for material misstatements, material omissions, and fraud.