

A guide to buying insurance

What you should know before you buy

Is life insurance right for you?

Life insurance policies are designed for people who:

- Want to provide their beneficiaries a source of survivor income
- Want to provide beneficiaries a source of liquidity to cover expenses, debts, and taxes
- Want to provide beneficiaries an asset to fund retirement, education, and other family goals
- Value tax-efficient income to supplement retirement, education, extended care, or other financial needs

When you consider buying any insurance product, it is important that you examine the needs the insurance product is meant to protect. Next, you evaluate if the particular insurance product will meet these needs. It is also important to examine your overall financial position, investment objectives, risk tolerance, time horizon, diversification needs, and need for liquidity. Wells Fargo Advisors wants to make sure that if you buy an insurance product, you choose the type of product that most closely meets your needs. As always, if you have any questions about your insurance needs or related matters, please contact your financial advisor.

The right life insurance strategy can play a key role in helping you protect and achieve your financial goals. In addition to helping replace lost income or secure your estate and legacy, life insurance can also be useful in providing education funding for future generations. And, when it comes to retirement, individuals who have maximized their contributions to qualified plans and individual retirement accounts (IRAs) may benefit from the tax-advantaged¹ supplemental income that cash value life insurance can offer.

This guide is intended to give you a general understanding of life insurance and the benefits and costs of various types of policies; it also contains information about disability income and long-term care insurance. In addition, this guide will help you understand how Wells Fargo Advisors and your financial advisor are compensated regarding insurance sales. However, this guide is not intended to replace any other documents, such as prospectuses, illustrations, and product guides, that may be provided by the various insurance companies whose products are offered by Wells Fargo Advisors.

Some insurance policies have certain guaranteed elements as well as certain non-guaranteed elements that you should be aware of. Non-guaranteed elements could include such things as premium amounts, cap rates, participation rates, and interest rate renewals. Some of these elements may have a minimum guarantee,

Investment and Insurance Products are:

- Not Insured by the FDIC or Any Federal Government Agency
- Not a Deposit or Other Obligation of, or Guaranteed by, the Bank or Any Bank Affiliate
- Subject to Investment Risks, Including Possible Loss of the Principal Amount Invested

Protecting your privacy

At Wells Fargo Advisors, we do everything we can to make sure that the personal information you provide remains confidential. In addition, all the insurance companies we do business with also have privacy policies in place to protect personal information about their policyowners, insured individuals, and beneficiaries. If you have any questions about your privacy rights, feel free to ask your financial advisor.

but above that minimum, the amount or rate may be subject to change based on the insurer's discretion. Please review the prospectus, offering documents, any hypotheticals, or illustrations, to understand what elements are guaranteed and what elements are non-guaranteed.

You should not buy insurance until you have a good understanding of the product you are considering. Reading this guide is one step you can take toward a better understanding of the various types of insurance policies available, as well as their features, characteristics, and other information to help you make a decision. You should also read the other documents that you may be provided, such as a prospectus or product guide. Illustrations, which are discussed later in this guide, are also available for some products. In addition to reading this guide and any other materials provided by Wells Fargo Advisors or the insurance companies, discuss their contents with your financial advisor, who will be available to answer any questions you might have.

Because of the tax implications of the purchase of certain types of insurance, you should consider consulting your tax advisor both before and after buying insurance. Changing an existing insurance policy or liquidating current assets to purchase an insurance policy may result in tax consequences, early withdrawal penalties, or other costs or penalties. You may wish to consult your tax advisor or lawyer before taking such action.

What is life insurance?

A life insurance policy is a contract between the owner of the policy and a life insurance company. When you buy a life insurance policy, you name the person to be insured (who may be you or someone else) and you select the amount of insurance you desire. You also name a beneficiary. When the person who is insured dies — if your policy is in effect — the life insurance company will pay the in force amount of insurance (less any outstanding loans) to the person or persons you named as the beneficiaries. This amount is called the “death benefit.”

The following list includes some of the important terms, accompanied by their definitions, used to discuss life insurance.

Premiums — Premiums (typically called “premium payments” or “purchase payments”) are your payments to the insurance company for the policy. You can make regular premium payments, or you can make a single payment. The frequency of premium payments often depends on the type of life insurance policy you buy. We will discuss this further as we describe the different types of life insurance policies.

The amount of premium you pay depends on a number of factors:

- The amount of insurance you want to purchase;
- The age, gender, and health of the individual to be insured;
- The type of insurance policy; and
- The decisions you make after buying the policy, such as whether to “voluntarily increase the amount of premiums paid to take advantage of certain tax features”.

Underwriting — Before an insurance company will issue a life insurance policy, it will consider the gender, age, health, and certain other information about the individual to be insured before deciding whether it will issue a policy on that person's life. This process of examining information about a proposed insured person is called “underwriting.” The extent of the underwriting process often depends on how much insurance is applied for. When we talk about costs and expenses below, we will discuss how the results of an insurance company's underwriting process will affect the costs and expenses of certain types of policies.

Policyowner — Most often, you, as the buyer of the life insurance, will be the policyowner. However, you may wish to have a trust, your spouse, your business partner, or even your company be the owner. Your financial advisor can help you with this decision. You may also want to consult your tax or legal advisor.

Insured — The insured is the person whose life is insured. When this person dies, the death benefit of the policy is paid to the beneficiaries. You can be the insured, but you can also buy insurance on your spouse, parents, children, grandchildren, business partners, and certain other persons. An insurance company may limit whom you can name as an insured. Your financial advisor can give you more information on naming insureds. Some insurance policies provide for two or more named insureds. See the discussion below about “second-to-die” life insurance policies.

Beneficiary — The beneficiary is the person or persons who will receive the death benefit payment(s) when the insured dies. The beneficiary can be a person, such as your spouse, your children, your grandchildren, or your business partner. The beneficiary can also be a non-person, such as a trust, a charitable organization, or your company. You should consult your tax or legal advisor if you want to name someone other than a family member as the beneficiary. It is also possible to name more than one beneficiary and to designate how much of the death benefit each beneficiary is to receive. It is important for you to carefully designate beneficiaries so that the death benefits will be paid to the persons you want. Likewise, changes in circumstances, such as deaths of family members and divorce, may require you to change beneficiary designations. Your financial advisor can guide you in designating beneficiaries.

Types of life insurance policies

Generally, life insurance is offered in two different forms: “term insurance” and “permanent insurance” that may generate what is commonly known as “cash value” (and so is called “cash value insurance”). Although both types of insurance provide a death benefit upon the death of the insured, each type is used to meet different insurance and financial needs. Your financial advisor can help you decide which policy fits your needs best.

Term insurance

As the word suggests, term insurance provides a death benefit for a specified number of years. When you first apply for term insurance, the insurance company will go through its underwriting process to determine whether the insured is an acceptable risk. Some term insurance policies allow you to automatically renew your policy at the end of the term by paying a new, typically higher, assessed premium, without any underwriting. This type of term insurance is referred to as “renewable.” If the policy is not renewable, then the insurance company will determine whether the insured is still an acceptable risk by requiring the insured to provide information about his or her current health and other information.

Generally, people who are younger and believed to be in good health have a lower death rate than persons who are older and in good health, and so younger people pay less for term insurance than older people. Therefore, each time a renewable term policy is renewed, the premium may increase.

As noted above, you can buy term insurance for periods longer than one year. With what is called “level term insurance,” premiums generally remain level, meaning they do not increase from year to year for the term of the policy, but may increase upon renewal.

Some renewable term policies have a feature known as a “conversion provision.” This provision allows the policy owner to trade — without any underwriting — the term policy for a policy that provides permanent coverage (provided premiums are paid as scheduled) and may generate cash value. Such provisions may specify that the conversion can only be done during a certain time period. This type of policy is typically called a “convertible term policy.” The conversion feature may be reflected in the price of the term policy. When you are considering whether term insurance is right for you, you should consider the following factors and discuss them with your financial advisor:

- The length of time you need life insurance protection
- The cost of the premiums when you get older
- Any concerns you may have about your future health

Cash value insurance

Life insurance policies that generate cash value can be further divided into five categories: (1) whole life, (2) variable life, (3) fixed universal life, (4) index universal life, and (5) variable universal life. These types of policies are intended to provide insurance coverage for the entire life of the insured.

Under these types of policies, the insurance company charges a higher premium than for a term policy for the same amount of insurance. The extra amount of premium is held for the owner as the available policy cash value. Generally, the premiums for this type of policy remain the same for the life of the policy. In most cases, this means you will pay more in the early years than you would for the same amount of term insurance, but you pay less in the later years.

This type of insurance offers the additional benefit of allowing the policy owner to withdraw or borrow against the cash value of the policy. The cash value may let you keep some or all of your insurance in place for some time, even if you do not make your premium payment. The cash value is invested by the insurance company. How this money is invested depends on whether the policy is considered “variable” or not, which is explained in the section on “Variable life insurance” below.

The five types of cash value insurance

Whole life insurance — A whole life (WL) policy offers a guaranteed death benefit and a guaranteed cash value. It remains in effect for the life of the insured if the required premiums are paid. Premium payments are usually required for the life of the insured and must be paid on a regular schedule. However, some whole life policies let you pay premiums for a shorter period of time, such as 20 years or until the insured reaches age 65 or some other specified age. When you buy a whole life policy with payments for a shorter period, the premiums are higher to compensate for the shorter period of time.

If you do not make your scheduled premium payment, the cash value in your policy may be used to keep your policy in effect for a limited time or to provide a reduced amount of death benefit without paying additional premiums. If your insurance or financial needs change, you should consult your financial advisor and your tax advisor about whether stopping premium payments is the best way to achieve your financial goals.

The cash value of a whole life insurance policy is held by the insurance company with its other general assets and invested by the insurance company. Under certain circumstances, you can borrow from the policy by taking out a loan from the insurance company. Loans from your policy reduce the cash value and the death benefit by the amount of the outstanding loan, plus interest.

Variable life insurance — A variable life insurance (VLI) policy is similar to the whole life insurance policy described above. Premium payments are level for the premium payment period. The insurance company usually guarantees that, upon the death of the insured, there will be at least a minimum guaranteed death benefit, assuming the premiums have been paid.

However, unlike the whole life policy described above, the insurance company does not guarantee the cash value amount, and the cash value is not held with the general assets of the insurance company. Instead, the insurance company sets up a separate account in which the cash value is held. The separate account is segregated from the general assets of the insurance company and is not subject to the claims of the company’s general creditors. The separate account is most often divided into subaccounts. Each subaccount offers a different investment option. Policyowners select the subaccounts in which they want their cash value invested. Some insurance companies that offer variable life insurance policies also allow policyowners to select the company’s general account as an investment option.

The variable subaccounts in any variable life policy may contain different investments than similarly named mutual funds offered by the investment managers. Investment results may be higher or lower. There can be no assurance that the stated objectives and policies of any of the variable subaccounts will be achieved. An investment in any of the variable subaccounts is subject to market risk and loss of principal. The investment return and principal value of an investment in any of the variable subaccounts will fluctuate, so that an investor's units, when redeemed, may be worth more or less than their original cost.

The cash value, and sometimes the death benefit, will increase and decrease with the investment performance of the subaccounts selected. However, if the premiums have been paid, the death benefit will not go below the initial guaranteed amount. Failing to make the premium payment, or borrowing from a variable life insurance policy, will have an effect similar to that of the whole life policy described above. Also, borrowed funds will not participate in subaccount performance. Like with a whole life policy, a policyowner can make a withdrawal of cash value from the policy that will affect the death benefit and the cash value.

Any references to guarantees are based on the claims-paying ability of the issuing insurance company who do not guarantee an investment return or the safety of the underlying investment choices.

Variable life insurance (VLI) is an insurance product and should not be considered an investment, savings, or retirement plan. Nevertheless, VLI cash values and death benefits may fluctuate, so the purchaser should be able to assume investment risks.

Variable life insurance is sold by a prospectus, which is prepared by the insurance company. You should carefully consider the investment objectives, risks, charges, and expenses before purchasing a policy. The prospectus discusses these factors and other information in greater detail. Your financial advisor will provide you with a prospectus for any variable life insurance policy that you are considering. Please read it carefully before buying a variable life insurance policy.

We have a responsibility to consider reasonably available alternatives in making a recommendation. We do not need to evaluate every possible alternative either within our products or outside the firm in making a recommendation. We are not required to offer the "best" or lowest cost product. While cost is a factor that we take into consideration in making a recommendation, it is not the only factor.

You should consider the following factors prior to accepting a recommendation:

- The potential risks, rewards, and costs of purchasing or surrendering an insurance product;
- Your age, other investments, financial situation and needs, tax status, investment objectives, investment experience, investment time horizon, liquidity needs, and risk tolerance;
- The product's investment options (including any special or unusual features), liquidity, volatility, and likely performance in a variety of market and economic conditions; and
- For complex products, whether less complex or costly products may achieve the same objectives.

By accepting a recommendation, you acknowledge that you have considered the above factors to your satisfaction.

Fixed universal life — In issuing a whole life insurance policy, the insurance company considers a number of variables before determining the scheduled premiums to be paid for the policy. These variables include, among other factors, the amount of insurance applied for, the risks associated with insuring the life of the insured, the premium payment period selected, and the cash value expected over the premium payment period.

A universal life (UL) insurance policy differs from the whole life insurance design by separating the death benefit from the insurance company's expenses and costs and the policy's cash value. Dividing the policy into separate components allows the policy owner flexibility to change the amount of insurance, change the amount and timing of premium payments, and make other changes to meet varying circumstances.

When the insurance company receives a premium payment, a portion is deducted for the cost of the insurance based on the life expectancy of the insured and the balance is deemed cash and is credited to the policy value. Each month, the insurance company makes a deduction from the cash value of the policy to cover certain costs and expenses within the policy and any remaining will grow based on the current crediting rate. Unlike the whole life policy, which requires the payment of premiums on a set schedule, a universal life policy allows changes to the amount and timing of premium payments.

As long as there is enough "cash surrender value" (the amount available in cash if the policy were cancelled before it becomes payable) in the policy to allow the insurance company to deduct the monthly cost of insurance and any other monthly costs or expenses, a universal life policy will remain in effect with no reduction of the death benefit. If the cash-surrender value is not enough to cover the monthly deduction, the insurance company will notify the policy owner that they have a specific period of time in which to make a premium payment. Some universal life policies offer secondary guarantees, in which as long as a specified premium is paid the death benefit will remain in force even if there is no cash surrender value in the policy.

It is important to note that the planned premium illustrated for a universal life insurance policy may not be enough to keep the policy in force beyond any guaranteed period.

In some circumstances, it is permitted to pay more than the illustrated planned payments. Any such excess amounts will be held as part of the cash-surrender value and may result in a higher death benefit.

Index universal life — An index universal life (IUL) insurance policy is a permanent life insurance policy that possesses the same features as a fixed universal life policy except that interest is credited based on changes in a market index, which consists of a hypothetical portfolio of securities representing a particular market or segment of a market — typically without including dividends — such as the S&P 500 or NASDAQ 100. An IUL's accumulated value is not invested in securities or the associated index; however, the change in the index over a specified timeframe will determine how much interest is credited to the policy.

The interest credited to an IUL policy will typically be subject to a cap rate or participation rate. These rates may be reduced or increased at the discretion of the insurance company at the end of each crediting period. A cap rate — limits the amount of interest that will be credited to the policy during the crediting period. For example if the policy has a 10% cap rate and the index returns 15% during the period, only 10% would be credited to the policy. A participation rate limits the amount of the index's performance that will be credited to the policy during the crediting period. For example, 50% of the total return of the index would be credited to the policy.

An IUL policy may also have a guaranteed minimum interest rate, or floor, that protects you from negative performance of the chosen index. You should understand when the insurance company can change these rates and what the rates are prior to the purchase of an IUL policy.

There are different methods, or strategies, to calculate the gain in the index to which the policy is linked. These methods vary by insurance company and policy. There are three primary crediting methods:

- Point-to-point — uses the change in the index value on an annual or biennial basis and credits interest based on the change during that period;
- Monthly average — compares the average index value over a 12 month period with the index value at the beginning of the term. If the average value is greater than the beginning value, then interest would be credited; and
- Monthly sum — measures the index gain (up to a cap) or loss each month and sums those returns over a 12 or 24 month period. If the sum is positive then interest is credited.

Typically, when the index is up during the specified period then interest is credited subject to certain limitations that are stated in the policy. Regardless of the method of calculation used, if the associated index value declines during the period, there may be little or no interest credited for that period; however, policy charges (i.e., administrative, rider and coverage charges, premium load, cost of insurance, etc.) are still deducted from the policy's accumulation which could cause a decrease in policy value. In addition, IULs typically include surrender charges for the first 10 to 15 years after of policy issue.

Some IUL policies include charge structures that should be well understood prior to purchase:

- Performance factor/multiplier — a non-guaranteed feature that multiplies the credited rate by the performance factor, thus potentially adding to the interest created. This feature may also increase the charges associated with the policy.
- Asset charge — a charge based on the policy's accumulated value which may help increase the cap rate thus potentially allowing for higher interest crediting.

Most IULs have a fixed account option. Amounts allocated to this option are credited a fixed interest rate set by the insurance company and are not tied to an index. The interest rate may be changed at the end of each term (typically annual) at the discretion of the insurance company, but never at a rate less than the minimum guarantee rate set forth in the policy. Some insurance companies may allocate future net premiums paid (premium, less any loads or expenses)

to the fixed account where the policyowner has the option of moving some or all of those funds to the indexed account.

IUL policies can introduce greater fluctuation in the credited interest rate compared to other fixed life products. Some products may also include features which may add to the charges or cost structure while adding the potential to increase fixed rate returns.

It is important for you to thoroughly review hypothetical illustrations, as they include important information such as cap and floor rates, charges, features, benefits and risk factors, prior to purchasing an IUL policy. And, just as important, you should review the policy to help ensure you understand these features.

Variable universal life — A variable universal life (VUL) policy combines the investment features of a variable life policy with the separation of components found in a universal life policy. As with the universal life policy described above, the policy owner may, under some circumstances, modify the death benefit amount, choose different death benefit options, and change the amount and timing of premium payments to meet varying circumstances.

The cash value, and sometimes the death benefit, will vary with the investment performance of the subaccounts you have selected. If the subaccounts have good performance, the cash value, and sometimes the death benefit, will be higher than anticipated, whereas poor performance will result in amounts that are lower than expected. You should note that poor performance of the underlying subaccounts may necessitate the payment of additional premiums. Failure to make these additional premium payments could cause the policy to lapse, and there may be tax consequences.

Some insurance companies offer an optional “guaranteed minimum death benefit.” If this guarantee is chosen, its cost is deducted from the cash value each month along with the other costs and expenses.

Any references to guarantees are based on the claims-paying ability of the issuing insurance company who do not guarantee an investment return or the safety of the underlying investment choices.

Variable universal life insurance is sold by a prospectus, which is prepared by the insurance company. You should carefully consider the investment objectives, risks, charges, and expenses before buying such a policy. The prospectus discusses this and other information in greater detail. Your financial advisor will provide you with a prospectus for any variable universal life insurance policy that you are considering. Please read it carefully before buying variable universal life insurance.

You should ask your financial advisor for assistance in understanding the various aspects of a cash value life insurance policy. In some circumstances, your financial advisor may be able to provide you with one or more illustrations of policy values, which may help you better understand how the policy works and your various options. (For more information on illustrations, see page 17.)

Other types of life insurance policies

Limited payment life policy

With limited payment policies, premiums are only required for a specified period of years, such as 10, 20, or 30 years, or until the insured reaches a specified age, such as 65, beyond which premiums will not be required. These policies usually have a guaranteed death benefit.

One of the more common forms of a limited payment life policy is the single-premium policy. It is offered both as a “fixed” policy (that is, the cash value is held in the general account of the insurance company) and as a “variable” insurance policy (that is, the cash value is held in a separate account that is segregated from the general assets of the insurance company).

Second-to-die policies

One type of insurance policy covers the lives of two individuals and is called a “second-to-die” or “survivorship” policy. All of the types of policies discussed above can be purchased as a form of a second-to-die policy. Note that the death benefit amount is paid only after the death of the second individual (that is, the individual who is the second to die) as designated by the policy, and premiums may be required after the first insured’s death.

For example, Mary and John, who are husband and wife, buy life insurance and choose a second-to-die survivorship policy. John dies. Neither Mary nor the named beneficiary will get any death benefit payment after John’s death. Only after Mary’s death will the death benefit be paid out. Although premiums are lower with this kind of policy, you should make sure that it meets your insurance needs as well as the needs of your surviving beneficiaries.

Features and characteristics

Riders — Sometimes the insurance company may offer one or more additional benefits to be included with the life insurance policy. These benefits are generally referred to as policy riders and are often available only at the time the policy is issued. In some cases a rider serves to restrict or modify your options or rights, or to limit the obligations of the insurance company. Examples of some popular riders are Critical/Chronic Illness, Disability Waiver of Premium, Long-term Care, Return of Premium, Overloan Protection, Accelerated Death Benefit, Child or Spouse Benefits, etc. Not all riders are available on all policies and if there is a premium charge for the rider it may be payable for the life of the policy, for a specific period of time, or upon activation of the rider. If you have any questions, please contact your financial advisor.

Amendments and endorsements — Sometimes the insurance company finds it necessary to amend the original paperwork submitted or the policy once it is issued. This can happen for numerous reasons such as the discovery that there is incorrect information on the original application or change in plan, amount, etc., before issuance of the policy. When this happens the company will issue

an amendment or endorsement that generally requires your acknowledgment, by signature, of the change in information. If you are issued an amendment or endorsement, you should keep the document, along with your insurance policy, in a safe place with your other valuable documents. If you have any questions, please contact your financial advisor.

No-lapse guarantee — Some insurance companies that offer universal life, index universal life, and variable universal life insurance offer a no-lapse guarantee that ensures the death benefit will not lapse, even though the values within the policy may be insufficient. Most of these companies add this feature by means of a rider available for an additional cost. The rider sets out specific conditions that the policy owner must comply with in order to maintain the benefit.

Free-look provisions — You have the right to cancel your life insurance policy within the free-look provision period (usually 10 days following delivery of your life insurance policy or whatever period is required by your state). If you exercise this provision, you will receive a refund in accordance with the terms of the policy and your state's regulations. In some instances, if the market value of a variable insurance policy has declined during the free-look period, your refund may be less than your entire initial premium payment.

Contestability periods — Life insurance policies are required to have an incontestable clause, which states that the insurer cannot declare the policy invalid after the policy has been in force for a specified period of time (generally two years), which is known as the “contestability period.” Once the contestability period has passed, the insurance company cannot revoke the coverage, even if it finds that misstatement or concealment of material fact occurred during the application process. There are, however, three generally recognized exceptions to this rule that have been upheld by the courts: (1) no insurable interest existed when the policy was bought, (2) the policy was bought with the intention of murdering the insured, or (3) there was fraudulent impersonation of the insured by another person (such as might occur during a medical exam).

Surrenders — Fixed universal life, index universal life, variable life, and variable universal life insurance policies allow you to surrender (that is, terminate) all or a portion of the policy coverage. When you make a total surrender of the policy, you are terminating all insurance under the policy, and you receive the cash surrender value of your policy. When you make a partial surrender, you receive some of your cash value, and the amount of the death benefit may be reduced. Surrender charges for partial surrenders may be assessed as they would with a total surrender. A surrender may also result in a tax obligation, so you should consult your tax advisor before you decide to do this.

Borrowing from your policy — If you buy a policy that has a cash accumulation feature the policyowner generally can borrow against a certain percentage of the cash value. To get a policy loan, the policyowner would need to request the loan from the insurance company. The loan will accrue interest; unless the interest is paid each year, it will be added to the outstanding loan balance. A loan, or any portion can be repaid to the insurance company at any time. After the death of the insured, any outstanding loan and any accrued interest will be deducted from any death benefit due the beneficiary.

If the policyowner takes out a loan, the policyowner should carefully monitor the policy to make sure it does not lapse as a result. Some companies will issue a rider that is designed to help protect the policy from lapse, should the loan balance exceed the cash value (see “Riders” on the previous page and “Other tax considerations” on page 13). Borrowing against your life insurance policy can be an effective way of getting access to the policy’s cash value. However, you should make sure that such a step fits your overall insurance and investment plan. Your financial advisor will be pleased to discuss loans and other ways of gaining access to your money.

Special issues should be considered when taking out a loan from a variable life or variable universal life policy. A policy loan will result in cash value being transferred from the investment options in the separate account to a special loan account in the insurance company’s general account. A policy loan, whether or not it is repaid, will have a permanent effect on the death benefit and cash value of the policy. This is because the amount of the policy loan transferred to the general account will not share in the investment results of the underlying investment options while the loan is outstanding.

In most situations, you can borrow from your policy without tax consequences. However, if the policy you have bought is considered a Modified Endowment Contract (MEC) for purposes of the Internal Revenue Code (IRC), the loan, or a portion of the loan, will be treated as income.

For a more complete discussion of MECs and other tax issues, see “Tax treatment” as follows¹.

Tax considerations

Life insurance offers potential tax benefits:

- Generally income-tax free death benefit
- Tax-deferred growth of the policy’s cash value
- Tax-advantaged access to account value through policy loans and withdrawals¹
- Tax-free transfer of assets among investment options
- Can be structured to be free of federal and state inheritance and estate taxes

Tax treatment

This general discussion on federal income taxes as related to life insurance is not intended as tax advice. It is not a complete discussion of the subject and does not address state tax law. You should consult your own tax advisor about your own circumstances.

Life insurance in general

Life insurance is a means of providing death protection and possibly setting aside money for future needs. Congress recognized the importance of such planning and provided special rules in the IRC for life insurance. Simply stated, for cash value life insurance, these rules provide that you will not be taxed on the earnings on the money held in your life insurance policy until you take the money out. Your beneficiaries generally are not taxed when they receive the death benefit upon the death of the insured. *Inheritance and estate taxes may apply.*

Taking money out of your policy

You, as the policyowner, will not be taxed on increases in the value of a cash value life insurance policy unless a taxable distribution occurs, such as a surrender above cost basis or an outstanding loan above cost basis at surrender.

Under the IRC, certain life insurance policies are classified as MECs. The rules regarding the classification of a policy as an MEC are very complex, but generally depend on the amount of premiums paid into the policy during the first seven policy years or any seven-year period when benefits are changed. Because of the flexible premium nature of some life insurance policies (universal life, variable universal life, or policies bought as single-premium policies), the determination of whether a policy qualifies for treatment as an MEC will depend on the individual circumstances of each policy.

If your policy is classified as an MEC, any loans or withdrawals from the policy will be treated as first coming from any earnings and then from your cumulative premium payments or cost basis. Consequently, these earnings are included in taxable income and essentially taxes you based on the “last in, first out (LIFO)” theory of taxation.

Furthermore, distributions from a policy within two years before it becomes an MEC will be treated as distributions from an MEC. The IRC also provides that any amount received from an MEC that is included in income may be subject to a 10% penalty. The penalty will not apply if the income received is:

- paid on or after the taxpayer reaches age 59½,
- paid if the taxpayer becomes totally disabled (as that term is defined in the IRC) after buying the policy, or
- paid in a series of substantially equal payments made annually (or more frequently) for the life of the policy owner or for either five years or until the policy owner reaches age 59½, whichever is longer.

If your policy is not an MEC, any surrender proceeds will be treated first as a recovery of the premium paid into the policy and, to that extent, will not be included in taxable income. Any loan will be treated as indebtedness under the policy and not as a taxable distribution.

Upon complete surrender or termination of the policy, if the amount that you receive plus any outstanding loan amount exceeds the total premiums you paid, the excess generally will be treated as ordinary income.

Personal interest payable on a loan under a policy owned by an individual is generally not deductible. Furthermore, no deduction will generally be allowed for interest on loans under policies covering the life of any employee or officer of the taxpayer or any person financially interested in the business carried on by the taxpayer except for, in limited circumstances, policies on “key persons” as that term is defined in the IRC. The deductibility of interest payable on policy loans may be subject to further rules and limitations under IRC Sections 163 and 264.

You should consult your tax advisor on the tax consequences of taking loans or distributions, or of exchanging or surrendering any policy.

Other tax considerations

Payment options — Under the payment options of some life insurance policies, the death benefit or the proceeds payable on the maturity date may be paid out as annuity payments. Under the annuity tax rules in the IRC, a portion of each annuity payment in excess of an exclusion amount is includable in taxable income. The other portion of the payment is treated as a partial return of your cost basis and is not taxed. How the annuity payment is divided between taxable and nontaxable portions depends on the dates when the annuity payments are expected to be made. Once you have recovered all of your cost basis, annuity payments received are fully includable in income.

Multiple policies — The IRC also provides that multiple MECs, which are issued within a calendar year to the same owner by one company or its affiliates, are treated as one MEC for purposes of determining the taxable portion of any loans or distributions. Such treatment may result in adverse tax consequences, including more rapid taxation of the loans or distributed amounts from such a combination of policies. You should consult a tax advisor before buying more than one MEC in any calendar year.

Tax treatment of assignments — An assignment or change of ownership of a life insurance policy may be a taxable event. You should therefore consult a tax advisor if you want to assign or change the owner of your policy.

Qualified plans — Certain life insurance policies may be used in conjunction with certain qualified retirement plans. Because the rules governing such use are complex, you should not purchase life insurance in connection with a qualified retirement plan without the advice of a competent qualified plans consultant.

“Benefit” taxation — Some riders may provide a benefit to the policyowner that could be taxed if not exercised properly or upon surrender, cancellation, or lapse of the policy. You should review your policy carefully as it is important to understand how each rider will affect your coverage or tax situation and consult with a qualified tax advisor if necessary.

Income tax withholding — All distributions includable in your gross income are subject to federal-income-tax withholding. In most cases, however, you may elect not to have taxes withheld. If your withholding and estimated tax payments are insufficient, you may be required to pay penalties under the estimated tax rules.

Business use — Businesses can use certain life insurance policies in various arrangements, including non-qualified deferred compensation loans and split-dollar life insurance plans. The tax consequences of such plans may vary depending on the particular facts and circumstances. If you are buying a life insurance policy for any arrangement, the value of which depends in part on its tax consequences, you should consult a qualified tax advisor.

Moreover, in recent years, Congress and the Internal Revenue Service have adopted new rules relating to life insurance owned by businesses. Any business thinking of buying a new life insurance policy or changing an existing policy should consult a tax advisor.

Other — The estate, inheritance, and other tax consequences at the federal, state, and local levels related to ownership or receipt of policy proceeds depend on the circumstances of each owner or beneficiary. For example, when all or part of a policy or benefits under a policy are transferred or paid to an individual who is two or more generations younger than the policy owner, a generation-skipping transfer tax may apply.

Dividends — Certain types of policies provide for dividend payments to be made under the policy. Such dividends are paid out of the insurance company's surplus earnings for the year. Whether you take the payments in cash or allow them to accumulate in the policy, they are considered a return of premiums. As long as you don't get back more than you paid in, you are merely recouping your costs, and no tax is due.

Policy dividends are not guaranteed. Although some insurance companies offer you the option to pay or reduce premiums with accumulated dividends, such options are in effect only when the dividend is actually paid. If no dividends were paid for a particular year, you would be responsible for covering the full amount of the premiums that year.

IRC Section 1035 exchanges — Under IRC Section 1035, you may exchange one insurance policy for another without recognizing a gain on the policy. This is a tax free exchange. For a transaction to qualify as a 1035 exchange, the old policy must actually be exchanged for a new policy. It is not sufficient for you to receive a check and apply the proceeds to the purchase of a new policy. The exchange must take place between the two insurance companies.

The replacement or 1035 exchange can be useful if another life insurance policy has features you prefer, such as a larger death benefit, wider choice of investment options (applicable to variable life insurance plans only), a lower premium obligation, or higher guaranteed benefits. However, you may be required to pay surrender charges on your original policy if you are still in the surrender charge period. In addition, a new surrender charge period and a new contestability period generally begin when you replace an existing insurance policy with a new policy. Further, the insured will more than likely have to submit to the new insurance company's underwriting procedures to qualify for the new life insurance policy.

Although you may exchange a life insurance policy for an annuity, you will lose the income-tax-free withdrawal and loan capabilities of the life insurance cash value as well as the income-tax-free death benefit of the life insurance policy. Please discuss all the tax consequences with your tax advisor before making any type of exchange.

Costs of buying life insurance

Term insurance

When you buy term life insurance, all costs and expenses associated with the policy are included in the premium you are charged. See the discussion on page 2 about premiums and underwriting.

Whole life insurance

Whether you buy whole life insurance on a fixed or variable basis, the insurance company has taken into account many of its costs and expenses in determining your scheduled premium. For variable life policies, you may incur some additional charges. (See below for a discussion about charges applicable to various forms of variable life insurance.)

Fixed universal, index universal, and variable life insurance

Premium charges — The insurance company will deduct from your premium payment any front-end sales charges it may make. Before accepting your policy, you should consider your ability to pay the premiums on a long-term basis. If you fail to pay your premiums, your policy may lapse, and you may lose your coverage. The insurance company may also deduct any premium tax due in your state; this tax can be as much as 3% of your premium. Ask your financial advisor about the sales charges on any policy you are considering, and about premium taxes in your state.

Periodic deductions — Each month or quarter, the insurance company makes a deduction from the cash value of your policy. This deduction covers costs like administrative or policy fees, rider charges, and cost of insurance, all of which are explained below.

The administrative or policy fees (which are referred to by a number of names) are charges assessed by the insurance company to cover administration, policy issuance, premium collection, and the like. Together, these charges can range from \$5 to \$50. The rider charges are for any additional benefits you have elected, and they cover the cost of those benefits for the following month (or other period).

The cost of insurance compensates the insurance company for providing life insurance coverage on the life of the insured for the following month (or other period). This cost depends on the gender, age, and health of the insured and on the amount of insurance. The amount is determined by the insurance company after it completes its underwriting process. In addition to your health, the insurance company may consider your occupation and hobbies; if they are considered dangerous, the company may charge you more for insurance coverage.

Variable life — In addition to the above costs and expenses, variable life policies have separate charges that are not built into the premiums paid for the policy like they are in whole life policies.

A “mortality and expense risk charge” (sometimes the charge has a different name) is assessed against the amount of your cash value in the separate account. This charge compensates the insurance company for the insurance risks it assumes under the policy, for assuming the expense risk that the current charges will be insufficient in the future to cover the cost of administering the policy and the separate account, and for the administrative costs not covered elsewhere. This charge can vary from policy to policy but generally ranges from 0.50% to 2.50% per year.

Surrender fees are typical in most universal and variable universal life insurance policies and in variable single-premium policies. These fees are imposed if you surrender all or a portion of your policy and are usually only in effect for a period of years (for example, five to 15 years). The fees can be based on the actual dollar amount that was surrendered or on the amount of insurance, and can vary by year of surrender, your age at the time of issue, your gender, and other variables.

Deductions are taken from the various investment options to cover advisory fees, operating expenses, 12b-1 fees (which are annual or marketing distribution fees), service fees, and other costs associated with running a mutual fund. Other transaction costs are assessed under variable life policies for items like partial surrender fees and transfer fees, which are discussed below.

Investor characteristics

Insurance is generally a long-term purchase and is not appropriate for pursuing short-term goals. Substantial taxes, as well as charges from the insurance company, may apply if you surrender your policy early. Variable life and variable universal life insurance may also involve investment risks.

Before buying a life insurance policy, you should learn about the specific policy you are considering. If you are thinking about purchasing a variable life or variable universal life policy, request a prospectus or any other available material from the insurance company or from your financial advisor, and read it carefully. Before you decide to buy an insurance policy, consider the following:

- What are your insurance needs, and how will this policy meet those needs?
- Can you afford to continue paying the premiums in the future?
- Do you understand the features of the policy?
- Do you understand all of the fees and expenses?
- If considering a variable life or a variable universal life policy, are you willing to take the risk that the cash value of the policy may decrease if the underlying investment options selected perform poorly?
- If considering a fixed-rate policy, are you willing to take the risk that the interest rate credited to your policy may decrease?
- Do you need to consult with a tax advisor about the application of federal and state tax laws?

Variable life insurance (VLI) is an insurance product and should not be considered an investment, savings, or retirement plan. Nevertheless, VLI cash values and death benefits may fluctuate, so the purchaser should be able to assume investment risks.

Variable life insurance (VLI) and variable universal life insurance (VUL) are sold by a prospectus, which is prepared by the insurance company. You should carefully consider the investment objectives, risks, charges, and expenses. The prospectus discusses these factors and other information in detail. Your financial advisor will provide you with a prospectus for any VLI or VUL policy that you are considering. Please read it carefully before deciding whether to buy such a policy.

Illustrations

You also may be given a document called an “illustration.” The purpose of an illustration is to show you how your proposed policy works and how the cash value, cash surrender value, and death benefit under a policy for a proposed insured of a given age and rating classification might vary over time. For a variable life or variable universal life policy, the illustration would show several different uniform gross annual rates of return. These rates of return are hypothetical; even if the investments were to perform at one of the illustrated rates, the actual return would fluctuate over and under the rate to result in an average rate.

The hypothetical returns shown in any illustration are only illustrative of how the policy values relate to performance and should not be considered a representation of past or future returns. Actual rates of return for a particular policy may be more or less than the hypothetical rates illustrated and depend on a number of factors. Illustrations are not guarantees. They merely reflect how a policy’s values and benefits could be affected by different rates of return.

Although illustrations are hypothetical, they can help you understand the policy you are thinking of buying. You should review them carefully and ask questions. You should consider consulting your tax or financial advisor to assist you in reviewing them. Certain assumptions are used in preparing the illustrations, and you should make sure they are reasonable and in line with your insurance and financial needs.

Insurance company ratings

When considering buying insurance, you may also want to consider the company offering the policy. The insurance company guarantees many features in a life insurance policy, including the death benefit and interest rates credited to fixed accounts. Therefore, the financial strength of the issuing insurance company is very important. Several independent, nationally recognized rating agencies regularly review the financial records of insurance companies to assess their strength and claims-paying ability. The stronger and more secure the insurance company, the more likely it is that the company will be able to pay the benefits offered. However, even a strong rating does not ensure that the insurance company will be able to meet all of its obligations under the life insurance policies that it has issued.

For information about insurance company ratings, ask your financial advisor to provide the ratings, or contact the following rating agencies:

- A.M. Best Company (Best’s Credit Ratings) (www.ambest.com)
- Fitch (fitchratings.com)
- Standard & Poor’s (standardandpoors.com)
- Moody’s Investors Service (moody.com)

These ratings do not relate to the past performance or potential performance of the subaccounts.

Other types of insurance

Although the majority of the information presented in this guide is related to life insurance, there are other types of insurance that may help you reach your short- or long-term financial goals. Your financial advisor can help you determine if the following kinds of insurance will benefit you:

Disability income insurance

Disability income insurance provides monthly benefits when you are unable to work because of a disabling illness or injury. Availability and cost of coverage will be based on an individual's age, gender, health, occupation, duties, earned income, investment income, net worth, and state in which he or she is employed. Please consult with your financial advisor for a policy that fits your needs or for more information on this type of insurance.

Long-term care insurance

As Americans are living longer lives, providing for long-term care has become an increasing concern. "Long-term care" is defined as personal care or supervision for an extended period of time that may be needed because of accident, illness, or aging. Understanding the options for dealing with extended health care or long-term care expenses is important. Unlike medical insurance that provides benefits for improving or correcting medical problems, long-term care insurance can provide personal care or supervision for an extended period of time that may be needed because of accident, illness or aging. Long-term care services provide help with activities of daily living (i.e., bathing, eating, dressing, toileting, continence, and transferring), home health care, respite care, hospice care, or adult day care. Such care may be given in a nursing home, an assisted living facility, a hospice facility, a day care facility, or in your own home.

Depending on the policy, benefits will be paid as an indemnity (insurance company pays the provider directly) or reimbursement (benefit is paid directly to the insured who is responsible for provider payment).

Some employers will offer long-term care insurance policies or they can be purchased individually. And, in some circumstances they can be a qualified tax deduction. Long-term care insurance is usually offered as a stand-alone policy (aka "traditional"), as a rider on a life insurance policy, or a hybrid policy (aka "asset based"). Each type of policy can meet a different insurance and financial need.

Traditional — A stand-alone, or traditional, long-term care policy provides coverage for only long-term care needs. This type of policy can be customized to fit your needs as most policies offer a choice of features such as the elimination period (time from the event to benefit payment), daily benefit amount (usually \$50 to \$500 per day), benefit payment period (usually from two years to unlimited), inflation protection option (i.e., automatic or future purchase), and shared benefits.

Availability and cost of coverage is based on your selections as well as age, gender, health status, and any additional riders added to the policy. This type of policy is “guaranteed renewable” which means that as long as you pay the premium, coverage will be in force; however, the company does not guarantee the premium amount and is subject to increase over the years. In addition, there is no residual payment, return of premium, or benefits available if the need for long-term care is not present in the lifetime of the insured.

Annuity with long-term care benefits — An annuity contract with a long-term care benefit rider may be a viable option if you are considering long-term care insurance. This product generally is purchased with a single payment but does not include any enhanced death benefits that could be included in an insurance policy. However, many of the same features in an insurance policy, such as inflation protection, shared care for couples, guaranteed benefits, and more, may be found in an annuity contract.

Availability is based on a simplified underwriting process which means you’ll be asked a minimal number of health questions.

Life insurance with rider — Many insurance companies have realized the growing need for long-term care funding so have developed riders that provide payment for chronic (long-term) or terminal (cannot be cured/treated) illnesses as well as long-term care needs. Much like the traditional long-term care policy, each rider has qualification criteria and benefit limitations. These types of riders will usually allow a benefit payment up to 90% of the policy death benefit, and any amount that is not used is payable to the beneficiary.

The extent of coverage, benefit payable, and cost of the rider is determined by each insurance company and the availability, and cost of coverage is based on the insured’s age, gender, tobacco use, and health status.

Asset-based — Asset-based long-term care combines a life insurance policy with tax-free long term care benefits and is often referred to as hybrid, linked-benefit, or single premium life. An asset-based long-term care policy offers similar benefits of the traditional long-term care policy but the underlying policy structures differ. The asset-based policy is built around a life insurance model and traditional plans are built as a pure long-term care benefit.

The premiums for these plans are guaranteed (will not increase over time) and are typically paid by a single payment or five equal annual payments. This type of plan is also similar to the traditional policy in the qualification of benefit payment requirements but different in the fact that it provides a death benefit, in many times even if long-term care benefits are paid. Most companies also offer a return of premium option where, if benefits have been paid, the policy can be surrendered and you are guaranteed to receive at least your premium payment(s).

Availability and cost of coverage is based on age, gender, health status, and tobacco use.

Please consult with your financial advisor for more information on the different types of long-term care coverage and so they can help you decide which policy fits your needs best.

The role of your financial advisor

In order to discuss or sell an insurance policy, your financial advisor must be a licensed agent. Your financial advisor will provide you with information about insurance coverages, including features, benefits, risks, riders, and other characteristics needed for you to evaluate the policy and determine whether it fits your needs. You can obtain information about the status of your financial advisor's insurance license by visiting the website of your state's insurance department.

Your financial advisor may use a General Agent, a licensed insurance agency, for case design services, company and product analysis, illustration and presentation support, case management services, coordinating the collection of all data and company underwriting requirements, forms for quotation or application for a policy, and help in resolving associated issues. If a General Agent is engaged in your case, they will work with you and your financial advisor to address your insurance needs. You hereby consent to Wells Fargo Advisors sharing your information with the General Agent to perform the above mentioned activities. There is no compensation between or among Wells Fargo Advisors and a General Agent; each party is separately paid by insurance companies. General Agent engagement reduces the compensation Wells Fargo Advisors receives from the insurance company.

Wells Fargo & Company appreciates your confidence and wants to make your brokerage, banking, and insurance relationships clear and convenient for you. Your Wells Fargo Advisors' financial advisor may serve as your relationship manager not only for your brokerage accounts and services with Wells Fargo Advisors, but also for products, such as insurance, and services with Wells Fargo Bank, N.A. including trust accounts of which you may be a beneficiary or agency accounts in which you may have an interest.

The responsibilities of Wells Fargo Advisors and your financial advisor, when acting in a brokerage capacity or in introducing you to insurance services or a banking product or services, are different from the responsibilities of Wells Fargo Bank and your financial advisor when acting in a role as relationship manager for a Wells Fargo Bank trust or agency account. Your financial advisor, in a brokerage capacity, may recommend or assist you with a transaction that does not concern the Wells Fargo Bank trust or agency account for which he or she will be compensated. If you decide to enter into such a transaction, you will receive specific disclosures in connection with the transaction, including all relevant information and a description of the compensation that your financial advisor will receive. You will have the opportunity to ask for more information about the compensation to your financial advisor on such transaction.

How your financial advisor and Wells Fargo Advisors are compensated on life insurance

Wells Fargo & Company's subsidiaries and advisors are paid by the insurance companies whose products we sell. The subsidiaries include Wells Fargo Advisors, Wells Fargo Advisors Insurance Agency LLC, Wells Fargo Wealth Brokerage Insurance Agency, and a number of other affiliated insurance agencies registered in the states where we do business. Some insurance companies pay higher commissions than others, which may provide your financial advisor with an incentive to sell one policy rather than another. Regional sales managers and branch managers may also receive monetary incentives based on the revenues and profits of their regions or branches.

Wells Fargo & Company and its subsidiaries receive compensation and other payments in many forms, including commissions, residuals, or trail commissions (described below), marketing support payments, payments for training and education, and fees for reinsurance transactions. Wells Fargo Advisors receives compensation up to 95% of the gross compensation paid by the insurance companies, including commissions, residuals and trails. Wells Fargo Advisors pays a portion of the compensation it receives to your financial advisor.

Wells Fargo Advisors offers a broad variety of insurance companies and life insurance products that our financial advisors can sell or recommend. Wells Fargo Advisors has performed due diligence on each company and product that we make available to our clients.

Your financial advisor and Wells Fargo Advisors are paid in ways that vary with the type of policy, the issuing insurance company and the premium amount. Below is a summary of the different forms of compensation received by Wells Fargo Advisors:

Commissions — The amount of commission is based on the type of underlying policy. For example, financial advisors are typically paid a higher rate of commission for permanent life insurance policies than for term policies. There may be instances when the underlying policy contains both term and permanent life insurance. This is commonly referred to as blending. It is important to note that your financial advisor can adjust the percentage of term and permanent life insurance within the policy, and the commission paid to the financial advisor will adjust to reflect that change. It is important to note that commission rates vary by insurance company and product design.

Compensation on excess premiums — In some instances, you may pay premiums in excess of the annual or target premium (typically referred to as "excess premiums"). Compensation earned by Wells Fargo Advisors on excess premiums may be up to 6% of the excess premium. This compensation is set by the insurance company. For example, if the annual or target premium is \$1,000 and you make a premium payment of \$1,500, Wells Fargo Advisors would receive an upfront compensation of up to \$30 (\$500 x 6%) on the excess premium.

Trail commissions — Wells Fargo Advisors may also receive ongoing payments, called “trail commissions,” of generally around 2% per year on invested assets that are held in your life insurance policy for more than one year. These ongoing payments/trails are set by the insurance company. For example, if a policy has invested assets of \$10,000, there would be a maximum trail of \$200 per year, if there were no growth in the cash value of the policy.

Ongoing compensation for renewal premiums — Wells Fargo Advisors may also receive ongoing compensation on your policy for subsequent premiums, also called “renewal premiums,” paid by you after the first year. Renewal premiums typically pay compensation of up to 20% of the renewal premium. This compensation is set by the insurance company. For example, if the renewal premium on an insurance policy is \$1,000, Wells Fargo Advisors would receive up to \$200.

Other compensation your financial advisor may receive from Wells Fargo Advisors

From time to time, the firm initiates incentive programs for associates including financial advisors. These programs may compensate them for attracting new assets and clients, referring business to our affiliates (such as referrals for mortgages, trusts, or insurance services), and promoting investment advisory services. We may also initiate programs that reward financial advisors who meet total production criteria, prepare Envision® investment plans, participate in advanced training, and/or improve client service.

Financial advisors who participate in these incentive programs may be rewarded with cash and/or non-cash compensation, such as deferred compensation, bonuses, training symposiums, and recognition trips. Portions of these programs may be subsidized by external vendors and/or our affiliates, such as mutual fund companies, insurance companies, or investment advisers. Therefore, financial advisors, and other associates, may have a financial incentive to recommend the programs and services included in these incentive programs over other available products and services we offer.

Financial advisors who join Wells Fargo Advisors may be eligible to receive incentives, one-time or ongoing bonuses and/or other compensation if they reach certain production levels or other targets, which may include attaining commission and/or assets under management objectives within a specific time period after joining the firm. For example, it is a common practice in the brokerage industry for Wells Fargo Advisors and other firms to pay bonuses and/or extend forgivable or working capital loans to encourage financial advisors to join a new firm. The practice may provide your financial advisor with an incentive to recommend the transfer of your account to the new firm. Another example involves associates who refer new financial advisors to Wells Fargo Advisors; these associates may receive referral compensation based on the previous production of the referred financial advisor.

Wells Fargo Advisors also has programs whereby a retired financial advisor may receive compensation for an agreed-upon time frame for production generated by the new financial advisor servicing your accounts, even though the retired financial advisor specialist may not provide further service to you.

How your financial advisor and Wells Fargo Advisors are compensated on long-term care and disability insurance

Wells Fargo Advisors receives compensation from sales of long-term care and disability insurance policies based on the point-of-sale and other administrative services provided. Your financial advisor is paid in ways that vary based on the type of policy, the issuing insurance company, and the premium amount. This compensation can be paid in many ways, including commissions, renewals, and residuals/trails. Below is a summary of the different forms of compensation received by Wells Fargo & Company:

Commissions — In general, Wells Fargo Advisors is paid up to 65% of the first-year premium payment made by you on a long-term care or disability policy. Your financial advisor's initial compensation is based on a compensation formula applied to the premium. This type of compensation is usually referred to as a "commission." For example, if the first-year premium payment is \$1,000, Wells Fargo Advisors would receive upfront compensation of up to \$650.

Ongoing compensation for renewal premiums — Wells Fargo Advisors may also receive ongoing compensation on your long-term care or disability policy for subsequent premiums, also called "renewal premiums," paid by you after the first year. Renewal premiums typically pay compensation of up to 20% of the renewal premium. This compensation is set by the insurance company. For example, if the renewal premium on an insurance policy is \$1,000, Wells Fargo Advisors would receive up to \$200.

At any time, you should feel free to ask your financial advisor or how he or she will be compensated for any insurance transaction.

How you can get additional information

If you have questions about what role your financial advisor or any other Wells Fargo & Company team member is serving, or what compensation will be paid to your financial advisor for the purchase of an insurance policy, please ask your financial advisor.

Additional compensation received by Wells Fargo Advisors from insurance companies

At Wells Fargo Advisors, in addition to the commissions described above, we receive marketing support payments from many of the insurance companies whose policies we sell. These payments may be used to pay for training and educational conferences and meetings for our financial advisors, various administrative and recordkeeping costs, educational meetings and seminars for our current and prospective clients, and due diligence evaluations of the claims-paying ability of the insurance companies whose policies we sell.

Wells Fargo Advisors may also receive up to \$200,000 per insurance company for financial support for educational seminars. Those payments are used to pay for training and educational meetings for financial advisors. We reserve the right in the future to limit branch access to insurance companies and marketing companies that do not provide marketing support payments or meet other criteria.

These payments are not made directly by you. They are paid by the insurance company, an affiliate of the insurance company, or the investment management company that serves as manager of the underlying subaccount options for variable life or variable universal life insurance. None of these payments are passed on to your financial advisor as commissions or ongoing payments. However, the payments may be used to fund some of the general benefits provided to your financial advisor that are described above.

We believe that these financial arrangements do not affect the advice your financial advisor offers you. Insurance companies and their affiliates use a variety of sources for funding the commissions and payments described above. The funding sources may include, but are not limited to:

- the fees and charges assessed by the insurance company under the life insurance policy;
- revenues from the underlying investment options, if any, received by the insurance company, an affiliate of the insurance company, or the investment management company that serves as manager of the underlying investment options for variable life insurance; and
- investment earnings on amounts allocated to the general account of the insurance company.

Some of the information on these funding sources and payments for variable life insurance can be found in the prospectus or statement of additional information for the insurance policy, which is available on request from the insurance company. You can also find additional information about revenues from the underlying investment options in their prospectuses and statements of additional information.

The insurance companies listed at the end of this document have paid Wells Fargo Advisors for marketing support and/or service fees in the past and are expected to do so in the future.

As a diversified financial services company, Wells Fargo Advisors pursues business opportunities with insurance companies, as well as other companies whose products Wells Fargo Advisors distributes. Specifically with respect to insurance, Wells Fargo Advisors may actively pursue a strategy of seeking business relationships such as reinsurance with companies whose products we sell. Our business relationships will not be the same with all companies. In addition to insurance, some companies may also offer mutual funds, annuities, and retirement plans. Wells Fargo Advisors may earn a greater return by distributing the products of one company than by distributing those of another.

Other insurance company relationships

Wells Fargo & Company (WFC) provides a wide range of financial services to various insurance companies through its subsidiaries and affiliates, including Wells Fargo Advisors. These other relationships provide financial and other benefits to WFC, as well as Wells Fargo Advisors. In addition, WFC and its affiliates have business relationships with some of the insurance companies that could include, among other things, providing underwriting services and other financings, advice on mergers and acquisitions, and commercial lending arrangements. More specifically, as part of our relationships with insurance companies:

- Underlying investment funds managed by the investment management companies that are affiliated with Wells Fargo Advisors and/or distributed by affiliates of Wells Fargo Advisors can be found in variable life insurance policies offered by Wells Fargo Advisors.
- Reinsurance is the practice in which one insurance company (called the “reinsurer”) assumes some or all of the liability of another insurance company’s insurance policies that it has issued. Wells Fargo & Company affiliates currently act as reinsurers for one or more insurance companies that issue insurance products through affiliates. Such an arrangement can result in financial gains or losses to those affiliates. We anticipate that there will be other reinsurance agreements with insurance companies in the future.

Below is a list of insurance companies that paid Wells Fargo Advisors for marketing support, account administration, or recordkeeping services in 2021. The companies that pay marketing support and the formulas by which they compensate us are subject to change.

- American General
- Allianz
- Brighthouse Financial
- Equitable
- John Hancock
- Lincoln Financial
- Mass Mutual
- Minnesota Life/Securian
- Mutual of Omaha
- National Western Life
- Nationwide Financial
- OneAmerica
- Pacific Life
- Principal
- Protective
- Prudential
- Symetra Financial

Throughout this guide, the word “guarantee” refers to guarantees backed by the claims-paying ability of the issuing insurance company. If the insurance company is unable to meet their claim obligations, payments may not be made.

¹Tax advantages can assume that the policy is not or does not become a modified endowment contract. Wells Fargo Advisors is not a tax or legal advisor.

Wells Fargo Advisors Insurance Agency, LLC and Wells Fargo Wealth Brokerage Insurance Agency, LLC, are nonbank affiliates of Wells Fargo & Company. Wells Fargo Bank, N.A. is a bank affiliate of Wells Fargo & Company.

Insurance products are offered through nonbank insurance agency affiliates of Wells Fargo & Company and are underwritten by unaffiliated insurance companies.

Guarantees are based on the claims-paying ability of the issuing insurance company.

This is not, in any way, intended as an invitation to replace your existing coverage. Such an exchange is often not appropriate due to such factors as surrender charges on your existing policy, the surrender charge period on the new policy, transaction costs associated with the exchange, the values of the new policy versus the old policy, and the various fees and expenses associated with the new product. Therefore, replacing an existing policy should only be considered after a careful evaluation of these factors as well as a thorough review of your existing coverage.

Unlike variable life insurance, indexed universal life (IUL) policies are typically structured so that they are not securities registered with the SEC. Nor are the sales in IULs regulated by the SEC or FINRA Regulation, Inc.

Fixed insurance may have a higher initial interest rate which is guaranteed for a limited time period only. At the end of the guarantee period, the policy may renew at a lower rate or higher premium.

Wells Fargo Bank, N.A., offers various advisory and fiduciary products and services including discretionary portfolio management. Wells Fargo affiliates, including financial advisors of Wells Fargo Advisors, a separate nonbank affiliate, may be paid an ongoing or one-time referral fee in relation to clients referred to the bank. The bank is responsible for the day-to-day management of the account and for providing investment advice, investment management services, and wealth management services to clients. The role of the financial advisor with respect to bank products and services is limited to referral and relationship management services.

Wells Fargo Advisors is a trade name used by Wells Fargo Clearing Services, LLC and Wells Fargo Advisors Financial Network, LLC, Members SIPC, separate registered broker-dealers and non-bank affiliates of Wells Fargo & Company.

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