

# MARKETING MEMO

5000 Westown Parkway, West Des Moines, IA 50266



---

DATE: **JUNE 24, 2009**

TO: **ALL AMERICAN EQUITY NMO'S AND AGENTS**

FROM: **JAMES JONES – VICE PRESIDENT, MARKETING SERVICES**

RE: **NEW COMMISSION SCHEDULE FAQ**

On June 1, 2009, American Equity introduced a new commission schedule that pays first year commissions over a 25 month period plus interest. This change was implemented to allow us to continue accepting your business while protecting our financial stability and ratings without a disruption to product availability, agent contracting, policyholder benefits and production.

We anticipated receiving many questions from our field force about potential events that could affect the payment of commissions in the 13<sup>th</sup> and 25<sup>th</sup> month. How would death claims be treated? What if the contract is surrendered for unforeseen circumstances? What if the agent retires or passes away?

In response to these requests, we developed a New Commission Schedule Frequently Asked Questions (FAQ) piece (Form 4254), a copy of which is included in this mailing. We addressed the most common questions that we received.

We are pleased to see support of our new commission structure from independent sources within our industry. Included here is an article titled *Support for Staggered Commissions* from the June 2009 Index Compendium published by Jack Marrion of Advantage Compendium, Ltd. We would also like to direct you to an article titled *Spreading Commissions and Bonuses: A Fixed Annuity Solution* that appeared in the June 1, 2009, National Underwriter magazine. This article can be found online at <http://www.lifeandhealthinsurancenews.com/Issues/2009/June%201%202009/Pages/Spreading-Commissions-And-Bonuses.aspx>. Both of these articles provide simple explanations of the benefits, to all parties involved, of our new commission structure.

**Thank you for your business and continued support!!!**

MKTG MEMO (6/24/09)



**Financial Markets, Inc.**

**800-888-2829**

[www.fm-inc.com](http://www.fm-inc.com) - [Marketing@fm-inc.com](mailto:Marketing@fm-inc.com)



## **Support for Staggered Commissions**

American Equity and Equitrust in May announced that producers would have to wait for a share of their commission for a year or possibly two (depending on carrier and product) with marketing companies waiting a bit longer to be paid in full. The reason given for this course is to reduce capital strain, which is true. It also makes a lot of long-term sense.

When a carrier receives a dollar of premium the commission and marketing overrides are usually all paid out immediately and then recaptured over a period of years from future earnings. If you reduce today's commission payout you have more money left on the table to buy bonds and this generates more money down the road. Paying out 6% today and 2% tomorrow means not only does the carrier have the 2% available in the future but also money earned from investing that 2%.

Staggered commissions are an alternative to simply reducing commissions – cut from 8% to 7% and payout it out today, or cutting product availability – we'll pay you 8% but we'll only accept two-thirds of the annuities you sell. Frankly, I think staggered commissions are a better way to try to handle the capital strain than the market disruptions caused by pulling products or canceling agent contracts.



## NEW COMMISSION SCHEDULE FREQUENTLY ASKED QUESTIONS

1. HOW WILL ADDITIONAL PREMIUMS BE TREATED UNDER THE NEW AND OLD COMMISSION SCHEDULES?

Commissions are paid based on the date we receive the application. For example, if an application is received on or prior to May 29, 2009, and premiums are submitted on July 15, 2009, commission will be paid based on the old commission schedule. If the application was received on or after June 1, 2009, commissions will be paid based on the new commission schedule.

2. IS THIS NEW COMMISSION SCHEDULE PERMANENT? COULD IT CHANGE IN THE FUTURE?

This New Commission Schedule is effective June 1, 2009. This will be our Commission Schedule going forward and no additional commission changes are planned.

3. WHAT HAPPENS TO MY COMMISSION IF THERE IS A DEATH CLAIM ON THE CONTRACT?

Death claim chargebacks work the same under the new commission schedule as they do under the old commission schedule. Commissions will be charged back if the annuitant/owner dies of natural causes or suicide in the first contract year and the contract value is taken in a lump sum **determined by the date of death not the date of payout**. The charge back is equal to 100% in the first policy month and reduced by 1/12<sup>th</sup> each month thereafter. If a spousal continuation is completed and the spouse subsequently surrenders or transfers the contract there will be a chargeback if processed in:

- 1<sup>st</sup> Contract Year – 100% of the pro-rata amount based on date of death
- 2<sup>nd</sup> Contract Year – 75% of the pro-rata amount based on date of death
- 3<sup>rd</sup> Contract Year – 50% of the pro-rate amount based on date of death
- 4<sup>th</sup> Contract Year – 25% of the pro-rate amount based on date of death

**Chargeback is based only on commission paid. If the client dies after the first contract year commissions will be paid in the 13<sup>th</sup> and 25<sup>th</sup> month.**

4. ARE COMMISSIONS PAID IF THE CONTRACT IS SURRENDERED PRIOR TO THE 13<sup>TH</sup> OR 25<sup>TH</sup> MONTH?

No.

5. WHAT IF THE AGENT DIES PRIOR TO ALL COMMISSIONS BEING PAID? WILL MY SPOUSE/CHILDREN/ETC RECEIVE COMMISSIONS DUE TO ME?

Yes. Commissions will be paid to the Agent's Estate. You may also use our *Commission Payee at Death of Agent* form for more specific instructions.

4254 05.28.09

*We're the One!*  
People Service Future



INSURANCE MARKETPLACE  
STANDARDS ASSOCIATION



6. WHAT IF MY AGENT'S CONTRACT IS TERMINATED? I RETIRE? MY LICENSE LAPSES?

Please refer to your Agent's Contract. If you are terminated under Section 14 – Forfeiture, or Section 16b or 16c under Termination of Contract, future commissions will not be paid. These sections refer to fraud, misappropriation of premium, excessive replacements, violations of company policy, etc. If you are terminated under Sections 16a or 16d, you will receive future commissions unless the annuity contract is no longer active due to surrender. These sections refer to terminations with prior notice, retirement, license lapses, etc.

7. WHAT WILL MY 1099 LOOK LIKE? HOW WILL TAXES BE REPORTED?

Your 1099 will only reflect commissions actually paid to you in the year in which they were paid. Most likely the taxation of your commissions will be spread over 3 tax years.

8. WHAT ASSURANCE DO WE HAVE THAT WE WILL BE PAID IN THE FUTURE?

Please review Section 7 – Commissions subsection a, of your Agent's Contract. The Commission Schedule is considered part of your Agent's Contract with American Equity.

9. WHAT IF THERE ARE PENALTY FREE/RMD WITHDRAWALS?

Withdrawals will not reduce 13<sup>th</sup> and 25<sup>th</sup> month commissions.

4254 05.28.09





## NEW COMMISSION SCHEDULE FREQUENTLY ASKED QUESTIONS

### 1. HOW WILL ADDITIONAL PREMIUMS BE TREATED UNDER THE NEW AND OLD COMMISSION SCHEDULES?

Commissions are paid based on the date we receive the application. For example, if an application is received on or prior to May 29, 2009, and premiums are submitted on July 15, 2009, commission will be paid based on the old commission schedule. If the application was received on or after June 1, 2009, commissions will be paid based on the new commission schedule.

### 2. IS THIS NEW COMMISSION SCHEDULE PERMANENT? COULD IT CHANGE IN THE FUTURE?

This New Commission Schedule is effective June 1, 2009. This will be our Commission Schedule going forward and no additional commission changes are planned.

### 3. WHAT HAPPENS TO MY COMMISSION IF THERE IS A DEATH CLAIM ON THE CONTRACT?

Death claim chargebacks work the same under the new commission schedule as they do under the old commission schedule. Commissions will be charged back if the annuitant/owner dies of natural causes or suicide in the first contract year and the contract value is taken in a lump sum **determined by the date of death not the date of payout**. The charge back is equal to 100% in the first policy month and reduced by 1/12<sup>th</sup> each month thereafter. If a spousal continuation is completed and the spouse subsequently surrenders or transfers the contract there will be a chargeback if processed in:

- 1<sup>st</sup> Contract Year – 100% of the pro-rata amount based on date of death
- 2<sup>nd</sup> Contract Year – 75% of the pro-rata amount based on date of death
- 3<sup>rd</sup> Contract Year – 50% of the pro-rate amount based on date of death
- 4<sup>th</sup> Contract Year – 25% of the pro-rate amount based on date of death

**Chargeback is based only on commission paid. If the client dies after the first contract year commissions will be paid in the 13<sup>th</sup> and 25<sup>th</sup> month.**

### 4. ARE COMMISSIONS PAID IF THE CONTRACT IS SURRENDERED PRIOR TO THE 13<sup>TH</sup> OR 25<sup>TH</sup> MONTH?

No.

### 5. WHAT IF THE AGENT DIES PRIOR TO ALL COMMISSIONS BEING PAID? WILL MY SPOUSE/CHILDREN/ETC RECEIVE COMMISSIONS DUE TO ME?

Yes. Commissions will be paid to the Agent's Estate. You may also use our *Commission Payee at Death of Agent* form for more specific instructions.

4254 05.28.09

*We're the One!*  
People Service Future





6. WHAT IF MY AGENT'S CONTRACT IS TERMINATED? I RETIRE? MY LICENSE LAPSES?

Please refer to your Agent's Contract. If you are terminated under Section 14 – Forfeiture, or Section 16b or 16c under Termination of Contract, future commissions will not be paid. These sections refer to fraud, misappropriation of premium, excessive replacements, violations of company policy, etc. If you are terminated under Sections 16a or 16d, you will receive future commissions unless the annuity contract is no longer active due to surrender. These sections refer to terminations with prior notice, retirement, license lapses, etc.

7. WHAT WILL MY 1099 LOOK LIKE? HOW WILL TAXES BE REPORTED?

Your 1099 will only reflect commissions actually paid to you in the year in which they were paid. Most likely the taxation of your commissions will be spread over 3 tax years.

8. WHAT ASSURANCE DO WE HAVE THAT WE WILL BE PAID IN THE FUTURE?

Please review Section 7 – Commissions subsection a, of your Agent's Contract. The Commission Schedule is considered part of your Agent's Contract with American Equity.

9. WHAT IF THERE ARE PENALTY FREE/RMD WITHDRAWALS?

Withdrawals will not reduce 13<sup>th</sup> and 25<sup>th</sup> month commissions.



**Financial Markets, Inc.**

**800-888-2829**

**[www.fm-inc.com](http://www.fm-inc.com) - [Marketing@fm-inc.com](mailto:Marketing@fm-inc.com)**

4254 05.28.09

*We're the One!*  
People Service Future



INSURANCE MARKETPLACE  
STANDARDS ASSOCIATION