

Producer's Guide for **Annuity Suitability**

2016 Suitability Guidelines



Producer's Guide for Annuity Suitability

The appropriate sale of our products is something that Americo takes seriously. We have adopted nationwide suitability requirements, which are in line with the NAIC Model Regulation on Suitability in Annuity Transactions. As a producer, it is your responsibility to carefully consider the suitability of each sale you make.

What is Suitability?

The appropriate sale of our products is something that Americo takes seriously. As an agent, it is your responsibility to carefully consider the suitability of each sale you make. Most states have enacted legislation which requires the company and the agent to have “reasonable grounds for believing the recommendation is suitable for the consumer...”

Suitability refers to the determination of whether the annuity sale is reasonable considering the applicant's needs, objectives, and current financial status. In making the suitability assessment, you must consider your client's risk tolerance, current income, access to cash, age of the owner, and the customer's retirement needs and objectives. Money used for an annuity should be from funds that can be allowed to grow and not from funds needed to meet current financial obligations.

Your Responsibilities as an Agent

- ▶ Make sure you comply with all applicable suitability and replacement laws and regulations.
- ▶ Know and apply the definition of replacement.
- ▶ Thoroughly evaluate and discuss the circumstances of the replacement with the client to help them make a decision that is in line with their financial needs and objectives.
- ▶ Provide the client with relevant and appropriate information so that he or she can make an informed decision.
- ▶ Be certain to disclose if a replacement is involved, and disclose appropriately on the application, suitability form, or on any other required form.
- ▶ Ensure the required replacement notice is given to the client and signed and dated by the client on the same date as the application for coverage.
- ▶ Document your conversations with the client and make notes about why you recommended the product. It is important to keep this documentation in each client's file in case there are ever future questions. At a minimum, these records should be maintained for five years. We strongly recommend that you retain all suitability information in a client file for as long as the contract remains in force.

Failure to send in the appropriate forms and/or to comply with the replacement requirements can lead to a delay in policy issue.

Agents who engage in excessive or inappropriate replacement activity, or fail to disclose relevant replacement activity, will be subject to company sanctions, up to and including, termination of their appointment and Agent Agreement with Americo. In addition, agents may be subject to penalties imposed by the state where the application was taken. These penalties include substantial fines and/or suspension or revocation of their license to sell insurance.

Suitability Review

It is very important that you carefully consider the suitability of your recommendation. Before recommending a product to a consumer, gather information and carefully consider and discuss the client's needs. You should not have a "cookie cutter" approach to recommending products. A decision to recommend a fixed annuity to your client should be based on a careful review of the information gathered during the sale. It is also important that your client understands the product and all of the features before making the purchase.

Although there are no "right" or "wrong" questions to ask each customer, below is a list of sample questions you may find helpful when doing a suitability analysis:

- What is the client's main financial objective?
- How will the purchase of this annuity help achieve the objective?
- Will the consumer have adequate liquid assets/income for current and future needs?
- Does the consumer understand how the annuity works and the associated surrender period/charges?
- If the client was a close friend or family member, would you make the same recommendation?
- If replacement is involved, is it beneficial to the client to replace the current policy? Consider surrender charge periods, rates, riders, benefits, etc.

We require the use of the Financial Suitability Form for all annuity sales. Please keep in mind, simply completing the suitability form does not alleviate your responsibility in making a suitable recommendation. It is your responsibility to be familiar with the customer's needs and make recommendations that are appropriate for individual customers.

Internal Suitability Review Guidelines

Our internal suitability review guidelines comply with the Suitability in Annuity Transactions Model Regulation. A variety of factors will be reviewed, including liquid assets, sources of funds, age, and monthly disposable income.

We will automatically decline cases that include the following:

- Client resides in a nursing home
- Client is left with little to no liquid assets for emergencies
- Source of funding is a reverse mortgage or home equity loan
- Close to 100% of client's net worth is annuities
- Undisclosed replacements

In the case of Americo products which allow for additional premiums, if new premium is received more than 90 days after an annuity is issued, or the source of additional funds involves a replacement (regardless of time frame), we will require a new suitability form to be completed and a new suitability review will be conducted within the first policy year.

KNOW THE
RULES!

Replacements and Suitability

What are Replacements?

The definition of 'replacement' according to the NAIC Life Insurance and Annuities Replacement Model Regulation is:

A transaction in which a new policy or contract is to be purchased, and it is known or should be known to the proposing producer, or to the proposing insurer if there is no producer, that by reason of the transaction, an existing policy or contract has been or is to be:

1. Lapsed, forfeited, surrendered or partially surrendered, assigned to the replacing insurer or otherwise terminated;
2. Converted to reduce paid-up insurance, continued as extended term insurance, or otherwise reduced in value by the use of nonforfeiture benefits or other policy values;
3. Amended so as to the 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;
4. Reissued with any reduction in cash value; or
5. Used in a financed purchase.

Replacements include "financed purchases," which according to the NAIC Model Regulation, means the purchase of a new policy involving the actual or intended use of monies obtained by the withdrawal or surrender of, or by borrowing from values of, an existing policy to pay all or part of any premium due on the new policy.

Americo considers it to be a "financed purchase" if any of the above transactions are processed on an existing life insurance or annuity contract, either four months before or 13 months after the issue date of the new policy.

Replacement Requirement Guidelines

Each replacement case will be reviewed individually; however, you should consider these guidelines:

- ▶ A "like-to-like" replacement (fixed annuity to fixed annuity) requires a close review by our suitability team. We will consider surrender charge periods and charges, product enhancements, and rate comparisons, among other factors in looking for an apparent benefit for your client.

- ▶ We will not accept undisclosed replacements and, when identified, the application will be rejected.

It is very important that you carefully consider the suitability of any replacement and ensure your client understands the advantages, disadvantages, and potential impact, of a replacement. Factors to consider include guaranteed interest rates, loss of existing benefits, potential surrender charges on the existing annuity contract or life insurance policy and the new surrender charge period of the replacement.

Before you recommend a replacement to your client, you must be sure the replacement provides an economic benefit to your client. Below are some things to consider before recommending a replacement sale:



- How do the benefits of the existing product compare with those of the Amerigo annuity you are recommending, including rates, surrender charges, riders, etc.?
- Will the new annuity better fit your client's needs and financial objectives?
- Will your client lose any existing benefits?
- Has your client had other annuity replacements within the past three years?

Completing the Financial Suitability Form

General Requirements

The Financial Suitability Form (AAA8378 (11/13)) should be used for all annuity sales, except Florida. In Florida, please use form DFS-H1-1980 for all annuity sales. The suitability form should be completed and signed by the applicant during the sale. When completing the form, please keep the following in mind:

- Complete and accurate information must be provided. If subsequent changes are made to the Financial Suitability Form, documentation of these changes may be required. This may include providing copies of bank records, annual statements, or other financial documentation.
- If you are replacing an annuity, please carefully verify the surrender charges that will be assessed.
- A detailed summary should be provided by the producer in the Acknowledgment section.
- Provide as much detail as possible regarding your suitability review of the sale. If the annuity is a replacement, it is important that you include the factors that you believe make it a suitable replacement. Some questions to consider and address include: Why does the new annuity deliver a substantial value to the client? How does it provide a benefit not available with their current product?
- Regardless if a trust is involved, if the owner/annuitant are different, provide a suitability form for the person funding the annuity.

Replacement Section

- Provide as much detail as possible regarding the replaced product. This will decrease the likelihood we will need to contact you or your client for additional information.
- Give a detailed producer statement regarding the suitability of the replacement. Give specific reasons as to why you are recommending the replacement. Attach an additional page if necessary.

A New Business representative may contact you or the client to obtain additional information if they have questions as a result of their review of the annuity application and suitability form.

Suitability Calls

Amerigo conducts suitability calls with all applicants ages 80+, and a random selection of clients ages 65+, before the issuance of an annuity. It is important that you provide a current phone number for your client and let them know that Amerigo will be contacting them to ask a few questions about the annuity purchase. If your client is available during a certain time, please make note of this on the application. The phone call will be completed by an Amerigo associate. It is a short phone interview and reviews the client's understanding of certain features of the annuity.

Instructions for Trusts as Owners

If a trust is listed as an owner of a proposed annuity, Americo has specific requirements as to what information should be collected on the Suitability Form (AAA8378).

- ▶ The Grantor/Settlor and Trustee are the same: The grantor/settlor of the trust must complete the Suitability Form with his/her own personal information. If there are multiple non-spousal grantors/settlors, a separate Suitability Form must be completed for each individual.
- ▶ The Grantor/Settlor and Trustee are different: The grantor/settlor of the trust must complete a Suitability form with his/her own personal information. Additionally, the trustee must complete the Suitability Form with the trust's information (annuity objectives, financial status, etc.) including the following modifications:
 - For name of owner, enter the name of the trust.
 - For "age," enter "N/A"
 - For "owner's signature," the trustee must sign as trustee (John Doe, TTEE)



Suitability Case Studies

Although each situation is unique, below are several examples of annuity sales and the expected outcome of the review process based on the facts provided:

George, age 68

George is interested in purchasing a Future Provider product.

- ▶ He would like to replace a fixed annuity he currently holds. The annuity was issued 4 years ago, written by the same producer, and surrender charges are 6%. The current accumulation value is \$50,000.
- ▶ Their household income is \$6,000 monthly and monthly living expenses are \$3,000.
- ▶ The current annuity has a guaranteed declared interest rate of 3.5%, which it is also paying currently. He has chosen the “EZ Option” in the Future Provider annuity, which is currently paying an interest rate of 3%.
- ▶ He has a net worth of \$500,000 and liquid assets of \$90,000.
- ▶ He already has \$100,000 in annuities.

Given the factors presented above, this case would most likely be declined. The replacement review indicated that the surrender charges were not acceptable. Additionally, there does not appear to be an economic benefit for this replacement.

Linda, age 64

Linda is interested in purchasing an Ultimate One Index 7 product.

- ▶ She intends to use \$10,000 from her savings account to fund the annuity.
- ▶ Her income is \$3,500 monthly and expenses are \$2,500 monthly.
- ▶ After this purchase, she would be left with \$5,000 in liquid assets in her checking/savings accounts.
- ▶ Her net worth is \$40,000, and she has \$25,000 already in existing annuities.

Given the factors presented above, this case would most likely be declined. After careful review and consideration, it was determined that Linda’s liquid assets were not sufficient. Additionally, the percentage of her net worth in annuities after this new purchase would be too substantial.

John, age 75

John is interested in purchasing a Future Provider Bonus product.

- ▶ He would like to replace a fixed annuity he currently holds. The annuity was issued 8 years ago and has 2 years of surrender charges remaining. The current accumulation value is \$75,000 and the surrender charges are 4% of the value, or \$3,000.
- ▶ He has \$100,000 in liquid assets, all of this in checking/savings.
- ▶ His current annuity is paying a current fixed interest rate of 2%. For Future Provider Bonus, he has chosen the Point-to-Point w/Cap option, which is currently 4%.
- ▶ His current monthly income is from guaranteed sources (pension, Social Security) and is \$4,000. His monthly living expenses are \$3,000.
- ▶ His net worth is approximately \$600,000 and he has no debt.
- ▶ His objective in this annuity purchase is to leave the annuity to his heirs, he does not plan on using for any other purchase.

Given the factors presented above, this case would most likely be approved. John has sufficient liquid assets, net worth, and there appears to be a substantial economic benefit for the replacement transaction.

Mary and Joe, age 55 and 56

Mary and Joe are interested in purchasing an Ultimate One Index 9 Bonus product.

- ▶ They intend to use \$50,000 from a CD at the bank to fund the annuity.
- ▶ Their household income is \$6,000 monthly and monthly living expenses are \$3,000.
- ▶ They currently have \$30,000 in liquid assets (including checking, savings, and penalty-free withdrawal amounts from Mary’s annuity).
- ▶ They have \$10,000 in debt (not including their primary residence) and have a net worth of approximately \$200,000.

Given the factors presented above, this case would most likely be approved. After a thorough review, it was determined that they had sufficient liquid assets and net worth and that this was an acceptable transaction.

Tips for Completing the Financial Suitability Form

Because it is important for us to understand your recommendation and how it fits the client's needs and situation, it is important that you carefully and thoroughly complete the Financial Suitability Form (AAA8378 (11/13)). Florida residents, please complete form DFS-H1-1980. If responses are missing or conflicting, it is likely we will need to request additional information.

If the owner is a trust, please see our guidelines on Page 5 for how to complete the suitability form.

Please indicate best time to call for clients age 65+ so we can complete the suitability call.

Liquid assets are those that are not subject to penalty or surrender charges, or can easily be converted into cash. You can include penalty-free withdrawals from annuities.

Since annuities are long-term contracts, it is important to include all assets in this section so we can understand the applicant's ability to meet living expenses and emergencies.

Monthly gross income and monthly living expenses should be total **household** income and expenses.

Financial Suitability Form

AAA8378 (11/13)

AMERICO

This information will be used to determine the suitability of our products in meeting your financial needs. This form is not designed to address every aspect of the needs analysis process and is only intended to highlight areas to be considered when purchasing an annuity contract. Your information will not be used or distributed for sales purposes to third parties. **Please note, if this form is not completed in full, signed, and dated, we are unable to consider your application.**

Owner _____ Age _____ ☐ Male ☐ Female

Home Phone Number: _____ Best time to call (circle all that apply): 8:30 AM – 10:30 AM 10:30 AM – 2:30 PM 2:30 PM – 4:30 PM

ANNUITY OBJECTIVES AND RISK TOLERANCE

1. With regard to purchase of this annuity, **check your top 3 objectives** from the options below:

- | | | | | |
|--|--|--|---|---|
| ☐ Future income | ☐ Safety of principal | ☐ Protection from inflation | ☐ Transfer of assets to beneficiary | ☐ Reduced taxation |
| ☐ Bond investment | ☐ Equity investment | ☐ Probate avoidance | ☐ Potential interest based on the market | ☐ Growth |
| ☐ Current income | ☐ Tax deferral | ☐ Guaranteed interest rate | ☐ Income I can't outlive | |

2. How do you anticipate taking distributions from this annuity? (check all that apply):

- | | | | |
|---|------------------------------------|--|---|
| ☐ RMD | ☐ Annuitize | ☐ Interest-only withdrawals | ☐ Immediate income |
| ☐ Leave to beneficiary | ☐ Lump sum | ☐ Penalty-free withdrawals | ☐ Guaranteed lifetime withdrawal benefit |

3. How long do you plan on keeping the proposed annuity? ☐ Less than a year ☐ 1-6 years ☐ 7-9 years ☐ 10 or more years ☐ Forever

4. Describe your financial experience (check all that apply): ☐ Stocks ☐ Bonds ☐ CDs ☐ Annuities ☐ Other: _____

5. Describe your risk tolerance (check one): _____ ☐ Conservative ☐ Moderate ☐ Aggressive

HOUSEHOLD FINANCIAL STATUS

6. Estimated premium amount for the proposed Americo annuity(ies) (combine estimated premium for all annuities applied for) (DO NOT include in assets below.) _____ \$

7. Household Liquid Assets

- | | | |
|--|-------|----|
| • Checking accounts | _____ | \$ |
| • Savings accounts | _____ | \$ |
| • Mutual funds without penalty | _____ | \$ |
| • Pension/401(k) (if over 59½) | _____ | \$ |
| • Annuity value not subject to surrender penalties | _____ | \$ |
| Total Liquid Assets | _____ | \$ |

8. Household Non-Liquid Assets

- | | | |
|---|-------|----|
| • Annuities, less penalty-free withdrawal amounts | _____ | \$ |
| • Life insurance cash value | _____ | \$ |
| • Pension/401(k) (if under age 59½) | _____ | \$ |
| • Real estate (exclude primary residence) | _____ | \$ |
| • Other (please describe) | _____ | \$ |
| Total Non-Liquid Assets | _____ | \$ |

9. **Household Total Assets** • DO NOT include premium for proposed annuity(ies). Add #7 and #8 \$

10. **Household Total Debt** • Exclude debt on your primary residence. \$

11. **Household Net Worth** Subtract #10 from #9 \$

12. Monthly Household Gross Income

- | | | |
|-------------------------------|-------|----|
| • Social Security payments | _____ | \$ |
| • Pension/retirement benefits | _____ | \$ |
| • Salary/wages | _____ | \$ |
| • Interest/dividend income | _____ | \$ |
| • Other (please describe) | _____ | \$ |
| Total Gross Income | _____ | \$ |

13. **Monthly Household Living Expenses** • Housing, food, transportation, healthcare, etc. \$

14. **Monthly Disposable Income** Subtract #13 from #12 \$

15. Federal Income Tax Bracket: ☐ 0% ☐ 10% ☐ 15% ☐ 25% ☐ 28% ☐ 33% ☐ 35%

16. Does your income cover all your living expenses (including out-of-pocket medical expenses)? ☐ Yes ☐ No

17. Is your income sufficient to cover future changes in your living expenses (including out-of-pocket medical expenses and/or nursing home expenses) during the surrender charge period? ☐ Yes ☐ No

If No to question 16 or 17 above, explain: _____

18. Do you anticipate any substantial change in your future income, liquid assets, or expenses (including out-of-pocket medical expenses) during the surrender charge period? ☐ Yes ☐ No

If Yes, explain: _____

19. Do you understand that the proposed annuity has a surrender charge and the length of the surrender charge period? ☐ Yes ☐ No

20. Are you currently residing in a nursing home? ☐ Yes ☐ No

21. Are you currently residing in an assisted-living facility? ☐ Yes ☐ No

22. Do you have long-term care insurance? ☐ Yes ☐ No

23. Do you have Medicare Supplement insurance? ☐ Yes ☐ No

SOURCE OF FUNDS

24. Source of this annuity's funding (check all that apply):

- | | | | |
|---|--|--|--|
| ☐ Variable annuity | ☐ Fixed/indexed annuity | ☐ Life insurance | ☐ Stocks/bonds/mutual funds |
| ☐ Checking/savings | ☐ CD | ☐ 401(k)/403(b)/pension | ☐ Inheritance |
| ☐ Reverse mortgage | ☐ Home equity loan | ☐ Death claim proceeds | ☐ Required minimum distribution |
| ☐ Other: _____ | | | |

25. Will the annuity applied for replace, or otherwise reduce in value, any existing life insurance or annuity now in force? **If Yes, please complete the Replacement Section below.** ☐ Yes ☐ No

26. Within the past 36 months (60 months in CA and MN), other than the current transaction, have you had another annuity exchanged or replaced? ☐ Yes ☐ No

If Yes, provide details: _____

REPLACEMENT SECTION – MUST BE COMPLETED IF QUESTION #25 IS ANSWERED “YES”.

Life and annuities:

27. Is your current agent the same agent who recommended the purchase of the existing annuity or life insurance contract? ☐ Yes ☐ No

28. Do you feel you have been reasonably informed of the various features of the proposed annuity and understand the differences between your existing contract(s) and the proposed annuity? ☐ Yes ☐ No

Life only:

29. Death benefit amount \$ _____

30. Cash surrender value \$ _____

31. Please explain why you are replacing a life insurance policy with an annuity: _____

Annuities only (complete Annuity to Annuity Product Features Comparison grid on the next page):

32. Are you using the penalty-free withdrawal from your current annuity to fund the proposed annuity? ☐ Yes ☐ No

33. Please explain how this new annuity better meets your objectives: _____

If “no” to question 17 or “yes” to question 18, please provide a detailed explanation.

If your client is living in a nursing home, the application will be declined. A nursing home is a licensed facility which provides skilled nursing home care under the supervision of a licensed physician and provides continuous nursing services 24-hours a day.

A replacement occurs when, in order to purchase a new annuity contract:

- An applicant surrenders, or terminates an existing contract
- An applicant transfers the proceeds of an existing contract (including free withdrawals to the insurer issuing the new contract.

Americo considers it to be a ‘financed purchase’ if any of the above transactions are processed on an existing life insurance or annuity contract, either four months before or 13 months after the issue date of the new policy.

If replacing: please have the client explain how this new annuity better meets their needs.

If replacing: carefully and thoroughly complete the entire annuity comparison section, including the correct information for the proposed Americo product.

We must be able to determine that the client will receive a substantial economic net benefit after this replacement.

AAA8378 (11/13)

Annuity to Annuity Product Features Comparison <i>(If replacing more than two annuities, please use form 11-193-1)</i> All sections should be complete.			
Components	Existing Annuity Contract #1	Existing Annuity Contract #2	Proposed Annuity Contract
Issuing company:			Americo Financial Life and Annuity Insurance Company
Type of contract:	☐ Fixed ☐ Fixed Indexed ☐ Variable	☐ Fixed ☐ Fixed Indexed ☐ Variable	☐ Fixed ☐ Fixed Indexed
Date of issue:			Not Applicable
Source of initial funding (i.e. cash, annuity, mutual fund, etc.):			Annuity
Is there a surrender charge?	☐ Yes ☐ No	☐ Yes ☐ No	☐ Yes ☐ No
Surrender charge period remaining:	_____ years	_____ years	_____ years
Surrender charge:	\$	\$	Not Applicable
Market value adjustment (MVA):	(+/-)\$	(+/-)\$	Platinum Assure only
Fees or other charges:			Not Applicable
Enhanced benefits (<i>guaranteed income benefits, guaranteed withdrawal rider, etc.</i>):			
Surrender charge on death benefit:	☐ Yes ☐ No	☐ Yes ☐ No	No
Penalty-free withdrawal % available:			
Current declared interest rate %:			
Guaranteed minimum declared interest rate % (<i>not guaranteed minimum value</i>):			

OWNER ACKNOWLEDGMENT

By signing below, I/We represent to Americo Financial Life and Annuity Insurance Company that the statements made on this Financial Suitability form are true, complete, and correctly recorded to the best of my/our knowledge and understanding. I/We acknowledge that failure to provide complete or accurate information may affect the ability of the Agent and/or Insurer to determine the suitability of the annuity product being offered. I/We believe that the annuity product for which I/We are applying is a suitable product for my/our financial needs.

For New Jersey residents: I understand that the solicitation, negotiation, and sale of the annuity and its suitability are subject to the regulatory oversight of the New Jersey Department of Banking and Insurance. You may contact their Consumer Assistance Services at 800.446.7467.

Owner's Signature_____
Date_____
Joint Owner's Signature_____
Date**AGENT ACKNOWLEDGMENT** *(to be completed by the agent)*

By signing below, I certify that:

- I have completed a suitability analysis review regarding the purchase of this annuity.
- I have reasonable grounds for believing that the recommendation to purchase this annuity is suitable for the applicant.
- The above information was furnished to me by the customer.

Please provide a summary explaining how the client will benefit from the annuity. Discuss features, benefits, and other factors. In the case of replacement, please indicate how the proposed annuity is more advantageous. **Must be completed by agent.**

FOR USE IN CALIFORNIA ONLY (must be completed)

Did you meet with the Senior in his/her own home? *(If Yes, submit form 03-185-1 CA with application.)* ☐ Yes ☐ No ☐ NA

Agent: please complete all required replacement forms and submit with application and this Financial Suitability form.

Agent's Signature_____
Agent #_____
Date

It is required that you complete the Agent Acknowledgment Section. If it is not completed, the form will be returned for completion.

Please provide a detailed summary of your recommendation and include any information you feel would be helpful in our review process.

You may attach an additional page if more space is needed.



Americo Financial Life and
Annuity Insurance Company
300 W. 11th Street
Kansas City, MO 64105

About Americo

For over 100 years, Americo Life, Inc.'s family of insurance companies have been committed to providing the life insurance and annuity products you need to protect your mortgage, family, and future.¹ We listen to what you want from an insurance policy or annuity and do our best to provide a proper solution for your individual situation.

Innovative thinking and sound investment decisions have helped us build a strong financial foundation for our business. Today, Americo Financial Life and Annuity Insurance Company is the lead company in one of the largest independent, privately held insurance groups in the United States², with 625,000 policies, over \$30.4 billion of life insurance in force, and \$6.3 billion in assets for year-end 2015.³

¹Americo Life, Inc. is a holding company and is not responsible for the financial condition or contractual obligations of its affiliate insurance companies.

²"Admitted Assets, Top Life Writers-2015," A.M. Best Co., as of July 2015.

³Information is as of year end 2015 on a consolidated basis for Americo Financial Life and Annuity Insurance Company and the other life insurance subsidiaries of Americo Life, Inc., unless otherwise indicated. Information is prepared on the basis of generally accepted accounting principles (GAAP).

Important Information

Americo Financial Life and Annuity Insurance Company is authorized to do business in the District of Columbia and all states except NY and VT.

Neither Americo Financial Life and Annuity Insurance Company nor any agent representing Americo Financial Life and Annuity Insurance Company is authorized to give legal or tax advice. Please consult a qualified professional regarding the information and concepts contained in this material.

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