



Kansas Insurance Department

Sandy Praeger, Commissioner of Insurance

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Annuity settlement money will go to state general fund

TOPEKA, Kan. — A \$417,000 settlement check received by the Kansas Insurance Department will be deposited into the state's general fund, Commissioner of Insurance Sandy Praeger announced today.

The settlement is from Nationwide Life Insurance Co. and Nationwide Life and Annuity Insurance Co. for alleged unsuitable sales of variable annuities to clients of a Kansas-based financial advisory business, Waddell & Reed Inc.

Five states will receive a total of \$2.1 million from the Nationwide Life settlement: Kansas, California, Minnesota, Missouri and Wisconsin. In agreeing to the settlement, Nationwide Life does not admit to the state regulators' allegations that it violated any law or regulation.

“The multi-state settlement is the latest example of state insurance regulators working to ensure market fairness and the suitability of annuity sales,” said Sandy Praeger, Commissioner of Insurance. “Settlement money such as this is regularly returned to the state general fund.”

The insurance department, a fee-funded agency, contributed nearly \$120 million to the state general fund last year from premium fees and taxes paid by insurance companies.

Waddell & Reed sold the annuities designed by Nationwide, but the Nationwide companies are paying the settlement because state regulators say the companies didn't adequately assure Waddell & Reed's supervision and control.

An annuity is a life insurance product that pays income benefits for a specific period or for the policyholder's lifetime. A variable annuity typically has a range of investment options, and the annuity's principal and return on investment are not guaranteed.

A suitability model recently adopted by the National Association of Insurance Commissioners contains a provision that insurance producers or insurers recommending the purchase or exchange of an annuity have reasonable grounds for believing that the recommendation is suitable for the consumer.

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The settlement's history dates back to 2000, when Waddell & Reed asked the Nationwide companies to develop a variable annuity product that was then offered to replace policies from United Investors Life Insurance Co. (UILIC).

The potential harm from that exchange prompted a 2005 consent order from the Minnesota insurance regulator and Kansas Commissioner Praeger which censured Waddell & Reed for its conduct. At that time the firm paid civil penalties to Kansas for more than \$145,000 and to Minnesota for more than \$68,000.

Also in the current settlement, Nationwide agreed to the following for consumers who surrendered their UILIC Advantage II variable annuity policies in an exchange for a Select or Select Plus variable annuity policy:

- Reimbursement of any surrender charge they may have incurred by exchanging policies.
- The offer to rescind some of the riders the consumer may have purchased in conjunction with their annuities.
- An increase of death benefits to 103 percent of first-year premiums plus 100 percent of subsequent premiums for those who purchased a Select Plus variable annuity with the Extra Value Rider.

Affected consumers will soon receive a notice from Nationwide Life informing them of their restitution options. Consumers will have 60 days from the day of delivery to respond.

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The Kansas Insurance Department, established in 1871, assists and educates consumers, regulates and reviews companies and licenses agents selling insurance products in the state. More about the department is online at www.ksinsurance.org.