

Foresters
Financial

Learning
Academy

Presents

Replacements



For producer use only. Not for use with the public.
415234 US (09/17)

Agenda

- **General Information**
- **Evaluation**
- **Alternatives**
- **Foresters Financial™ Replacement Rules**
- **Resources**



General Information

Replacements – General Information

- **A replacement is a transaction in which a new certificate/contract is to be purchased, and it is known or should be known to the producer that an existing certificate/contract has been or is to be:**
 - **Lapsed, forfeited, surrendered or partially surrendered, assigned to the replacing insurer or otherwise terminated**
 - **Converted to reduced paid-up insurance, continued as extended term insurance, or otherwise reduced in value by use of non-forfeiture benefits or other values**
 - **Amended so as to affect either a reduction in benefits or in the term for which coverage would otherwise remain in force or for which benefits would be paid**
 - **Reissued with any reduction in cash value**
 - **Used in a financed purchase**

- **A policy is regarded as a replacement if it meets the definition set out in state regulations and Foresters procedures and guidelines**

- **Replacements must be disclosed on the new application and all applicable replacement forms must be completed and submitted**

Replacements – General Information (continued)

- **The aforementioned includes both internal and external replacements**
 - **Internal Replacement: When a life insurance certificate or annuity that is being replaced and the new life insurance certificate or annuity that is being sold are both provided by Foresters**
 - **External Replacement: When the policies or contracts being replaced and the replacing policy or contract are from different companies**
 - **State-specific replacement requirements in certain states (Connecticut, Maryland, South Carolina, Virginia, West Virginia) cannot support VSOP if proposed insured has existing life insurance or annuities in force. Therefore, do not use VSOP in these states if the proposed insured has existing insurance.**

- **Foresters policy is to include term to term product replacements**

Replacements – General Information (continued)

– **Improper replacement practices include:**

- **Twisting: Misrepresenting the benefits of lapsing one policy and purchasing another with a different company, so that the client suffers a monetary loss with little or no gain**
- **Churning: Purchasing a new policy with the values of an existing policy without disclosing the impact of the use of the policy values on the original policy**
- **Vanishing Premium: Misrepresenting the use of policy values to pay premiums on an existing policy**

Replacements – General Information (continued)

– **Producer responsibilities:**

- **Determine if a replacement will occur and whether it is in the best interest of the client**
 - **Foresters reviews replacements based on the suitability to the client's financial and personal circumstances**
- **Identify on the application if a replacement is involved in the sale of the applied for product**
- **Complete all Foresters and state required forms and submit with the application**
- **Maintain copies of all forms and information regarding the rationale for the replacement and provide this information in the event that there are questions regarding the suitability**
- **Provide full disclosure to the client**
- **Caution the client not to terminate or alter his/her existing life insurance coverage until after they have been issued the new certificate, examined it, and have found it to be acceptable**

Evaluation

Replacements - Evaluation

– **Things to consider before a replacement occurs:**

- **Current health status**
- **Contestability and suicide clauses**
- **Potential immediate and/or future tax implications**
- **Potential cash value losses**
- **Higher cost of insurance due to applicant's older age**
- **Possible loss of lower loan rate or other favorable contract provisions**
- **Potential surrender charges/penalties**
- **Fees**
- **Suitability**

Replacements – Evaluation (continued)

– **Questions to ask:**

- **What are the advantages of continuing the existing policy or certificate?**
- **Why doesn't the existing policy or certificate meet the client's needs?**
- **What are the primary reasons for recommending the replacement?**

Replacements – Evaluation (continued)

– **Other important factors:**

- **Financial Impact**
- **Meeting the Applicant's Needs**
- **Affordability**
- **Charges and Fees**
- **Illustrations**
- **Policy Loans/Withdrawals**
- **Use of Dividend Values**
- **Changes in Underwriting Classification**
- **Dissatisfaction with an Existing Insurer**
- **Undisclosed Replacements**

Alternatives

Replacements – Alternatives

- **Update existing policy to provide better cash value growth**
- **Leave existing policy in force and purchase a new policy**
- **Explore possibility that the applicant can qualify for an improved rating on the existing policy (i.e. standard to preferred)**
- **Make allowable adjustments if applicant has an adjustable or flexible type of policy**
- **Review other dividend options**
- **Exchange accumulated dividends for paid-up additions or use them to pay off existing policy loans**

Foresters Replacement Rules for Compensation Purposes

Replacements– Foresters rules for compensation purposes

- **The Foresters Replacement Rules for Compensation Purposes apply to internal replacements as well as certain conversions (as detailed below and in the following slides)**
- **First year compensation on internal replacements and certain conversions is based on the increase in annualized commissionable premium only**
 - **Applicable to all internal replacements and for term conversions where the old certificate has been in force for less than 24 months**
- **Certificates that are issued within 13 months of a lapsed or surrendered Foresters certificate on the same life will be considered an internal replacement and first year compensation will be reduced**

Replacements– Foresters rules for compensation purposes

- **On a product level, the following changes classify as replacements or conversions under the Foresters Replacement Rules:**
 - **Life to life**
 - **Life to term**
 - **Term to term**
 - **Term rider to term plan**
 - **Term plan conversions**
 - **Term rider conversions**
 - **Partial term plan conversions**
 - **Partial term rider conversions**
 - **Family Provider rider restarts**

Replacements– Foresters rules for compensation purposes

- **The Replacement Rules do not apply to the following:**
 - **Term conversions due to divorce**
 - **Term to term replacements in the last year of the original certificate's term**
 - **New business as a result of a rollover of death claims**
 - **Full first year compensation is paid when the proceeds from a death claim are rolled over into any products provided by Foresters if an application is submitted, with proper requirements, at the time Foresters Financial initially receives notification of a settlement of the death benefit**
 - **Child rider conversions**
 - **Guaranteed Insurability Benefit options**
 - **New business as a result of Joint Plan cancellation due to divorce**

Resources

Replacements – Resources

- **Please refer to ezbiz (<https://portal.foresters.biz/>) for the following tools:**
 - Life Insurance Replacement Form Requirements & Free Look Periods 409489 US (06/17)
 - Replacement Rules 415355 US (06/17)
 - Foresters Financial Market Conduct Manual 405815 US (05/17)
 - Producer Guide to Replacements 405813 US (05/17)
 - Foresters Financial Producer Guide to New York State Insurance Department Regulation No. 60 406136 US (03/17)

Disclaimer

- **Foresters Financial and Foresters are trade names and trademarks of The Independent Order of Foresters (a fraternal benefit society, 789 Don Mills Road, Toronto, Canada M3C 1T9) and its subsidiaries.**
- **This presentation cannot be used for the purpose of avoiding penalties that may be imposed on a taxpayer. Neither Foresters nor its Representatives engage in rendering legal, business, estate tax, accounting or tax advice. The information in this presentation is intended as a general overview. Please advise your clients to consult their individual tax or legal advisors regarding their specific situation. This report is not intended to provide advice regarding the sale or purchase of specific investments, financial or insurance products. Treasury Department Circular 230.**
- **All information is intended to be general in nature. All Foresters fraternal requirements need to be considered including the requirement that proceeds must benefit the Foresters member or the member's dependents.**
- **The information contained in this presentation is for information purposes only. There are other tools available to support your learning needs. You must ensure that you correctly represent, to a customer or prospect, the product features based on the actual wording of the applicable certificate and riders for your state.**

Thank you!

Any questions?



Our Foresters Financial Sales Support team is only a call away, 866-466-7166, option 1 Monday-Friday 8:30-7p.m. ET.

If you're looking for a deeper dive on a particular module or additional training needs please, let us know at USLearning@foresters.com

Foresters Financial and Foresters are trade names and trademarks of The Independent Order of Foresters (a fraternal benefit society, 789 Don Mills Road, Toronto, Canada M3C 1T9) and its subsidiaries.