



## Polar Investment Counsel Inc.

Member: FINRA, NFA, MSRB, SIPC  
Securities Cleared: Hilltop Securities Inc.  
Member NYSE, FINRA, SIPC

### **ANNUITY EXCHANGE DISCLOSURE** **This and other necessary forms must be completed** **prior to the submission of an actual application**

**This document is required by the firm prior to replacement of one annuity contract with another annuity contract or for the replacement of a life insurance contract with an annuity contract. This executed document will be made a part of the client file.**

Replacement of one annuity contract with another annuity contract, or a life insurance policy with a variable annuity should be undertaken only after careful consideration of the benefits and disadvantages, involved in making any proposed switch.

Annuities may impose a variety of fees when you invest in them, such as: *surrender charges*, which you owe if you withdraw money from the annuity before a specified period; *mortality and expense risk charges*, which the insurance company charges for the insurance risk it takes under the contract; *administrative fees*, for recordkeeping and other administrative expenses; *underlying fund expenses*, relating to the investment options; and charges for special features, such as a stepped-up death benefit or a guaranteed minimum income benefit.

The Internal Revenue Service allows you to exchange an insurance contract that you own for a new life insurance or annuity contract without paying tax on the income and the investment gains earned on the original contract. This can be a substantial benefit. Because this is governed by Section 1035 of the Internal Revenue Code, these are called "1035 Exchanges".

But this benefit comes with some important strings.

- The tax code says that the old insurance contract must be exchanged for a new contract—you cannot receive a check and apply the proceeds to the purchase of a new insurance or annuity contract.
- The tax code also says you can make a tax-free exchange from: 1) a life insurance contract to another life insurance contract or an annuity contract or 2) from one annuity contract to another annuity contract. You cannot, however, exchange an annuity contract for a life insurance contract.

#### Why Make A Section 1035 Exchange?

There are various reasons why a variable annuity contract holder may want to exchange an existing an existing annuity contract.

- Many annuity contracts now offer premium – sometimes called bonus – credits toward the value of your contract, of a specified percentage ranging from 1-5% for each purchase payment you make.
- Also in recent years, there have been new developments in annuity features, especially variable annuities that are valid reasons to consider an exchange. The number of investment options has increased. Less expensive variable annuity contracts have been created. Death and living benefits have been enhanced. Also, with the growth in the stock market in the 1990's, many insurance contract holders have wanted to take part in that growth. These are all valid reasons for considering exchanging one insurance contract for another.

#### Why Not Make A Section 1035 Exchange?

Generally, the exchange or replacement of insurance or annuity contracts is not a good idea, for a variety of reasons.

- "Bonus" or "premium" payments made to you are usually offset by the insurance company's adding other charges it makes to you.
- Other contract provisions, like surrender charges, eventually expire with an existing contract. However, new charges may be imposed with a new contract or may increase the period of time for which the surrender charge applies.
- You may also have to pay higher charges, such as annual fees for the new contract.
- You may not need the costly new features of the new contract.

#### What You Should Watch For

You should exchange your annuity only when you determine, after knowing all the facts that it is better for you and not just better for the person who is trying to sell the new contract to you.

Much of the sales growth of variable annuities in recent years has been from Section 1035 Exchanges. Even though some variable annuity enhancements have made variable annuities more attractive, you need to be sure that the exchange meets your objectives and benefits you. Annuities are long-term, retirement-oriented investment vehicles, and exchanging them may not benefit you.

Brokers or insurance agents recommending the exchange of an annuity contract must tell you important facts about the pros and cons of the exchange. Your broker or insurance agent is permitted to recommend such an exchange to you only if it is in your best interest and only after evaluating your personal and financial situation and needs, tolerance for risk, and the financial ability to pay for the proposed contract. This "suitability" obligation is based on FINRA rules.

Many states and brokerage firms require forms to reflect customer acknowledgment of a replacement transaction. These forms are to be signed by the annuity contract owner and the salesperson. These forms may provide a comparison of the features and costs of an existing contract to a proposed contract, and point out what you need to focus on when considering the exchange. You should review these forms closely.



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**Annuity Exchange Contract Information**

Product Being Exchanged: \_\_\_\_\_

Purchase Date: \_\_\_\_\_ Accumulation Value: \_\_\_\_\_

		EXISTING CONTRACT		REPLACEMENT CONTRACT	
<b>CONTRACT NAME:</b>					
Year 1	Value	\$ _____	+	\$ _____	+ *
	Bonus		0.00	\$ _____	+
	Total Surrender Charge%	_____ %	\$ _____ -	_____ %	\$ _____ -
	Expense%	_____ %	\$ _____ -	_____ %	\$ _____ -
	<b>Value if Surrendered:</b>	\$ _____		\$ _____	
Year 2	Value	\$ _____	+	\$ _____	+
	Total Surrender Charge%	_____ %	\$ _____ -	_____ %	\$ _____ -
	Expense%	_____ %	\$ _____ -	_____ %	\$ _____ -
	Hypothetical Rate of Return %	_____ %	\$ _____ +	_____ %	\$ _____ +
	<b>Value if Surrendered:</b>	\$ _____		\$ _____	
Year 3	Value	\$ _____	+	\$ _____	+
	Total Surrender Charge%	_____ %	\$ _____ -	_____ %	\$ _____ -
	Expense%	_____ %	\$ _____ -	_____ %	\$ _____ -
	Hypothetical Rate of Return %	_____ %	\$ _____ +	_____ %	\$ _____ +
	<b>Value if Surrendered:</b>	\$ _____		\$ _____	
Year 4	Value	\$ _____	+	\$ _____	+
	Total Surrender Charge%	_____ %	\$ _____ -	_____ %	\$ _____ -
	Expense%	_____ %	\$ _____ -	_____ %	\$ _____ -
	Hypothetical Rate of Return %	_____ %	\$ _____ +	_____ %	\$ _____ +
	<b>Value if Surrendered:</b>	\$ _____		\$ _____	

\* After Surrender

List additional attachments:

\_\_\_\_\_  
 \_\_\_\_\_

**By execution of this document client(s) acknowledge they were offered the opportunity of speaking with a senior Home Office Principal.**

Client Signature \_\_\_\_\_ Dated \_\_\_\_\_ Client Signature \_\_\_\_\_ Dated \_\_\_\_\_

Representative Signature \_\_\_\_\_ Dated \_\_\_\_\_ Branch Manager Signature \_\_\_\_\_ Dated \_\_\_\_\_

PICI Home Office Senior Principal Signature \_\_\_\_\_ Dated \_\_\_\_\_