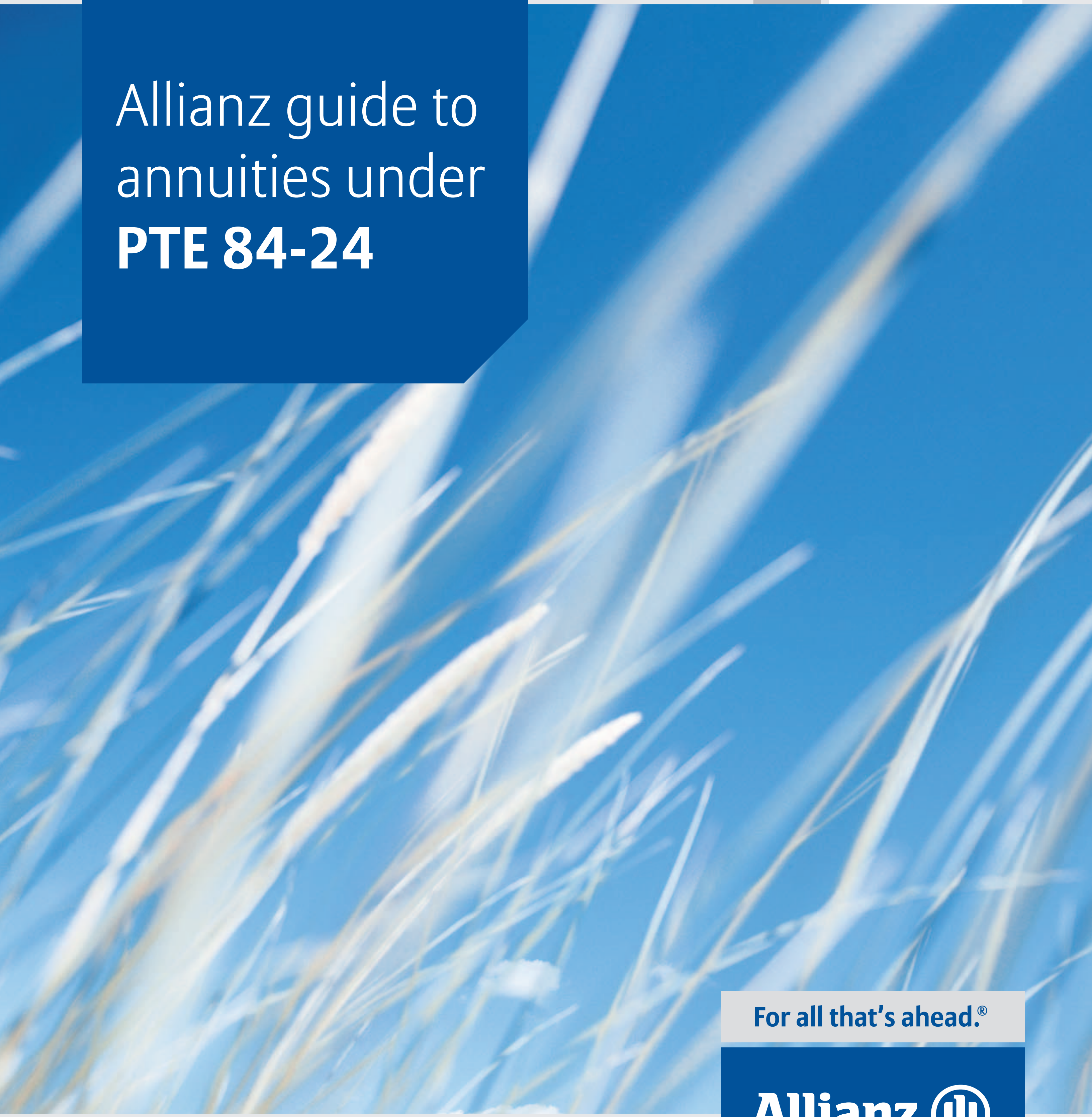
Allianz Life Insurance Company of North America

Allianz guide to annuities under **PTE 84-24**



For all that's ahead.®

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Overview

The Department of Labor has delayed the applicability date of the fiduciary rule and made changes to Prohibited Transaction Exemption 84-24 (PTE 84-24) that will apply during the transition period of June 9, 2017 to January 1, 2018. PTE 84-24 allows producers to receive compensation in connection with the sale of fixed index annuities (FIAs) and life insurance to qualified plans and IRAs. This document is designed to highlight the basics of this exemption and to help make your business transition as seamless as possible.

Please note that if you are affiliated with a broker/dealer, you need to work directly with them to determine the Prohibited Transaction Exemption you will operate under.

We encourage you to consult your own attorney for advice that is specific to your business.

What's changing and how will it affect you?

PRODUCER is a fiduciary.

PRODUCER must adhere to the impartial conduct standards.

PRODUCER must provide the client with the required disclosure.

DOL fiduciary rule

On April 8, 2016 the Department of Labor (DOL) published an amendment to ERISA that broadens the definition of fiduciary and includes advice given to IRAs. At the same time, the DOL published a series of Prohibited Transaction Exemptions. These included the new Best Interest Contract Exemption (BICE) and changes to the existing PTE 84-24. Originally, parts of these changes were to begin to apply on April 10, 2017 – referred to as the start of the transition period, with full compliance required by January 1, 2018.

Then on April 7, 2017, the DOL delayed the applicability date of the fiduciary rule to June 9, 2017 and made some changes to the conditions and requirements for compliance of both the BICE and PTE 84-24 during the transition period that begins on June 9 and extends through December 31, 2017. These changes include different disclosures under PTE 84-24 from before, and no transition disclosure is required under the BICE.

The fiduciary rule prohibits anyone who provides fiduciary advice from receiving compensation on the recommendation without complying with the conditions of a Prohibited Transaction Exemption. Beginning June 9, 2017, during the transition period, producers may now choose to comply with one of the following Prohibited Transaction Exemptions to receive compensation in connection with the sale of qualified FIAs and life insurance, as well as nonqualified life insurance and annuities purchased with funds from qualified accounts:

1. PTE 84-24 or
2. The BICE

January 1, 2018 remains as the full compliance date with the requirements of the BICE or PTE 84-24. As of now, from then on, only the BICE would be available for FIAs. PTE 84-24 would remain available for fixed annuities (FAs) and life insurance.

YOU ARE NOW A FIDUCIARY.

A fiduciary is defined as anyone who gives investment advice for a fee or other compensation with respect to any money or other property of a plan, or has authority or responsibility to do so.

WHEN DOES THE FIDUCIARY RULE APPLY?

The fiduciary rule prohibits anyone who provides fiduciary advice from receiving a fee or compensation for the recommendation without complying with the conditions of a Prohibited Transaction Exemption. If no fiduciary advice is given, the fiduciary rule does not apply even if you receive compensation. If no compensation is received by you or anyone associated with you, the fiduciary rule does not apply even if you gave fiduciary advice. Both elements are required for the fiduciary rule to apply.

By acting in a fiduciary capacity, a producer must adhere to basic standards of impartial conduct, namely:

- Give advice that is in the customer's best interest.
- Avoid misleading statements, including about any material conflicts of interest.
- Receive no more than reasonable compensation.

Investment advice

THE FIDUCIARY RULE APPLIES TO INVESTMENT ADVICE.

It includes recommendations on:

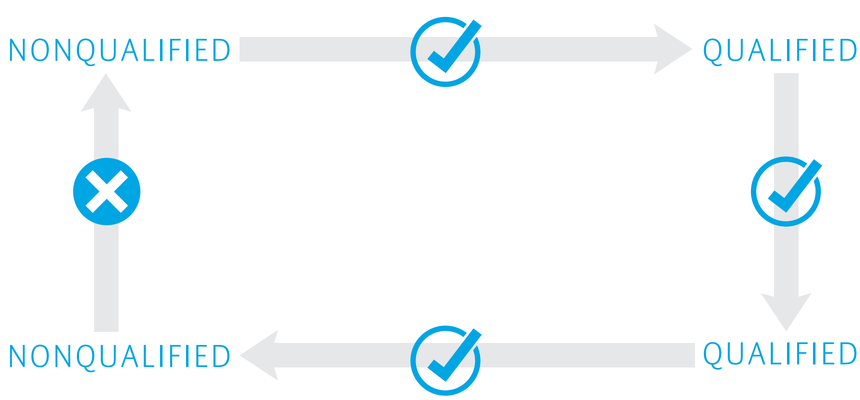
- Acquiring, holding, disposing of, or exchanging securities or other investment property
- How securities or other investment property should be invested after being rolled over, transferred, or distributed from a qualified plan or IRA
- Managing securities or other investment property, such as portfolio composition
- Rollovers, transfers, or distributions from a qualified plan or IRA, including to what destination they should be made

WHEN DO I NEED AN EXEMPTION?

To know when the fiduciary rule applies and a Prohibited Transaction Exemption is needed, you always need to consider where the money is coming from and where it's going.

The fiduciary rule applies for advice to move money **into** qualified accounts, regardless of whether the source of the funds is a nonqualified or qualified account. Types of sources could include FIAs, variable annuities (VAs), FAs, life insurance, mutual funds, checking accounts, etc. Please note that Allianz Life Insurance Company of North America (Allianz) does not issue qualified life insurance policies.

The fiduciary rule also applies for advice to move money from a qualified account into a nonqualified account. This includes a nonqualified life insurance policy being funded from a qualified account. The rule does not apply for advice to move money into a nonqualified account from a nonqualified account.



PTE 84-24

At the same time as the DOL delayed the applicability date of the fiduciary rule in April 2017, the DOL extended the 2006 version of PTE 84-24, as amended to add the impartial conduct standards, to all insurance product sales. The 2006 version of PTE 84-24 is available during the transition period (June 9, 2017 – December 31, 2017). On January 1, 2018, this version of PTE 84-24 will be replaced by the 2016 version of PTE-84-24, as published on April 8, 2016.

There will be new requirements to how you do business beginning June 9, 2017. While there will be additional requirements on January 1, 2018, we are going to focus on the requirements you must follow during the transition period.

PTE 84-24 requires that:

PRODUCER act according to the impartial conduct standards in making the fiduciary advice recommendation

PRODUCER provide the client with the required disclosures

CLIENT acknowledge receiving the written disclosures and approve the producer's recommendation

DISCLOSURE REQUIREMENTS

The disclosure must be signed by the client and retained by the producer for six years.

Under PTE 84-24, prior to the execution of a transaction, you must provide a disclosure to the client that covers the following:

- **Relationship to insurance company and product limitations:** The nature of any affiliation or relationship you have with the insurance company and to what extent the insurance company limits your ability to recommend the insurance or annuity contract;
- **Commission received by financial professional:** Sales commission, expressed as a percentage of gross annual premium payments for the first year and renewal years, payable to you in connection with the sale;
- **Material conflicts of interest:** This includes other compensation such as incentive trips/awards, bonuses, marketing support or credits you receive from an FMO, gifts, and outside business activities;
- **Product charges, fees, penalties, and adjustments:** Charges, fees, penalties, or adjustments imposed under the contract in connection with the purchase. For Allianz FIAs, the Statement of Understanding provides all of this information and meets this disclosure requirement.

The client must sign these disclosures to acknowledge receipt of the disclosures and to approve the transaction.

IMPARTIAL CONDUCT STANDARDS

Under PTE 84-24, you are required to comply with the impartial conduct standards, which are:

- Acting in the best interest of the client,
- Making no misleading statements, including disclosing material conflicts of interest, and
- Receiving no more than reasonable compensation.

What does best interest mean?

The best interest standard has two chief components: **prudence** and **loyalty**.

PRUDENCE STANDARD

The fiduciary may not make a recommendation unless it meets the objective prudent person standard of care.

The fiduciary advice must reflect the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims, based on the investment objectives, risk tolerance, financial circumstances, and needs of the plan or IRA.

The prudence obligation is an objective standard of care that requires you to investigate and evaluate investments, make recommendations, and exercise sound judgment in the same way that knowledgeable and impartial professionals would.

LOYALTY STANDARD

The fiduciary may not base his or her recommendations on his or her own financial interest in the transaction.

The recommendation should be made without regard to the financial or other interests of the fiduciary, any affiliate, or other party.

The loyalty standard does not measure compliance by reference to how investments subsequently performed or turn the fiduciaries relying on the exemption into guarantors of investment performance, even though they gave advice that was prudent and loyal at the time of transaction. Under this standard, for example, in choosing between two products, you could not recommend a product because it is better for your bottom line, even though it is a worse choice for the client.

What does best interest mean? (continued)

MAKING NO MISLEADING STATEMENTS

This covers everything from the way in which you refer to yourself (such as titles and designations), to advertising and marketing materials, to your emails with clients.

Further, failing to disclose a material conflict of interest is considered to be a misleading statement. Per PTE 84-24, a material conflict of interest exists when a producer has a financial interest that a reasonable person would conclude could affect the producer's exercise of best judgment as a fiduciary making a recommendation to the client. Therefore, if you do not disclose to the client incentive trips/awards, bonuses, marketing support or credits you receive from FMOs, or gifts you may receive, it would be considered a misleading statement. In addition, failure to disclose an outside business activity may also be considered in the same way. Let's say you do your client's taxes and tax planning. You receive compensation for those services and you also receive compensation for recommending or selling an FIA. This could be considered a material conflict of interest and, if not disclosed, could be considered misleading to the client.

REASONABLE COMPENSATION

Reasonableness depends on the particular facts and circumstances at the time of the fiduciary advice recommendation. The essential question is whether the compensation received by the producer is reasonable in relation to what the client stands to receive for his or her money. No single factor alone proves whether compensation is reasonable. The DOL has indicated that in general, producers can ensure compliance with the reasonableness standard by being attentive to market prices and benchmarks for services, providing the client proper disclosures, prudently evaluating the client's need for the product and services, and avoiding abusive sales and service practices.

How to submit FIA business with Allianz

NEW REQUIREMENTS

Written client disclosure: Should **not** be submitted to Allianz.

PTE 84-24 client disclosure is completed by the selling producer and reviewed with the client for signature. Do not send the form to Allianz. Keep this document in your client file for six years as PTE-84-24 requires. A disclosure template is available in Forms and Materials on www.allianzlife.com to use as a starting point for you to comply with the PTE 84-24 required content. You can also use your own template, another industry template, or consult your legal counsel.

Financial Professional's Report page: Will need to be submitted to Allianz.

The annuity Financial Professional's Report is now amended to include a PTE 84-24 certification. You must use this updated form for all applications signed on or after June 9, 2017.

Please read the certification on this form and sign certifying that you are acting in accordance with the requirements of PTE 84-24. Only you, the financial professional, will need to sign the Financial Professional's Report. If you do not submit the updated form, your business may be delayed or canceled.

For questions, please contact your Allianz representative.