

Annuity Suitability Instructions and Definitions

INSURER: FIDELITY & GUARANTY LIFE INSURANCE COMPANY

Suitability - The Company's Requirements

Fidelity & Guaranty Life Insurance Company ("Fidelity & Guaranty Life") requires that all producer recommendations for the purchase or replacement of annuity products should have a reasonable basis as to their suitability for the consumer, based on the information disclosed by the consumer to the producer at the time the recommendation is made.

Fidelity & Guaranty Life also requires its appointed producers to make every reasonable effort to present each client with the information necessary to make well-informed decisions relating to the purchase, exchange, or replacement of any annuity product.

At a minimum, Fidelity & Guaranty Life producers and their clients should be able to answer "yes" to each of the questions below prior to completion of any annuity purchase, exchange, or replacement:

- Does the client understand the key features of the product?
- Does the client understand the purpose of the annuity?
- Does the client have adequate remaining funds in case of an emergency? Is the client comfortable there are no likely, foreseeable significant adverse changes in income or expenses during the annuity surrender period that may affect the client's decision to purchase an annuity?
- If the client is replacing or exchanging another product with this annuity, does the client understand the pros and cons of the exchange, i.e., tax penalties, surrender charges, new surrender periods, loss of existing benefits? Will the consumer benefit from the new annuity's features and enhancements such as any riders selected? Is the complete transaction (including surrender and purchase) suitable?

Suitability Reviews

Fidelity & Guaranty Life has established home office procedures for reviewing the suitability of annuity sales transactions. The process involves a review of information you submit with every application, including a review of our Suitability Acknowledgement Form ("SAF").

The SAF will be reviewed to determine whether the suitability information provided in connection with the transaction:

- Appears to reflect a reasonable basis as to suitability and should be accepted for issue;
- Appears to lack a reasonable basis as to suitability and should be declined; or
- Requires further review of certain factors and should be held until we complete our review.

In situations where additional review is required, Fidelity & Guaranty Life will conduct an elevated review of the suitability information, which may include:

- Contacting producers by telephone with additional questions;
- Conducting telephone interviews with applicants; and/or
- Requesting written responses and/or documentation from producers to support purchase, replacement, or exchange recommendations.

Fidelity & Guaranty Life will decline transactions determined, via the suitability review process, to lack a reasonable basis as to their suitability. Also, the Company may offer your client the right to free-look an issued annuity at any time, and may reserve the right to charge back any commissions paid on that transaction.

Pursuant to the adopted NAIC Model Regulation on Suitability in Annuity Transactions, a licensed insurance producer must have reasonable grounds for believing that the recommendation of the purchase, replacement

Fidelity & Guaranty Life Insurance Company Des Moines, IA

Annuity Suitability Instructions and Definitions

INSURER: FIDELITY & GUARANTY LIFE INSURANCE COMPANY

or exchange of an annuity is suitable based on the insurance needs and financial objectives disclosed by the consumer.

It is your responsibility — both as an appointed producer for Fidelity & Guaranty Life and as a licensed insurance producer — to recommend the purchase, exchange, or replacement of an annuity only after carefully evaluating the unique financial circumstances, objectives and needs of your customer and determining an annuity is suitable.

Prior to the recommendation to purchase, exchange, or replace an annuity, you are also required to ensure the following:

- The consumer has been reasonably informed of the material features of the annuity;
- The consumer will benefit from purchasing the annuity; and
- The annuity as a whole is suitable for the consumer.

When a recommendation involves a replacement or exchange, you are also required to consider the following:

- Will the consumer incur surrender charges?
- Will the consumer benefit from product enhancements (such as riders)?
- Has the consumer had another annuity exchanged or replaced within the preceding thirty-six (36) months (60 months for California or Minnesota consumers)?

Suitability Acknowledgment Form

The Fidelity & Guaranty Life Suitability Acknowledgement Form (“SAF”) is an essential part of the Company’s suitability program and is required with every new annuity application.

The SAF is designed to help you assess your client’s financial situation and determine whether an annuity is suitable by asking many of the questions to be considered prior to making an annuity recommendation, including, but not limited to:

- What are your client’s net worth and liquid assets?
- How much of your client’s liquid assets will remain after the purchase of this annuity? Will your client’s income after the purchase of this annuity sufficiently cover his or her living expenses?
- What is your client’s monthly disposable household income?
- What is the source of the funds being used to purchase this annuity?
- What is your client’s purpose for purchasing the annuity? What financial goals will this annuity help your client achieve?
- Does the long term nature of an annuity product fit the client’s financial time horizon? Does the client anticipate needing to take any distributions that will be subject to surrender charges?
- What is your client’s investment experience? What other products does your client currently own or has owned in the past?
- What is your client’s federal tax bracket?
- How much risk is your client willing and able to sustain in exchange for potentially greater gain?

Fidelity & Guaranty Life Insurance Company Des Moines, IA

Annuity Suitability Instructions and Definitions

INSURER: FIDELITY & GUARANTY LIFE INSURANCE COMPANY

Documents and Recordkeeping

- When completing the SAF, remember to complete all blanks and answer all questions. Incomplete forms will cause an application to be deemed “Not in Good Order” and will delay suitability review and issuance of the annuity. It is okay to use “NA” or “N/A” to indicate not applicable or use a null sign (∅) if the amount is zero, but it is generally preferable not to use dashes.
- Fidelity & Guaranty Life does not permit consumers to “opt out” of completing the SAF and will decline any application where complete suitability information is not provided. Agents may assure clients that this information will not be shared by Fidelity & Guaranty Life with any third party for marketing purposes as explained in our privacy policy. Agents may also want to describe their own privacy practices for handling personal financial information of clients.
- Edits to information on the original SAF, including additional information not previously disclosed, must be initialed and dated by the proposed contract owner(s).
- Always keep copies of the SAF and all other documents, make notes of conversations with clients, and save any other information considered in your suitability assessment so you can demonstrate the basis for your recommendations. This information should be kept at a minimum for as long as the policy is active and beyond that for whatever period is required by your state’s laws.
- Promptly provide additional information to Fidelity & Guaranty Life when requested.

Whose Suitability Information should be collected?

Below are some basic rules to help in determining whose suitability information should be collected:

- If the proposed owner of the contract is a natural person, but not the same as the annuitant, the SAF should be completed with the proposed owner’s information.
- If the proposed owner is a revocable trust, the SAF should be completed with the grantor’s information.
- If the proposed owner is an irrevocable trust and the annuity is purchased in conjunction with or in close proximity to the creation of the trust, then ordinarily the SAF should show the financial information of the grantor of the trust. If the trust predates and is independent of the purchase of the annuity, ordinarily the SAF should show the financial information of the trust itself. In these cases, be sure to explain the purpose of the trust and how the annuity fit the purpose of the trust.
- If the proposed owner is a corporation, you need to evaluate the nature of the corporation. If it is closely held, such as an S-corporation, the SAF should look through to the principal owner. If the corporation is a traditional C-corporation in which no individual holds a majority interest, the SAF should be completed with financial information of the corporation itself.

In all cases Fidelity & Guaranty Life reserves the right to request information about all parties involved in the transaction, including owners, annuitants, beneficiaries, and related parties such as trustees.

Signatures — Who should sign the form?

The writing agent(s) and the proposed annuity owner(s) are required to sign the SAF. You should review each point of the form with your client to ensure your client is reminded of the key considerations in purchasing the annuity and acknowledging all of the information provided is complete and accurate to the best of your client’s knowledge.

Annuity Suitability Instructions and Definitions

INSURER: FIDELITY & GUARANTY LIFE INSURANCE COMPANY

In cases where the proposed annuity owner is a non-natural person, the following guidelines generally apply:

- If the proposed owner is a trust, the trustee must sign the SAF. Be sure to include a properly completed Certificate of Entity Ownership Form (ADMIN 5456), Trust Certification (ADMIN 5769), and a W-9 form.
- If the proposed owner is a corporation or entity, the appropriate corporate representative(s) must sign the SAF. A copy of the governing body meeting minutes (i.e Board of Directors) or a Corporate Resolution reflecting the signor has the authority to act on behalf of the corporation should be provided with new business paperwork. Be sure to include a properly completed Certificate of Entity Ownership Form (ADMIN 5456) and a W-9 form.

Special Instructions for Certain Questions

Most questions on the form are self-explanatory. However, further instruction is warranted for a few of the questions:

- **Question 7 – Qualify for Government Programs:** If a primary purpose of the annuity is to help qualify for government programs such as Medicaid benefits, the company usually requires additional information, such as what government program is involved, how purchase of the annuity helps qualify for government benefits, whether the annuity would qualify the client immediately or at some future date, to what extent relatives have been involved in the process, and what other professionals were relied upon (such as attorneys and accountants) in seeking benefits and determining an annuity is appropriate. Often the company will not issue an annuity in these situations unless the annuity is bought at the recommendation of a qualified attorney such as an Elder Care lawyer.
- **Question 8 – Trust Sale:** This question asks whether purchase of the annuity is connected to or based on information provided during the establishment of a trust sold by the agent, the agent's affiliate, or an attorney provided through the agent or affiliate. This question should be answered "no" if the agent merely referred the client to an attorney with whom the agent has no financial relationship and the client is free to use that attorney or an attorney of the client's own choosing. In any other situation, if this question is answered "yes", the company will need to ensure proper disclosures have been made, the agent is not engaged in the unauthorized practice of law, and the attorney is acting independently in representing the client's interests.
- **Questions 9 - 13 – Financial Information:** On the financial information page (page 2) agents should include all information as it exists prior to purchase of the annuity, including those assets used to purchase the annuity. The information should be presented on a consolidated basis for the household including the proposed owner and the owner's spouse or partner or any other adult with whom the owner shares finances. Ensure that all numbers add up properly; i.e., income less expenses equals disposable income, total liquid assets plus total non-liquid assets equals total assets, short-term liabilities plus long-term liabilities equals total liabilities, etc.
- **Question 15 – Surrender Charge Disclosure:** The agent should fill in the first year surrender charge percentage in the first blank and number of years for which there are surrender charges in the second blank. In the case of a multi-year guarantee annuity, the second blank should indicate the number of years to reach the window period during which the annuity can be surrendered without penalty. Agents should reinforce with applicants purchasing multi-year guaranty annuity products that surrender charges may renew after the window period.

Annuity Suitability Instructions and Definitions

INSURER: FIDELITY & GUARANTY LIFE INSURANCE COMPANY

- **Question 18** – Source of Funds: Check the box that matches the source of funds for the annuity purchase. If there is more than one source, check all applicable boxes. Then write the total amount from liquid sources and/or other sources in the appropriate blanks so that the total matches the amount of the annuity purchase. In general, the source of funds should be traceable to assets identified in the financial information section on page 2 of the SAF. Note that mutual funds are generally considered liquid assets unless they are Class B meaning they are subject to back-end contingent sales charges incurred upon redemption of the mutual funds.
- **Question 19 a and b** – Replacements: In cases of replacement, question 19(a) asks whether the client replaced or exchanged any life insurance or annuity contracts within the past 36 months (60 months for California or Minnesota) and requests details. Agents should give enough detail to enable the company to assess the effect of past replacements on the current annuity sale. In particular, this includes information about what insurance or annuity contracts were previously replaced, whether you were the agent in those replacements, why the client is replacing those contracts again if the current sale involves the same funds, and any other relevant facts. Additionally, for all replacements, question 19(b) should be completed with a meaningful explanation as to how the purchase of the annuity will result in a positive financial benefit for the applicant over the life of the annuity.
- **Question 20** – Surrender Charges and Penalties: This question inquires as to whether any surrender charges or penalties will be incurred by your client on funds withdrawn from currently held financial products to purchase the annuity. This includes surrender charges incurred for replacement of life insurance or annuities. It also includes fees, penalties, or expenses incurred to remove funds from CDs, mutual funds, investment accounts, or any other financial vehicle serving as the source of funds for the annuity. All such charges, fees, penalties, or expenses must be disclosed on the grid in question 20 per the instructions on the form.
- **“Other” Responses:** Whenever agents check the option of “other” (e.g., work status, reason for purchase, source of income, assets), agents should fill in a specific description to avoid a follow up request for details.

Carefully following these instructions will help expedite the suitability review process.

Suitability Definitions

Household: The Owner and Owner’s spouse or partner. Or, an adult residing with the Owner and sharing finances (i.e., income and expenses) with the Owner.

Owner: A person who will own the annuity contract if issued. Owners have the right to make withdrawals, surrender or change the designated beneficiary. Owners may also be trusts, corporations and other non-natural persons.

Age: Owner’s legal age at time application is signed by the proposed owner.

Risk tolerance: Level of risk a consumer is willing and able to accept for potentially greater returns.

Approximate monthly household income: After-tax approximate household income of Owner and any spouse/partner including but not limited to earned and investment income, such as salary and wages, social security payments, pension and IRA payments, rental income, and interest and dividends earned on other financial instruments. (Income currently earned on financial instruments that will be used to fund the annuity purchase should not be included.)

Annuity Suitability Instructions and Definitions

INSURER: FIDELITY & GUARANTY LIFE INSURANCE COMPANY

Approximate monthly household expenses: Approximate household expenses of the Owner and any spouse/partner including but not limited to rent/mortgage payments, food, utilities, travel and transportation, insurance premiums, healthcare including insurance premiums and any deductibles or copayments, debt repayment, support for dependents, membership costs, vacation costs, charitable contributions and property taxes.

Monthly disposable household income: Monthly household income minus monthly household expenses.

Liquid assets: Assets that can be accessed without substantial penalty such as checking and savings accounts, money markets, short term certificates of deposit, and no-load mutual funds.

Liabilities: Debt or financial obligation that is the responsibility of the household. Term is based on the original duration of the obligation. Short Term – Five (5) years and less. Long Term – Greater than five (5) years.

Total net worth: Total assets minus total liabilities (i.e., debts, loans, mortgages or any other liabilities).

Distributions: Payments or withdrawals to be taken from annuity.

Emergency: A significant unanticipated change in circumstances during the surrender charge period of the recommended annuity, including potential changes in medical expenses, financial situation, or living arrangements.

Adverse: A negative change during the surrender charge period of the recommended annuity, in assets, expenses or income.

Source of funds: The original source(s) of money used to purchase the annuity and make any subsequent premium deposits into the annuity.

Replacement: A transaction in which the a new annuity is to be purchased, and it is known or should be known to the producer, that by reason of the transaction, an existing annuity or life policy has been or is to be: (a) lapsed, forfeited, surrendered, or partially surrendered, assigned to the replacing insurer or otherwise terminated, (b) converted to reduced paid-up insurance, continued as extended term insurance, or otherwise reduced in value by the use of non-forfeiture benefits or other policy values, (c) 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; (d) reissued with any reduction in cash value, or (e) used in a financed purchase.

Exchange: A 1035 tax free exchange in which the Owner transfers money from one annuity to another annuity.