

Replacements



Foresters 
Financial

Helping is who we are.™

Visit foresters.com to see how we can help you.

For producer use only. Not for use with the public. 504941 US 03/21

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 agent 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 or used in a financed purchase

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

General Information

- Replacements must be disclosed on the new application and all applicable replacement forms must be completed and submitted
- 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
- Foresters policy is to include term-to-term product replacements

General Information

- 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

General Information

- Agent 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

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

Evaluation

- 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 to replacement

- 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 available or exchange accumulated dividends for paid-up additions or use them to pay off existing policy loans

Foresters rules for compensation purposes

- The Foresters Replacement Rules for Compensation Purposes apply to internal replacements as well as certain conversions (as detailed below & following slide)
- 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

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

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 is 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

Available resources



Please refer to ezbiz (<https://portal.foresters.biz>) for the following tools:

- Life Insurance Replacement Form Requirements & Free Look Periods 409489 US (03/21)
- Foresters Financial Market Conduct Manual 405815 US (05/17)
- Producer Guide to Replacements 405813 US (03/21)
- Foresters Financial Producer Guide to New York State Regulation 60 406136 US (03/21)
- New York Regulation 60 Requirements PowerPoint 504943 US (03/21)

Disclaimer

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 informational 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
- If you're looking for a deeper dive on a particular module please let us know at USLearning@foresters.com

Foresters 
Financial

Helping is who we are.[™]

Visit foresters.com to see how we can help you.

Foresters Financial, Foresters, and Helping Is Who We Are are trade names and/or trademarks of The Independent Order of Foresters (a fraternal benefit society, 789 Don Mills Rd, Toronto, Canada M3C 1T9) and its subsidiaries.

For producer use only. Not for use with the public.