Replacement Policies and Guidelines

FOR AGENT USE ONLY

American General Life Companies

Table of Contents

Highlights of the Replacement Policies and Guidelines for American General Life Companies (American General)

Applicability

American General replacement policies and guidelines apply to all replacement transactions for all profit center distribution groups, except for Benefit Solutions.

Definition

Both state and American General definitions of a replacement must be understood and followed where appropriate.

Appropriateness

Every replacement transaction should be appropriate for the client's needs. Determining whether a replacement is appropriate requires an analysis of each client's circumstances.

Disclosure

Provide complete disclosure about the replacement transaction, helping the client understand advantages, disadvantages and potential options.

Forms

Individual state rules govern whether or not a replacement form must be used. FINRA and broker-dealer rules also govern transactions involving variable products.

Submission

Complete applications with all appropriate replacement forms must be submitted for each replacement transaction.

Documentation

Remember to document the determination that the replacement transaction is appropriate.

American General's Position Statement

American General's position is that each and every replacement transaction should be appropriate for a client's needs. An appropriate transaction is one that is in a client's best interest. Determining whether a replacement is appropriate requires an analysis of each client's needs and circumstances.

Many times it will be in the policy holder's best interest to keep or modify an existing policy. However, there may be circumstances in which a replacement transaction is appropriate for the policy holder. You should never suggest a replacement that is not in a client's best interest. Ultimately, it is the client's decision whether to proceed with the transaction.

To ensure that the replacement transaction is appropriate, American General requires you to:

1. understand the definition of replacement;
2. ask the necessary questions to determine if there is a replacement;
3. comply with your responsibilities as stated in this document and the appropriate state regulations; and
4. comply with your broker-dealer's replacement policies and guidelines for variable product sales.

Definition and Effect of Replacement

Subject to any more restrictive state laws and regulations, American General defines a replacement to be any transaction in which new life insurance or a new annuity is to be purchased, and you (as the distributor) know or should know that because of this transaction an existing life insurance policy or annuity contract has been or is to be in whole or in any part:

1. lapsed, forfeited, surrendered or partially surrendered, assigned to the replacing insurer or otherwise terminated;
2. used to finance the purchase of a new life insurance policy or annuity contract. A financed purchase means the purchase of a new policy involving the actual or intended use of funds obtained by withdrawal of, surrender of or borrowing from some or all of the policy values, including accumulated dividends, of an existing policy to pay all or part of any premium due on a new policy either before or after the new policy is issued;
3. reissued with any reduction in cash value;
4. amended so as to 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; or
5. 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.

Use of Definition

For each sale, the distributor should look to the appropriate state's replacement definition to determine whether the transaction would be a replacement. If the state's laws define the transaction as a replacement, the distributor should

1. disclose the transaction as a replacement on the application,
2. complete any state-required replacement forms, and
3. follow the company's replacement policies and guidelines.

If the transaction is not considered a replacement pursuant to the state's definition, the distributor must still determine whether the sale would be a replacement under the company's replacement definition.

If so, then the distributor should disclose the replacement on the application and follow the company's replacement policies and guidelines.

Treatment of an Affiliate Replacement

If both the existing and replacing policies are purchased from affiliate American General companies, the transaction should be considered a replacement for purposes of complying with all state and federal regulations and will be considered an internal replacement for purposes of American General internal business policies.

Determination of a Replacement

Because the law requires you to indicate that a transaction is a replacement in circumstances when you knew or should have known about it, the company requires you to exercise diligence in determining if a transaction involves a replacement. You must fully understand the definition of replacement, ask each client all questions necessary to make a determination as to whether the proposed transaction is a replacement and provide the client with all relevant company or state-required replacement disclosures and forms.

Determination of Appropriateness

Your responsibility to determine the advantages and disadvantages of the replacement transaction — and to make a recommendation to the client on appropriateness — can be a complicated process influenced by your client's needs and objectives, the type(s) of policies being replaced and purchased, the amount of replacement information obtained and your identification and comparison of the relevant replacement factors.

Some types of replacement transactions (e.g., term-to-term, or fixed annuity–to–fixed annuity) may involve fewer replacement factors and require a less extensive appropriateness analysis than other types of replacement transactions. Replacement transaction comparison factors include, but are not limited to, the following:

1. the advantages and disadvantages of meeting the client's needs through the purchase of life insurance;
2. whether the client's goals can be better served by keeping or modifying an existing policy;
3. the effect of the replacement on future premium payment obligations and the client's ability to pay the premiums;
4. a comparison of the guaranteed and nonguaranteed elements of the existing and proposed policies and their effects on each policy's cash value buildup, death benefits, lapse dates, etc.;
5. how surrender charges that may be assessed on the surrender of the existing policy and those applicable to the proposed policy will affect policy values (e.g., a comparison of net cash value directly before and after the replacement transaction);
6. the effect of the replacement on the client's liquidity needs;
7. the consequences of new incontestability and suicide provisions;
8. whether changes in the insured's health after the date the existing policy was issued will adversely change mortality costs;
9. any increase in mortality costs;
10. any differences between the existing and proposed policies' contractual provisions, duration and amount of coverage, loan interest rates and/or tax treatment of the replacement transaction;
11. any favorable policy provisions or grandfathered rights that may be lost;
12. any potential tax consequences; and
13. the quality and financial stability of both the existing and the replacing company(ies)

Replacement Analysis

To help you effectively evaluate the appropriateness of a proposed replacement, the following questions — identified by the NAIC in its 2000 Model Replacement Regulation — should be considered with the client.

Premiums:

1. Are they affordable?
2. Could they change?
3. You're older now than you were when you purchased the original policy, so premiums may be higher for the proposed new policy.
4. How long will you have to pay premiums on the new policy? On the existing policy?

Values:

5. New policies usually take longer to build cash values and to pay dividends.
6. Acquisition costs for the existing policy may have been paid, and you will incur costs for the new one.
7. What (if any) surrender charges do the policies have?
8. What expense and sales charges will you pay on the new policy?
9. Does the new policy provide more insurance coverage?

Insurability:

10. If your health has changed since you bought your existing policy, the new one could cost you more—or you could be turned down for the new policy.
11. You may need a medical exam for a new policy.
12. Claims on most new policies (for as long as two years, depending on the state of residence) can be denied based on inaccurate statements made on the application.
13. Suicide limitations may begin anew on the new coverage.

If you are keeping the existing policy as well as the new policy:

14. How are premiums for both policies being paid?
15. How will the premiums on your existing policy be affected?
16. Will a policy loan be deducted from death benefits?
17. What values (if any) from the existing policy are being used to pay premiums?

If you are surrendering an annuity or interest-sensitive life product:

18. Will you pay surrender charges on your existing contract?
19. What are the interest rate guarantees for the new contract?
20. Have you compared the contract charges or other policy expenses?

Other issues to consider for all transactions:

21. What are the tax consequences of buying the new policy?
22. Is this a tax-free exchange? (See your tax advisor.)
23. Is there a benefit from favorable grandfathered treatment of the existing policy under the federal tax code?
24. Will the existing insurer be willing to modify the original policy?
25. Do the quality and financial stability of the new company compare favorably with the quality and financial stability of your existing company?

Your Responsibilities

The time and effort needed to fulfill the following responsibilities will depend on the types of products involved in the replacement transaction. To ensure the replacement transaction is appropriate, each distributor—prior to application submission—has a responsibility to:

1. identify the client's current needs and objectives;
2. determine whether the client's current needs and objectives can be met by the existing policy, a modification of the existing policy, or a new policy;
3. determine whether the purchase of the new policy meets the definition of a replacement;
4. provide, help the client obtain, or direct the client to information necessary to determine the appropriateness of the proposed replacement transaction (e.g., policies, annual statements, reprojections and illustrations);
5. provide complete disclosure and analysis of all relevant replacement information and factors—help the client understand the advantages and disadvantages of the replacement transaction;
6. ensure that the client understands the difference between guaranteed and nonguaranteed elements of the existing and proposed policies and that nonguaranteed elements are based on specific assumptions and are never a guarantee or a predictor of future results;
7. determine whether the replacement is appropriate and tailor recommendations accordingly;
8. comply with the company's replacement policies and guidelines and with all relevant state and federal requirements;
9. recommend to the client that he or she keep the existing coverage in place until the new coverage is in force; and
10. document and maintain in your files a complete and accurate record of client discussions, including all materials reviewed, relating to the appropriateness determination and the replacement decision. Products involved in the transaction will dictate the proper amount of documentation necessary.

Role of the Client

The determination of whether any particular replacement is in a client's best interest and whether to proceed with the transaction is ultimately to be made by the client after obtaining any and all information necessary to make that determination. If appropriate, the client's decision should be made in conjunction with his or her tax, legal and/or insurance advisor.

Role of the Company

The company will monitor the replacement activity of its distributors to ensure compliance with the company's policies and guidelines and the applicable regulatory requirements. In addition, the company will monitor a distributor's sales activities to identify inappropriate replacements and undisclosed replacements. The company will take necessary steps to enforce its policies and guidelines and its commission adjustment guidelines and to sanction any violators.

Questions and Answers about American General's Replacement Policies and Guidelines

1. Why is American General providing this replacement information?

Due to American General's evolving corporate structure and cross-selling environment, all distributors should understand and utilize this replacement information, which reflects both company policy and the NAIC Model Replacement Regulation.

2. When is a transaction to be considered a replacement?

A replacement occurs when a new life insurance policy or annuity contract is to be purchased and you know (or should know) that because of the purchase, an existing policy or contract will be terminated, altered or used in a financed purchase. For more detailed information, refer to the Determination and Effect of Replacement and Replacement Analysis sections of this document.

3. Do these new guidelines apply to all replacement transactions and all products?

The guidelines apply to all external, internal and affiliate replacements of any existing life insurance policies and annuity contracts. The company's definition of replacements generally excludes the following:

- credit life;
- group life and annuities;
- COLI/BOLI;
- life insurance that is employer or association paid;
- exercise of a contractual change or a conversion privilege;
- group life and annuities used to fund prearranged funeral contracts;

- life insurance proposed to replace insurance under a binding or conditional receipt issued by the same company;
- nonconvertible, nonrenewable term life that will expire in five years or less;
- immediate annuities purchased with proceeds from an existing life or annuity contract;
- policies used to fund a tax-qualified plan or a nonqualified deferred compensation arrangement;
- structured settlements.

These exemptions track the NAIC 2000 Model Regulation. However, some states do not exempt all of the above, so you must determine whether the transaction is considered a replacement in the state in which it takes place.

4. What is a financed purchase?

The term financed purchase describes the actual or intended use of policy values (partial surrender values, loan values or accumulated dividends) from an existing policy to pay all or part of any premium on a new policy, either prior to or subsequent to the issuance of the new policy.

For more detailed information, refer to the Determination and Effect of Replacement section of this document.

5. How do these new guidelines apply to state and FINRA requirements for registered products?

These policies and guidelines apply to the replacement recommendation or purchase of any life insurance or annuity policy regardless of whether they are registered or traditional products. State regulatory requirements, including the use of specified forms, must always be followed. Any replacement recommendation made by a registered representative should not only be in accordance with these guidelines but also with the procedures and requirements of their broker-dealer relative to appropriateness and suitability.

6. What is an affiliate replacement?

Whenever both the existing and replacing policies in a transaction are purchased from affiliated American General companies, the transaction will be considered an affiliate replacement. As with all other replacements, affiliate replacements must comply with all state and federal regulations as well as American General's replacement rules.

7. Are state replacement forms required for a conversion?

Some term insurance policies contain contractual rights to convert to another policy with the same insurer or an affiliated insurer. Generally, state replacement forms will not be required for a transaction when it involves the exercise of this contractual provision. Be sure to review your state's replacement definition to determine if replacement forms are required for these types of transactions.

8. How do I determine appropriateness?

A replacement is appropriate when it is in the best interest of the policy holder to replace the existing policy. Determining the advantages and disadvantages of the replacement transaction — and making the ultimate decision on appropriateness — can be a complicated process that will be influenced by the client's needs and objectives, the type(s) of policies being replaced and purchased, the amount of all replacement information obtained and the comparison of all relevant factors. For more detailed information, refer to the Determination of Appropriateness and Replacement Analysis sections of this document.

9. What are penalties for violations of the new guidelines?

Violations of replacement guidelines and regulations may subject both the company and the agent to significant penalties. Penalties may include the revocation or suspension of an agent's or a company's license, monetary fines and the forfeiture of commissions or compensation paid to an agent as a result of the transaction in connection with which the violations occurred. In addition, the agent will be subject to discipline by the appropriate disciplinary body.

American General
Life Companies

For distributors of:
American General Life Insurance Company of Delaware
American General Life and Accident Insurance Company
American General Life Insurance Company
American International Life Assurance Company of New York
The United States Life Insurance Company in the City of New York
American General Assurance Company

Important Notice for CA, ID, NM, or OK residents: in these listed states American General Life Insurance Company of Delaware operates under its prior name AIG Life Insurance Company pending regulatory approval of the name change. A policy purchaser will be provided notice of the name change upon receipt of applicable regulatory approvals.

American General Life Companies, www.americangeneral.com, is the marketing name for the insurance companies and affiliates comprising the domestic life operations of American International Group, Inc.
AGLC0418 Rev0510