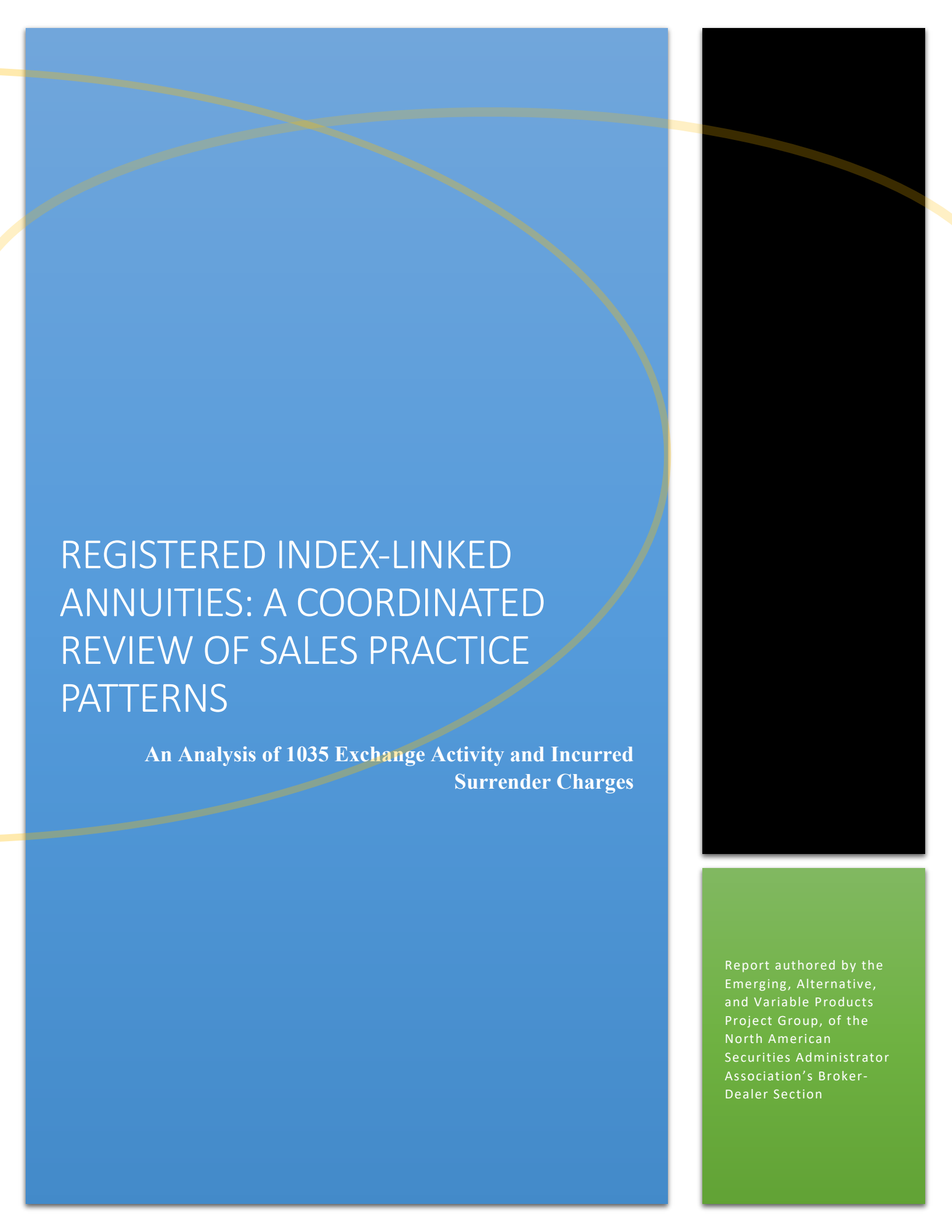




REGISTERED INDEX-LINKED ANNUITIES: A COORDINATED REVIEW OF SALES PRACTICE PATTERNS

**An Analysis of 1035 Exchange Activity and Incurred
Surrender Charges**

Report authored by the
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and Variable Products
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Association's Broker-
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I. Introduction

The Emerging, Alternative, and Variable Products Project Group, of the North American Securities Administrators Association’s Broker-Dealer Section, conducted a coordinated inquiry regarding the sale of registered index-linked annuities (“RILA”, “RILAs”). In 2024, national sales data showed a sharp increase in the sales of these products. The project group obtained and reviewed data from broker-dealers to examine sales practices and patterns related to these products, including 1035 exchanges and surrender charges. This report summarizes the project group’s review and findings.¹

II. General Information

Background and Individual Features of RILAs

An annuity is a contract with an insurance company that provides one lump-sum payment or a series of payments over time.² Deferred annuity contracts offer opportunities for tax-deferred growth. While initially envisioned as a source of future retirement income, deferred annuities are now frequently used as a savings accumulation product subject to potentially favorable tax treatment. Until recently, the most common types of deferred annuities were fixed annuities, fixed indexed annuities (“FIAs”) and variable annuities.

The growing popularity of RILAs can be attributed to a few factors, including risk management, growth potential, and increasing use by independent distributors.³ RILAs emerged around 2010 and were designed to occupy a middle ground between FIAs and variable annuities. RILAs generally offer greater upside potential than FIAs, while typically providing more downside protection and often lower costs or fees than traditional variable annuities.⁴ They combine features of FIAs and variable annuities.⁵

Unlike a fixed annuity or FIA, a RILA contract carries a risk of principal loss and therefore is considered a security for purposes of the Securities Act of 1933 (“1933 Act”), similar to variable annuities. However, instead of offering sub-accounts with a portfolio or basket of securities to

¹ This report reflects the views of NASAA Broker-Dealer Section Emerging, Alternative, and Variable Products Project Group. It does not necessarily represent the views of NASAA, and it is not intended as legal advice. Any questions should be directed to the appropriate state regulators.

² U.S. Securities and Exchange Commission. “Annuities.” Investor.gov, <https://www.investor.gov/introduction-investing/investing-basics/investment-products/insurance-products/annuities>

³ Life Insurance Marketing and Research Association (“LIMRA”). “Record-High 2023 Annuity Sales Driven by Extraordinary Growth in Independent Distribution.” LIMRA, 12 Mar. 2024, <https://www.limra.com/en/newsroom/news-releases/2024/limra-record-high-2023-annuity-sales-driven-by-extraordinary-growth-in-independent-distribution/>.

⁴ Equitable Holdings, Inc. “Equitable Expands Suite of Registered Index-Linked Annuities.” Business Wire, 23 Sept. 2025, <https://www.nasdaq.com/press-release/equitable-expands-suite-registered-index-linked-annuities-2025-09-23>.

⁵ Carbo, Nicholas, and David Elliott. *Registered Index-Linked Annuities*. Society of Actuaries Research Institute, Aug. 2022, <https://www.soa.org/4a375c/globalassets/assets/files/resources/research-report/2022/registered-index-linked-annuities.pdf>.

determine contract values, RILAs offer point-to-point market performance tracking typically on common indices such as S&P 500, Russell 2000, etc.⁶

The point-to-point performance tracking, typically called “Segments,” are offered in 1, 3, 5, and 6-year time periods. With each Segment, an annuitant or contract holder is given a wide array of market exposure options which limit or increase risk of principal. This is achieved through Buffers, Floors, and what is commonly referred to as the Cap Rate or Ceiling.

RILA Terminology

For reference, please see common RILA terms and definitions below:

Buffer: A defined allowance of loss absorbed by the insurance company before a contract holder is responsible for the remaining loss of account performance.

Contract Value: The total amount currently held within the annuity contract before any charges for withdrawal or surrender are applied. It is the sum of your initial investment (premiums) plus any market-linked credits or interest, minus any prior withdrawals or fees

Cap Rate: Also known as a ceiling; the maximum percentage gain from the tracked index that the issuing insurance company credits to the contract owner at the end of the selected term. For example, if the Cap Rate is 200% and the index value is up 150% at the end of the term, the account value would increase by 150%. However, if the index value is up 250% at the end of the term, the account value would increase by 200%.

Crediting Method: Mathematical formula used to determine how much index growth or loss is applied to a contract owner’s value at the end of a Term/Segment.

Downside Protection: A feature, specifically a **Buffer** or a **Floor**, that limits the amount of loss a contract owner will incur if the underlying market index declines.

Floor: A maximum percentage of loss that the contract owner will incur in a selected **Segment** or **Term**.

Growth Potential: Also known as upside potential; the opportunity for growth at the end of the term that a RILA provides. Because RILAs typically have a higher **Cap Rate**, they generally offer more growth opportunities than fixed annuities or FIAs. However, an increased amount of growth potential often comes in exchange for some downside protection. For instance, fixed annuities and FIAs are guaranteed against loss, while RILAs may only prevent a level of loss based on the Buffer or Floor.

Index(es): External stock market benchmark used to calculate the gains or losses credited to your contract.

⁶ Fidelity Investments. “What Is a Fixed Indexed Annuity?” *Fidelity*, 11 Sept. 2025, <https://www.fidelity.com/learning-center/personal-finance/retirement/fixed-indexed-annuity>.

Indexed Account: An option available to which a policy holder allocates the purchase payment and **Contract Value**. Each Indexed Account includes Index(es), **Crediting Method**, duration, and protection option with a protection percentage. The Crediting Method, duration, and applicable protection option and percentage for each Indexed Account will not change for the duration of the Contract.

Index Option: May be used to describe the combination of factors within a RILA, including the index, level of protection, crediting strategy, and term.

Interim Value: The value of each index strategy calculated any time between the term start date and term end date. The Interim Value is used to determine the account value if the contract owner makes a withdrawal, surrenders the account, chooses to annuitize, or passes away before the end of the term.

Performance Trigger/Contingent Return: A crediting strategy in which the account value will be credited with a predetermined percentage of growth if the chosen index is flat or up at the end of the term. This method does not provide positive credit if the index is down at the end of the term.

Enhanced Upside Participation Rate: A multiplier applied to an **Upside Participation Rate** which is greater than 100%. Commonly 105% and 110% but can be as high as 130%.⁷

Upside Participation Rate: A declared percentage that may adjust the rate of return for certain **Crediting Methods**.

Surrender Charge: A fee imposed by an insurance company when a policyholder cancels a life insurance policy or withdraws funds from an annuity before the end of a specified period, known as the surrender period. These charges are designed to help the insurer recover upfront costs, such as sales commissions and administrative expenses.

Term/Segment: Also known as the term length or crediting period; the amount of time that the crediting strategy is in effect for a RILA. Typical terms are 1, 2, 3, and 6 years. The term, downside protection, and chosen index impact the crediting strategy offered as part of the annuity.

Trigger: A protection option for **Contingent Return**. The Trigger percentage is the maximum percentage decrease in the Index rate of return before the **Segment** will incur a loss. If the Index rate of return is more negative than the Trigger percentage, this option provides no protection, and the Segment will incur the full negative Index rate of return (unlike the Buffer protection that would reduce the loss). If the Index rate of return is negative and between zero and the Trigger

⁷ RiverSource Life Insurance Company. RiverSource Structured Solutions 2 Annuity Rates for New Contracts—6-Year Surrender Charge. RiverSource Life Insurance Company, 26 Jan. 2020, <https://www.riversource.com/binaries/content/assets/riversource/1/115579.pdf>.

percentage (inclusive of the Trigger percentage), the Segment will not have a loss due to negative Index performance.

Example of RILA Contract Performance

If an annuitant is seeking more index exposure in a given Segment, they may select to increase the Cap Rate (i.e. maximum return) in exchange for a reduced Buffer (allowable principal protection from loss before realized losses). Generally, RILAs have lower direct costs for a contract holder because the issuer or insurance company profits from proceeds exceeding a selected Cap Rate or Ceiling. If an annuitant selects a 10% Cap Rate for a Segment for the S&P 500, the maximum rate of return is 10%. If the S&P 500 increases by more than 10% during the Segment, the issuer or insurance company profits the returns over 10%. Therefore, RILAs have a greater indirect cost to a contract holder if the underlying index outperforms a Segment Cap Rate.

III. Basis for RILA Inquiry

Based on national sales data showing a sharp increase in RILA contract sales in 2024 that exceeded sales of traditional variable annuity contracts for the year, the project group began an inquiry into RILA sales.⁸ The project group queried Q2 2024 sales data to determine which contracts were RILAs versus traditional variable annuities. The 2024 RILA sales data identified two RILA product lines being sold at higher quantities than all others: Equitable's Structured Capital Strategies ("SCS") line and the Allianz Index Advantage line.

Equitable Structured Capital Strategies and Allianz Index Advantage Comparison

Generally, the project group noted that both product lines selected for this inquiry function with similar Segments, costs, and Performance Triggers. While both contracts utilize a six-year surrender fee schedule, they distribute their exit penalties differently. The Equitable SCS Premier RILA features a "flat-hold" structure that keeps charges at a peak 8% for the first two years before tapering down to 4% in Year 6. Conversely, the Allianz Index Advantage RILA utilizes a standard sloped schedule (typically starting at 8.5% or 8.0%) that reduces every single year, offering lower penalties in the early years but leaving a comparable tail in Year 6. Additionally, the Index Advantage RILA provides distinct downside protection choices like the -10% Floor (Index Guard) alongside higher initial growth caps, which helps offset its explicit 1.25% annual product fee. Please see comparison table on next page for full details:

⁸ Monster, Michael. "Second Quarter 2024 Variable Annuity Sales and Asset Survey." Morningstar Annuity Intelligence Market Research Center, 30 June 2024.

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Feature	Equitable Structured Capital Strategies	Allianz Index Advantage
Direct Cost to Contract Holder	SCS Plus: Zero explicit fees on structured segments. SCS Premier Series B: Carries an embedded 1.25% contract fee deducted from segment return calculations.	Standard contract assesses a 1.25% annual product fee across the index strategies. A \$50 annual maintenance fee applies if contract value is under \$100,000.
Surrender Schedule	6-Year Schedule: Charges remain completely flat during Years 1 and 2 before tapering down. • Year 1: 8% • Year 2: 8% • Year 3: 7% • Year 4: 6% • Year 5: 5% • Year 6: 4% • Year 7+: 0%	6-Year Schedule: Utilizes a standard rolling schedule starting at 8.5% or 8% depending on the specific state filing/variant. • Year 1: 8.5% / 8.0% • Year 2: 7.5% / 8.0% • Year 3: 6.5% / 7.0% • Year 4: 5.5% / 6.0% • Year 5: 4.5% / 5.0% • Year 6: 3.5% / 4.0% • Year 7+: 0%
Indexes	S&P 500®, Russell 2000®, Nasdaq-100®, MSCI EAFE, MSCI Emerging Markets, etc.	S&P 500®, Russell 2000®, Nasdaq-100®, EURO STOXX 50®, PIMCO Tactical Balanced ER Index, etc.
Segments/Terms	Multiple "Segments" are available with durations typically of 1 or 6 years.	"Index Options" with term lengths typically of 1, 3, or 6 years.
Cap Rate	Performance Cap Rate limits upside potential; rates are determined at the start of each segment and vary by index, term, and protection level.	Cap Rate limits upside potential; rates are determined at the start of each term and vary by index, term, and protection level.
Buffer	Offers various buffer levels, commonly 10%, 15%, 20%, or 40%.	Offers various buffer levels, commonly 10%, 20%, or 30%.
Floor	Offers floor options called "Loss Limiter" segments with maximum loss limits of -5% or -10%. ⁹	Offers floor options (sometimes called "Guard" strategies) with maximum loss limits (e.g., a -10% floor). ¹⁰
Features	Offers seven different investment strategies: (1) Standard, (2) Annual Lock, (3) Dual Direction, (4) Enhanced Upside, (5) Step Up, (6) Dual Step Up, and (7) Loss Limiter Segments.	Performance Lock/Auto Lock: Allows manual or automatic locking in of accrued gains during a term. "Lock and Get Back In" enhancements are available. "Trigger Rate" strategies are also offered.

⁹ Equitable Holdings, Inc. "Equitable Expands Suite of Registered Index-Linked Annuities." *Business Wire*, 23 Sept. 2025, <https://www.nasdaq.com/press-release/equitable-expands-suite-registered-index-linked-annuities-2025-09-23>

¹⁰ Allianz Life Insurance Company of North America. Index Guard Strategy. Allianz Life, 10 July 2018, <https://www.allianzlife.com/-/media/files/global/documents/2018/07/10/18/54/iai-009-guard.pdf>.

Project Group Assumptions to Test

Once RILA sales exceeded sales of traditional variable annuities in 2024, as reported by the Life Insurance Marketing and Research Association (“LIMRA”),¹¹ the project group wanted to examine sales practices and patterns related to 1035 exchanges and surrender charges. The project group expected the significant 2024 RILA sale increases to be attributable in large part to customers being recommended to exchange their existing variable annuity contract to fund the purchase of a new RILA contract instead of using other funds for the purchase. If correct, the project group wanted to determine what percentage of new RILA sales were a part of a 1035 exchange and how many of the 1035 exchanges incurred a surrender charge, which is a direct cost to the contract holder.

A 1035 exchange allows for the tax-free exchange of certain financial products, such as annuity contracts, subject to the rules and requirements under Section 1035 of the Internal Revenue Code. This provision allows for the replacement of one annuity contract with another, without incurring tax liability on the income or investment gains earned on the original contract.¹² If the exchange involves a variable annuity, the contract holder may incur a surrender charge as part of the transaction to transfer assets to a new RILA.

Through the second quarter of 2024, sales data collected through MorningStar showed a year-over-year spike in both the Equitable SCS (68%) and Allianz Index Advantage (146%) RILA product lines making these two RILAs appropriate products to test the project group assumptions stated above.

As securities, RILAs must be sold through a registered broker-dealer (“BD”) and are subject to the SEC’s Regulation Best Interest (“Reg BI”) standard when recommended to a retail customer. Additionally, FINRA identified RILAs as an emerging trend in its 2025 Annual Regulatory Oversight Report and has made clear that it expects FINRA members to apply “heightened policies and procedures to RILA recommendations” like those that apply to the recommendation of variable annuities under FINRA Rule 2330 (Members’ Responsibilities Regarding Deferred Variable Annuities).¹³ Among other findings highlighted in its 2025 and 2026 reports,¹⁴ FINRA has identified violations of Reg BI by:

- Recommending without a reasonable basis that customers surrender existing annuities and then use the proceeds to purchase RILAs;

¹¹ LIMRA. “Record-High 2023 Annuity Sales Driven by Extraordinary Growth in Independent Distribution.” *LIMRA Newsroom*, 12 Mar. 2024, <https://www.limra.com/en/newsroom/news-releases/2024/limra-record-high-2023-annuity-sales-driven-by-extraordinary-growth-in-independent-distribution/>

¹² FINRA. “Should You Exchange Your Variable Annuity?” *FINRA Investor Insights*, 14 May 2015, <https://www.finra.org/investors/insights/exchange-variable-annuity>.

¹³ FINRA. *2025 Annual Regulatory Oversight Report*. FINRA, Jan. 2025, <https://www.finra.org/sites/default/files/2025-01/2025-annual-regulatory-oversight-report.pdf>.

¹⁴ FINRA. *2026 FINRA Annual Regulatory Oversight Report*, Dec. 2025, www.finra.org/sites/default/files/2025-12/2026-annual-regulatory-oversight-report.pdf.

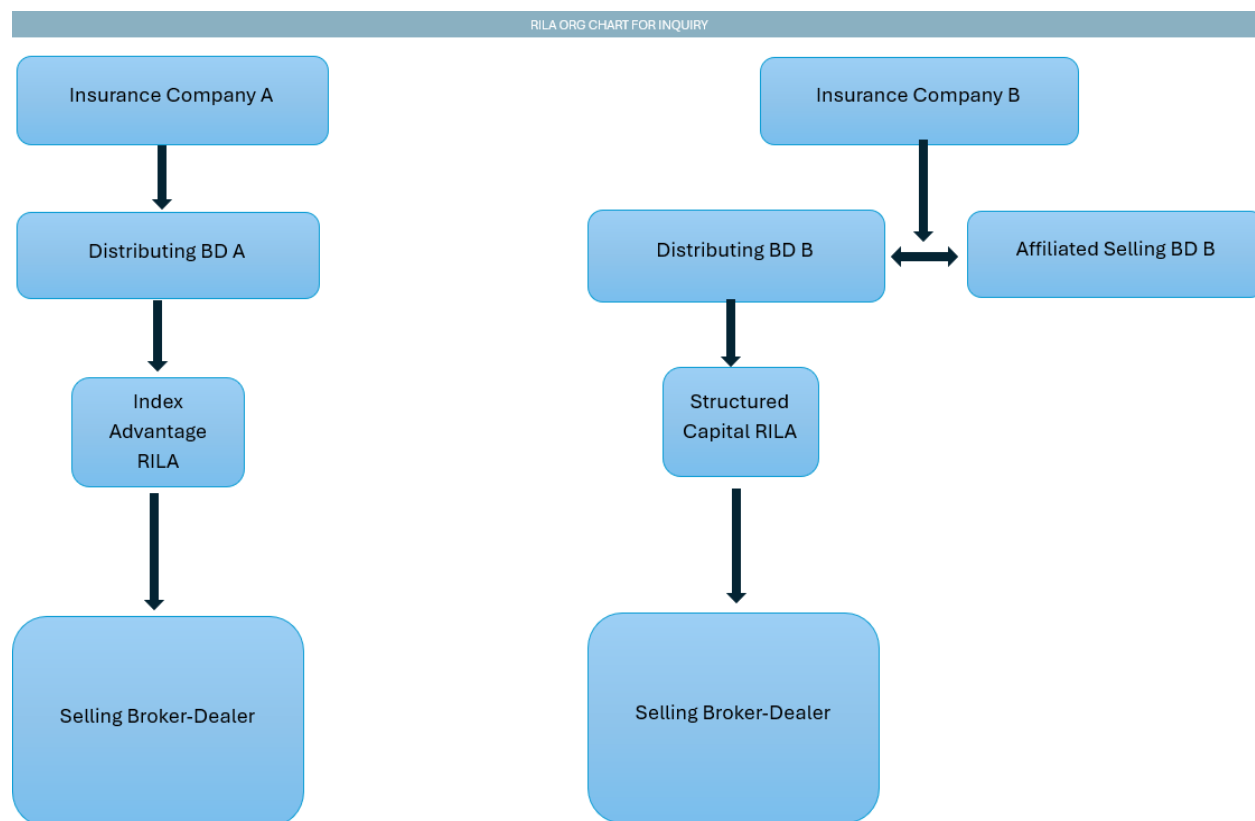
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- Failing to consider whether RILA purchases, even if done as a 1035 exchange, were in the customers' best interests considering their investment profiles;
- Failing to consider the costs of terminating variable annuity living benefits and features, such as living benefit riders, when recommending a replacement or exchange; and
- Recommending partial withdrawals or full surrenders from RILAs "mid-segment" without considering interim value risk.

The project group needed to identify an efficient procedure for collecting sales data to determine if BDs recommended 1035 exchanges to customers that were subject to surrender charges.

IV. Selection of Firms - Part 1

The project group inquiry was separated into two parts. Part 1 focused on distributing BDs that act as intermediaries between the insurance company and selling BD (see chart below). Part 2 focused on the selling BDs ("Retail BD").



The project group issued an inquiry to Distributing BD A and Distributing BD B (collectively the "Distributing BDs") for information about the SCS and Index Advantage contracts sold in four states, between January 2022 and January 2025. Based on the information provided by the Distributed BDs, the project group was able to identify the combined number of SCS and Index Advantage contracts sold in each state, the total premiums in those sales, and the highest-selling Retail BDs for each product line.

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Distributing BD A:

State	# of Policy	Total Premium
STATE B	1,309	\$288,242,004.42
STATE D	3,735	\$736,943,118.71
STATE C	6,959	\$1,350,173,761.80
STATE A	21,537	\$3,860,517,451.44
Grand Total	33,540	\$6,235,876,336.37

Distributing BD B:

State	# of Policy	Total Premium
STATE D	1,834	\$285,209,034.59
STATE B	2,363	\$407,776,471.43
STATE C	7,455	\$1,235,320,433.80
STATE A	15,952	\$2,568,204,774.54
Grand Total	27,604	\$4,496,510,714.36

Top Retail BDs for Allianz Index Advantage

Selling Firm	# of Policies Sold	Total Premium
RETAIL BD #8	1,179	\$133,046,664.64
RETAIL BD #9	1,069	\$151,223,220.91
RETAIL BD #10	974	\$158,717,418.83
RETAIL BD #11	826	\$205,653,317.04
RETAIL BD #7	1,606	\$212,660,652.45
RETAIL BD #6	2,053	\$342,681,085.64
RETAIL BD #5	2,159	\$378,814,358.04
RETAIL BD #4	2,183	\$431,760,574.71
RETAIL BD #3	2,259	\$470,565,098.38
RETAIL BD #2	3,505	\$778,075,896.49
RETAIL BD #1	5,146	\$891,304,602.79
Grand Total	22,959	\$4,154,502,889.92

Top Retail BDs for Equitable Structured Capital Strategies

Selling Firm	# of Policies Sold	Total Premium
RETAIL BD #18	495	\$58,571,858.26
RETAIL BD #6.	459	\$62,232,484.52
RETAIL BD #19	456	\$72,693,066.41
RETAIL BD #17	534	\$76,832,340.52
RETAIL BD #16	570	\$79,769,992.46
RETAIL BD #15	1,112	\$102,395,154.86
RETAIL BD #14	1,700	\$203,661,490.93
RETAIL BD #1	1,291	\$221,828,101.69
RETAIL BD #3	1,526	\$281,127,257.21
RETAIL BD #13	3,120	\$675,792,689.77
RETAIL BD #12	11,882	\$1,871,135,272.50
Grand Total	23,145	\$3,706,039,709.13

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In total, the Part 1 responses the participating states received from the Distributing BDs yielded a sample size of 61,144 contracts with total premiums valued at \$10.7 Billion. The project group noted that for the Distributing BD B response, 43% of all SCS RILA contracts were sold through its affiliated Retail BD, Retail BD #12.

V. Selection of Firms - Part 2

After analyzing the data obtained in Part 1, the project group began identifying the Retail BDs that would be sent an inquiry to determine if the RILA contracts sold were done as part of a 1035 exchange and/or subject to a surrender charge. In reviewing the Part 1 data, the project group found a pattern among many Retail BDs whereby a large majority of RILA contracts (both SCS and Index Advantage) sold by those Retail BDs were sold by a specific selling agent or group of selling agents at the same branch.

For example, looking at the Index Advantage sales with the selling Retail BD #2, the distribution of total participating state sales was heavily concentrated with a small group of selling agents. (See highlighted figures in table Retail BD #2 Index Advantage example below).

Example: Retail BD #2 Index Advantage 1035 Exchanges with Surrender Fees, by Agent of Record

Example Firm/Agent	(#) of 1035 Exchanges Subject to Surrender Fee	Total	(\$) 1035 Premiums Subject to Surrender Fee	Total
RETAIL BD #2	3,505	% of 1035 Exchanges	\$778,075,896.49	% of Premiums
STATE D	211	100%	\$43,580,559.12	100%
AGENT #1 RETAIL BD #2	37	18%	\$9,391,050.91	22%
AGENT #2 RETAIL BD #2	36	17%	\$9,071,050.91	21%
AGENT #3 RETAIL BD #2	22	10%	\$2,304,847.49	5%
AGENT #4 RETAIL BD #2	11	5%	\$2,491,458.57	6%
Total	106	50%	\$23,258,407.88	53%
STATE B	242	100%	\$64,675,137.90	100%
AGENT #5 RETAIL BD #2	47	19%	\$6,584,318.96	10%
AGENT #6 RETAIL BD #2	31	13%	\$15,482,079.39	24%
AGENT #7 RETAIL BD #2	24	10%	\$11,013,053.56	17%
Total	102	42%	\$33,079,451.91	51%
STATE C	235	100%	\$44,989,459.42	100%
AGENT #8 RETAIL BD #2	24	10%	\$5,728,252.78	13%
AGENT #9 RETAIL BD #2	13	6%	\$3,907,894.05	9%
AGENT #10 RETAIL BD #2	12	5%	\$983,442.72	2%
Total	49	21%	\$10,619,589.55	24%

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STATE A	2,817	100%	\$624,830,740.05	100%
AGENT #11 RETAIL BD #2	244	9%	\$59,673,576.37	10%
AGENT #12 RETAIL BD #2	237	8%	\$56,259,864.28	9%
AGENT #13 RETAIL BD #2	237	8%	\$57,913,081.43	9%
AGENT #14 RETAIL BD #2	235	8%	\$56,959,207.15	9%
Total	953	34%	\$230,805,729.23	37%

This pattern of concentration was consistently found among most selling Retail BDs, allowing Part 2 of the inquiry to be very targeted, focusing not only on the selling Retail BD but the agent(s) record at that selling Retail BD. The project group sent a second inquiry based on sales data from Part 1 requesting that the Retail BDs provide the surrender costs associated with each RILA sale and indicate whether the transaction involved a full, partial, or no replacement.

The project group sent out a total of 90 individual inquiries to 42 selling Retail BDs stemming from the Part 1 data. A summary of responses received from the Retail BDs is below:

Index Advantage RILA

Participating States	# of Policies	Total Premium
STATE B	346	\$70,671,465.33
STATE C	981	\$167,642,843.06
STATE D	924	\$188,481,428.24
STATE A	2,492	\$461,016,684.53
Grand Total	4,743	\$887,812,421.16

Structured Capital Strategies RILA

Participating States	# of Policies	Total Premium
STATE D	402	\$57,041,399.01
STATE B	716	\$124,564,057.09
STATE A	1,080	\$162,018,292.05
STATE C	1,138	\$184,073,902.78
Grand Total	3,336	\$527,697,650.93

For the Part 2 inquiry focusing on exchanges and surrender fees, the project group analyzed a subset of 8,079 contracts representing over \$1.4 billion in combined premiums. This specific sample constitutes 13.2% of the total contract data originally collected from distributing broker-dealers (BDs) during the Part 1 inquiry.

VI. Surrender Charges and 1035-Exchanges

When a customer completes a 1035 exchange by transferring funds from one insurance contract to another tax-free contract, there are several potential drawbacks selling agents must disclose as part of any recommendation subject to Regulation Best Interest. Some drawbacks include, but are not limited to, new surrender charge periods, loss of existing rider guarantees or benefits such as basis step-ups, and loss of opportunity cost. Additionally, if any exchanges incurred a surrender charge as part of the transfer of funds, this would require an additional level of disclosure and review from a selling agent to ensure the recommendation was made in the best interest of the customer.

Considering the variables above, the project group sought to identify selling agents or Retail BDs that recommended 1035 exchanges in which the customer incurred a surrender charge. The project group believes that such transactions may warrant further examination or investigation.

To accomplish this goal, the project group separated Part 2 data into three categories:

- 1) Full and partial 1035 exchanges that incurred a surrender charge.
- 2) Full and partial 1035 exchanges that did not incur a surrender charge.
- 3) New purchases or no 1035 exchange reported.

In general, the project group found that 2,939 (36%) of the sampled RILA contracts were a part of either a full or partial 1035 exchange. The total dollar amount of all 1035 exchanges amounted to nearly \$501 million which is the amount customers exchanged from one product to fund the new RILA. (See table below)

Part 2 Index Advantage/SCS 1035 Exchange Details

Product	Total Amount Exchanged	Total Full Exchanges Count	Total Partial Exchanges Count	Total Exchanges
Index Advantage	\$ 231,841,643.49	975	257	1,232
SCS	\$ 269,053,661.78	1,655	52	1,707
Total	\$ 500,895,305.27	2,630	309	2,939

The project group noted that total 1035 exchanges involving SCS RILAs were disproportionately full 1035 exchanges 96% of the time versus Index Advantage RILA 1035 exchanges only being full 79% of the time. (See exchange table above.)

Next, the project group needed to determine how many of the 2,630 full 1035 exchanges identified in the data resulted in the customer incurring a surrender charge.

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Part 2 Index Advantage/SCS Surrender Count Details

Product	Total Surrenders Charge	Full Exchange Surrenders Charges	Partial Exchange Surrenders Charges
Index Advantage	216	168	48
SCS	98	97	1
Total	314	265	50

The project group noted that customer exchanges involving the Index Advantage RILAs were more likely to incur a surrender charge, 18% of the time, whereas exchange transactions involving the SCS RILAs incurred a surrender charge 6% of the time. In other words, a customer transferring funds from an existing annuity contract to an Index Advantage RILA as part of a 1035 exchange was three times more likely to incur a surrender charge than a customer transferring funds to an SCS RILA.

Next, the project group wanted to examine the cost of surrender, relative to the policy premium.

Part 2 Index Advantage/SCS Surrender Cost

Product	Total Surrender Amount	Average Surrender Cost	Average Surrender % of Premium	Highest Surrender
Index Advantage	\$ 584,212.33	\$ 2,704.69	1.45%	\$ 35,000.00
SCS	\$ 327,804.92	\$ 3,344.95	2.09%	\$ 44,094.60
Total	\$ 912,017.25	\$ 2,904.51	1.65%	

Although an Index Advantage RILA exchange was three times more likely to incur a surrender charge, the surrender charges incurred as part of a 1035 exchange involving SCS RILAs were, on average, 23% (\$605) more expensive than exchanges involving Index Advantage RILAs. The higher surrender cost may be related to SCS RILAs being more common than Index Advantage RILAs as part of full 1035 exchanges, relative to partial exchanges. Out of the total Part 2 responses, only one SCS RILA transaction included a partial 1035 exchange that incurred a surrender charge.

Another detail the project group noted was the average surrender amount as a percentage of the premium of the annuity being exchanged which was 1.45% for the Index Advantage RILA and 2.09% for the SCS RILA. Generally, most surrender charge schedules are on a 6-year term with deescalating charge percentages matching the year of surrender (see example surrender schedule below).

REGISTERED INDEX-LINKED ANNUITIES: A COORDINATED REVIEW OF SALES PRACTICE PATTERNS

Product / Contract	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7+
Equitable SCS Premier (Series B)	8.00%	8.00%	7.00%	6.00%	5.00%	4.00%	0.00%
Allianz Index Advantage (Standard Nationwide)	8.50%	7.50%	6.50%	5.50%	4.50%	3.50%	0.00%

Based on this general information, a reasonable assumption could be made that for Part 2 exchanges, both full and partial, whereby a customer paid a surrender charge, the exchange typically occurred at the end of the surrender schedule (i.e., Y6-Y7).

Overall, the project group concluded that although there were 1035 exchanges whereby a customer paid a surrender charge, those transactions generally represented only a portion of total sales during the review period. In fact, when total surrender cost was weighted as a percentage of premiums involved in a 1035 exchange, the surrender charges incurred in exchanges for Index Advantage and SCS RILAs amounted to 0.0025% and 0.0018% of the respective total premiums for the annuities being surrendered. However, the project group identified some problematic sales practice patterns with individual agents based on Part 2 data, which will be discussed in greater detail in the next section.

VII. Surrender Charges and Agents of Record

By analyzing the selling agents of record for each transaction, the project group identified which representatives recommended the highest volume of 1035 exchanges that triggered surrender charges on the replaced policies. The tables below isolate the specific agents whose exchange recommendations resulted in these explicit customer penalties.

Strikingly, a highly concentrated group of broker-dealer agents drove the vast majority of these costly transactions:

- **Equitable SCS RILAs:** Just 13 selling agents were responsible for 63 transactions, which collectively accounted for 87% of all surrender charges paid by customers to transfer funds.
- **Allianz Index Advantage RILAs:** A group of 16 selling agents drove 103 transactions, accounting for 73% of the total surrender charges incurred by customers during these exchanges.

SCS RILA 1035 Exchanges with Incurred Surrender Fees Filtered By Agent of Record

Name Of Selling Agent	Name of Retail BD	# of Policies	Premium Total	Surrender Charge Total	State
AGENT F	RETAIL BD #14	2	\$134,004.34	\$3,620.12	STATE A
AGENT J	RETAIL BD #12	1	\$155,584.37	\$10,200.00	STATE C
AGENT E	RETAIL BD #19	2	\$241,762.93	\$5,468.00	STATE A
AGENT M	RETAIL BD #15	3	\$287,564.02	\$5,578.75	STATE D

REGISTERED INDEX-LINKED ANNUITIES: A COORDINATED REVIEW OF SALES PRACTICE PATTERNS

AGENT G	RETAIL BD #12	2	\$453,355.55	\$18,594.05	STATE C
AGENT D	RETAIL BD #3	3	\$502,067.37	\$14,361.94	STATE A
AGENT B	RETAIL BD #6.	6	\$569,263.44	\$10,240.00	STATE B
AGENT H	RETAIL BD #20	2	\$624,205.71	\$8,560.92	STATE C
AGENT L	RETAIL BD # 21	9	\$1,339,594.58	\$6,105.04	STATE D
AGENT I	RETAIL BD #12	5	\$1,446,535.01	\$13,000.02	STATE C
AGENT C	RETAIL BD #14	5	\$1,544,997.21	\$89,395.24	STATE B
AGENT K	RETAIL BD #3	6	\$2,079,939.26	\$33,552.41	STATE D
AGENT A	RETAIL BD #12	17	\$2,947,504.60	\$56,581.10	STATE B
Total		63	\$12,326,378.39	\$275,257.59	

Index Advantage RILA Exchanges with Incurred Surrender Fees Filtered By Agent of Record

Name Of Selling Agent	Name of Retail BD	# of Policies	Premium Total	Surrender Charge Total	State
AGENT Y	RETAIL BD #25	1	\$103,015.23	\$9,002.86	STATE D
AGENT AA	RETAIL BD #6	6	\$358,562.94	\$9,974.00	STATE C
AGENT X	RETAIL BD #24	2	\$573,850.33	\$19,330.00	STATE D
AGENT BB	RETAIL BD #6	4	\$692,666.54	\$9,128.00	STATE C
AGENT CC	RETAIL BD #6	10	\$728,652.80	\$6,888.00	STATE C
AGENT P	RETAIL BD #22	4	\$750,480.09	\$18,945.00	STATE A
AGENT V	RETAIL BD #1	5	\$879,918.52	\$13,280.00	STATE B
AGENT Z	RETAIL BD #2	4	\$930,594.95	\$15,466.27	STATE C
AGENT W	RETAIL BD #24	6	\$1,037,676.14	\$23,070.00	STATE D
AGENT R	RETAIL BD #22	6	\$1,056,696.92	\$9,419.00	STATE A
AGENT Q	RETAIL BD #5	6	\$1,276,265.93	\$10,140.71	STATE A
AGENT U	RETAIL BD #1	10	\$1,624,339.59	\$18,175.55	STATE B
AGENT T	RETAIL BD #2	2	\$2,214,585.34	\$63,650.00	STATE B
AGENT O	RETAIL BD #11	2	\$2,446,227.73	\$28,032.16	STATE A
AGENT S	RETAIL BD #23	10	\$3,171,953.52	\$128,198.73	STATE B
AGENT N	RETAIL BD #2	25	\$5,370,825.23	\$42,640.04	STATE A
Total		103	\$23,216,311.80	\$425,340.32	

One major takeaway from reviewing the surrender charges at a selling agent level is that most selling agents do not appear to be recommending that their customers engage in 1035 exchanges to purchase RILAs, and those that are recommending those transactions appear to be doing so when a customer is out of the surrender period. However, the data suggests that a small handful of selling agents have recommended that their customers purchase RILAs in 1035 exchanges with surrender charges.

VIII. Conclusion

In conclusion, RILAs appear to be gaining popularity as variable annuity sales decline. However, the source of funds for these purchases appears to be predominantly new assets or funds that are not derived from the exchange of an existing insurance product. When a RILA is funded through an existing annuity, the project group believes that the annuity is most likely to have been in force for several years, thereby minimizing or eliminating any applicable surrender charges.

The project group has, however, identified a small number of outlier agents whose RILA sales account for a disproportionate share of the surrender charges incurred in these transactions. To the extent that customers are incurring surrender charges as part of recommended 1035 exchanges involving RILAs, the project group believes that those recommendations should be carefully scrutinized to assure compliance with applicable regulatory standards, including Reg BI.