

# Nationwide Suitability Help Guide



## Intent of this Suitability Guide

This guide is intended to help outline the Nationwide suitability process. The below sections specifically address areas that commonly create confusion or generate additional questions and do not represent all possible scenarios, concerns, or questions.

## Our expectation of the Producer

Our expectation is the Producer obtains relevant information from the client regarding their insurance needs and financial objectives and ensures the client understands the various features of the annuity, such as the surrender period and charges, potential adverse tax consequences, costs and features of riders and limitations on returns. The proposed annuity must provide clearly documented benefits to the client to be considered a suitable sale, and the benefits should be specifically outlined within the Customer Annuity Suitability for Fixed Annuity Products document.

## Liquid Assets

Nationwide expects clients to have an adequate emergency fund. These assets are invested in a manner that makes them appropriate as an emergency fund including such considerations as liquidity and risk. If your client has less than three months of living expenses covered by their liquid assets, please provide an explanation of how the client will address a sudden, financial emergency.

### Nationwide does not consider the following assets as a primary emergency fund:

- Life insurance cash value
- Loans of any type, including life insurance, home equity loans, and retirement plan loans
- Assets subject to a significant amount of risk (many stocks, bonds, mutual funds)
- Assets subject to tax penalties or other penalties if utilized.

### Nationwide considers the following assets as liquid in most circumstances (unless subject to penalty):

- Checking, Savings, CD
- Money Markets
- Low-risk stocks, bonds, mutual funds
- Cash (currency) held by the owner

## Naturally-Owned Nonqualified contract where the Annuitant is not the Owner

Generally, this contract structure is used because the owner's age exceeds the maximum issue age for an annuitant. In these cases, we may require additional information and acknowledgements. These submissions are examined on a case by case basis, and Nationwide may conduct a wellness call to the owner to confirm their understanding of the product, as well as any foregone benefits resulting from the transaction.

### Additional Requirements

We generally require the client to have significant liquid assets and net worth to consider accepting this structure. If the application is a replacement where the owner is currently the annuitant, the suitability form will need to document the benefit to the client in this transaction. Marginal or minimal benefits will not be considered for an approval.

*See reverse side for additional information*

## Contract Construction

We recommend consulting the contract language to ensure the parties to the contract are structured appropriately to meet the client's intent. For contracts where the succeeding owner(s) are younger than age 59.5 a 10% federal tax penalty, in addition to ordinary income taxes, may apply upon distributions. Please have your client consult a tax advisor.

*For example, if the contract succession ownership rights allow for the annuitant to succeed as the owner upon the original owner's death\*, a contract would be set up as follows:*

### Situation:

Owner and annuitant are different persons and there is no joint owner.

### Intention:

Owner wants the funds to go to the annuitant upon owner's death.

Owner wants the funds to stay with owner if the annuitant dies.

### Correct Setup to match the above intention

The primary beneficiary should be the owner or annuitant and the contingent beneficiary should be the remaining party. If the party that dies matches the primary beneficiary, then Nationwide pays to the next beneficiary.

*\*Please consult the contract to understand the succession rights within the contract*

## **Trusts**

When recommending a purchase of an annuity to a trust, please outline on the suitability form how the proposed product will meet the objectives of the trust. For revocable trusts, the grantors assets should be included along with the trust information. For irrevocable trusts, the Suitability Questionnaire should be completed based on the assets of the trust. For all trusts, you should specify the general purpose of the trust. You should also disclose the relationship of the annuitant to the trust.

## **Income Comparisons**

When purchasing a Nationwide annuity with an income rider and the source of funds is an existing annuity with an income rider, or a defined benefit plan designed to provide guaranteed income, we will compare the income amount available in both products at the age the client intends to start withdrawals from our contract. We require specific, documented benefits to our purchase in all instances, especially if the existing annuity/pension offers a higher guaranteed income than the proposed Nationwide product. The income values are required on the Suitability Questionnaire.

When purchasing an Immediate Annuity and the source of funds is an existing annuity or defined benefit (pension) plan, an income comparison is required. We will compare our Nationwide SPIA payment amount (in dollars) compared to the existing annuity's annuitization amount or pension payment amount. We understand the payment option selected at Nationwide may not be available within the existing annuity/pension, however a comparable payment option (term certain, installment refund, etc.) should be used for comparison. The income values are required on the Suitability Questionnaire.

## **Replacements and Rider Comparisons**

The replacement and rider sections of the Suitability form should be completed in their entirety. These sections outline information about the existing product and completion is requested to ensure the client is aware of all features of the existing product (riders, potential/current income, interest rate, fees, etc.).

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## **Inherited/Beneficially Owned Annuity Contracts**

We consider inherited/beneficially-owned annuity contracts used to purchase new annuity contracts as replacements and should be treated as such for suitability purposes. The submission should reflect a replacement and the existing and proposed products should be compared accordingly.

## **Partial Penalty-Free Transfers**

Most annuity contracts offer penalty-free provisions during the surrender charge period to provide the client liquidity. Using these provisions to fund an annuity purchase would classify the purchase as a replacement.

We recognize there are scenarios where a client may have multiple objectives that are best served with multiple annuities; however, multiple annuity contracts also provide a level of complexity (i.e. general complexity of annuity products, fees, riders, beneficiary claim process) that requires sufficient justification for approval. We do not consider penalty free transfers between fixed indexed annuities to add diversification to the client's investment portfolio.

## **Additional scenarios and considerations**

Below is a list of common scenarios and additional information the producer should provide within the Producer's Statement or additional letter to explain the situation and reduce the time required for suitability review.

### **Financial Situation**

- Situation:** **Client's income is unusually large or small relative to the client's financial assets**  
Please provide details as to the client's level of income and financial assets. Outline why the client's savings are not greater given their annual income, or why their savings are so large given their income.
- Situation:** **Client is unemployed**  
Please explain the plan for seeking future employment. What was the nature of the client's previous employment and what was the client's annual compensation?
- Situation:** **Client has less than three (3) months (or requisite levels) of expenses in liquid assets**  
Please specify if any of the disclosed expenses are discretionary and could be reduced if needed. What measures is the client taking to build an adequate emergency fund?
- Situation:** **Client has unusually low expenses, or low liquid assets, or high debt**  
Please provide additional information to explain/support the specific situation or concern. A Financial Inventory Worksheet may also be required.
- Situation:** **Client has a reverse mortgage**  
Was this a lump sum or paid as installments? If installments, what is the length of time? When was the loan taken? Why was the reverse mortgage taken? Is the reverse mortgage included in the client's income?
- Situation:** **If Lifetime Income was selected as a financial objective but no rider is being purchased**  
How will the proposed contract provide lifetime income?
- Situation:** **The client is applying for a means-tested government benefit and this annuity is part of the planning process**  
Include the name of the Elder Law Attorney. Annuities sold in conjunction with a Medicaid application will only be approved if a named attorney is providing guidance.

### **Elder Sales and Trusts**

- Situation:** **Client is 80 years of age or older**  
Please provide additional details in the Producer's Statement as to the suitability of this product given the client's age. Please include whether any trusted friends or family members were in the sales meeting and their names and relationship if applicable.

***See reverse side for additional information***

**Situation: The client is a trust**

Is the trust forced to liquidate if the grantor(s) expire? Do the Trustees understand that if the owner of the annuity changes, in most circumstances, any riders and benefits will terminate? Does the Trustee understand that only the annuitant's death will trigger the death benefit provisions of the annuity?

**Objectives, Definitions, and Clarifications**

**Situation: The client elects a risk tolerance of aggressive**

How does this product fit into the client's risk tolerance?

**Situation: The client selects a shorter Time Horizon than the product's CDSC schedule**

How does this product meet the client's investment time horizon?

Liquidity Needs should reflect when the client plans on or would like to begin taking withdrawals.

Time Horizon reflects the client's expected length of time they will invest in this product.

General Need for Income If the client is purchasing an income rider, plans to utilize a policy for income, or is purchasing an immediate annuity but does not appear to have a need for income (i.e., More income than expenses) please be sure to explain why the income is needed. If applicable, explain why the proposed product is going to be used rather than taking withdrawals from the existing source of funds.

**Source of Funds**

A Registered Representative (RR) or Investment Advisor Representative (IAR) is required to assist in liquidating securities or securities-based products. If the writing agent is not a RR or IAR (e.g. Insurance-Only), the Non-Solicitation Form is required if the source of funds for the Nationwide purchase is a security or securities-based product. This form states the Insurance-Only producer did not recommend the liquidation of securities, as he/she is not licensed to do so.

**Situation: The funds are coming from a Variable annuity**

Generally, Variable Annuities offer a guaranteed fixed subaccount option. This information should be disclosed in the Replacement Section (25) to ensure the client is fully aware of the current and guaranteed minimum interest rates.

**Situation: Source of funds is life insurance**

How have the client's objectives changed? Does the client have sufficient life insurance to meet their life insurance needs after the purchase of this product?

**Situation: CDSC or penalties will occur upon the surrender of the product**

Specifically outline why the client is willing to pay the CDSC or penalties.

**Situation: The guaranteed death benefit is higher than the contract value**

Specifically outline why the client is willing to give up the death benefit value.

**Producer's Statement**

The Producer's Statement should explain how the product benefits the client and address specific goals and objectives. Any additional information pertinent to the case not specifically referenced in another section can be added here. Please ensure to outline the advantages of maintaining the existing source of funds in (P3).

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