The Life Insurance and Annuities Replacement Model Regulation is designed to oversee the replacement of existing life insurance and annuities, ensuring that consumers receive sufficient information to make informed choices, thereby minimizing misrepresentation and incomplete disclosures. This regulation excludes certain transactions, such as credit life insurance, group life insurance without direct solicitation, and specific applications to existing insurers under defined conditions. Key terms defined in the regulation include "direct-response solicitation," "existing insurer," "financed purchase," and "replacement," which pertains to transactions involving the acquisition of a new policy that impacts an existing one.

Producers have specific responsibilities, including submitting a signed statement regarding existing policies when starting an application. If existing policies are present, producers must provide a notice about replacements to the applicant, which must be signed and retained by the applicant. Additionally, producers are required to furnish all sales materials related to the new policy at the time of application and submit necessary documentation to the insurer. Insurers utilizing producers must implement a supervisory system to ensure adherence to the regulation, inform producers of its requirements, and monitor replacement transactions. They are also mandated to obtain signed statements regarding existing policies with each application and ensure that all sales materials and illustrations are accurate and complete. Insurers must keep records related to replacements for a minimum of five years following the policy's termination or expiration. The regulation stipulates penalties for non-compliance and includes provisions for severability and an effective date.

The policy delineates the obligations of replacing insurers and existing insurers in replacement transactions. Replacing insurers must verify compliance with required forms, notify affected existing insurers within five business days, and maintain records of such notifications for at least five years. They are also required to inform policy owners of their right to return the policy within thirty days for a full refund. If the replacing and existing insurers are affiliated, they may credit the time elapsed under the existing policy's incontestability and suicide period. Insurers may require producers to confirm the use of approved sales materials and must inform applicants about the retention of such materials. Existing insurers are required to retain replacement notifications for five years, provide policy owners with information about existing policy values upon request, and notify them of potential impacts on guaranteed elements when policy values are released. In direct response solicitations, insurers must inquire about the intent to replace existing policies and provide appropriate notices if replacement is indicated. Violations of these regulations can result in penalties, including license revocation, fines, and restitution. The regulation underscores the importance of informed decision-making regarding policy replacements, advising applicants to consider the implications of discontinuing existing policies and the potential costs associated with new policies. A notice for applicants regarding the replacement of life insurance or annuities is included, urging careful evaluation of decisions and retention of all relevant sales materials.

When contemplating the purchase of a new life insurance policy or annuity while discontinuing or altering an existing one, it is essential to assess the implications of such a replacement. The new policy may entail higher premiums, particularly if health has changed since the acquisition of the old policy, and a medical exam may be required. Claims on new policies can be denied for the first two years due to inaccurate statements, and suicide limitations may reset with the new coverage. If both old and new policies are maintained, it is crucial to clarify how premiums for both will be managed, how the existing policy's premiums will be affected, and whether any loans will be deducted from death benefits. Understanding what values from the old policy will be utilized to pay premiums on the new one is also important.

If surrendering an annuity or interest-sensitive life product, one should consider whether surrender charges will apply to the old contract and what interest rate guarantees the new contract offers. A thorough comparison of contract charges and other policy expenses is vital. Other factors to evaluate include the tax implications of the new policy, whether it qualifies as a tax-free exchange, and if there are benefits from favorable treatment of the old policy under federal tax law.

Additionally, assessing whether the existing insurer is willing to modify the old policy and comparing the financial stability and quality of the new insurer with the current one is advisable. Gathering comprehensive information about both policies is essential to ensure an informed decision that aligns with the policyholder's best interests.