PRIMERICA®

July 5, 2013

Via E-Mail to rule-comments@sec.gov

Elizabeth M. Murphy
Secretary
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-1090

Re: **SEC Release No. 34-69013; IA-3558; File No. 4-606**
(Duties of Brokers, Dealers and Investment Advisers):
Request for data and other information (the "Request")

Dear Ms. Murphy:

This letter is submitted to the Securities and Exchange Commission (the "Commission") by PFS Investments, Inc. ("PFSI"), a registered broker-dealer and SEC-registered investment adviser. PFSI is an indirect wholly-owned subsidiary of Primerica, Inc. ("Primerica"), a financial services company that is publicly-traded on the NYSE under the ticker symbol "PRI." PFSI welcomes the opportunity to submit this analysis in response to the Commission's March 1 request for data and other information about the duties of brokers, dealers, and investment advisers.

Primerica appreciates the Commission's thoughtful approach in deciding whether to implement a uniform fiduciary standard of care for broker-dealers ("BDs") and registered investment advisers ("RIAs"). As the Commission is well aware, the legal standards applicable to dealings with customers of financial services have tradeoffs. It is critical that any standard mandated by the Commission strikes the right balance. Enhancing consumer protection is a legitimate regulatory objective, which Primerica endorses, but it must be accomplished without needlessly curtailing the substantial benefits of personalized investment assistance.

We always attempt to conduct our own business with a focus on customer protection and value. While we do not believe our customers generally misunderstand their relationship with our firm, we like the Commission's idea of ensuring that retail customers better understand the responsibilities financial services firms owe to them. Having a written "General Relationship Guide" for each customer would, in our view, address confusion, if any, in the marketplace regarding the services a firm does, and does not, provide. We also think there is a better way to facilitate customer grievances than the current system, which today is weighted heavily towards litigated decisions through an adversarial process.

At the same time, we urge the Commission to walk slowly before imposing a one-size-fits-all uniform fiduciary standard. Retail customers are not one size, and there is a real danger that an attempt to achieve an aspirational standard – free of all theoretical conflicts and purportedly in the customer's "best interest"– forces firms upscale where the remuneration is sufficient to bear the costs of expanded (and likely unnecessary to the common investor) services. As a company that has successfully served middle-income households for over 36 years, we appreciate the fine line the Commission must travel in imposing best practices on financial services firms while at the same time preserving access to financial help for households with average or modest incomes. As we discuss in this Comment Letter:

- The biggest obstacle to improving household finances is the lack of access to a trained representative of a reputable firm.
- The small transaction sizes, and basic needs, of middle income families cannot support investment advisory services; such households benefit from transactional advice compensated through the payment of commissions and guided by a suitability standard.
- Fully allocating the costs of financial services directly to each individual, in order to address supposed "conflicted advice," would shift expenses from larger accounts to smaller ones and would significantly raise the fees for investors with average sized balances. Reducing or capping the compensation available to representatives, as has occurred in some countries, would limit our ability to effectively distribute products through our representatives. This will have an adverse impact on consumer choice in the United States; more importantly, third-party revenue streams substantially benefit middle-income households' access.
- Retail customers will benefit from gaining a clearer understanding of the role a financial representative plays and the various options available to them in contracting for financial services. Disclosure, properly drafted and carefully explained, is adequate to achieve this result. Erasing the distinctions between broker-dealers and investment advisors is not, in our view, the best way to address investor misunderstandings. While harmonization has some theoretical advantages, preservation of the differences between the business models is critical to ensuring consumer choice. We fear that harmonization of broker and advisor roles ultimately ends up undermining the advantages of each approach.
- Measured assessment of the impact of potential marketplace conflicts has not been performed. Without that analysis, we have a concern that any "remedy" may miss its target and cause unwanted fallout.
- We believe that adequate remedies currently exist for claims of misconduct, though the adversarial nature of the court and arbitration systems often increase the expense

of, and decrease the parties' satisfaction with, dispute resolution. A system intended to resolve investor disagreements without expensive litigation might prove preferable to the current way.

We are grateful to the Commission for thoroughly evaluating a potentially ground-shifting rule as a uniform fiduciary standard and for giving firms, like us, the opportunity to share our views. If we have one worry about this process, it is that any discussion of a legal standard takes on an elevated tone and can brand firms raising questions somehow as less interested in the welfare of ordinary investors. This is simply not correct. We believe a legitimate goal in this rulemaking process should be to extend useful financial services to historically underserved segments of society. Our experience is that the "best standard" is one that (a) encourages families to save money for emergencies, education and retirement; (b) incentivizes trustworthy and qualified financial services representatives to enter the profession and serve average income households, not just the affluent; (c) gives firms the flexibility to address a wide variety of customer needs through diverse, innovative and creative business models; (d) eliminates unnecessary rules and requirements that add to the cost of compliance without a corresponding consumer benefit; and (d) recognizes that, ultimately, well-informed and educated customers are in a superior position to evaluate for themselves whether the services they receive are meeting their goals and objectives. A relationship legal standard that is rigid, onerous and costly – or which fails to recognize the economic realities of the marketplace – will shrink the population of financial service professionals and accelerate the trend of legitimate firms looking to upscale clients.

SCOPE OF OUR RESPONSE

The Request seeks data and information regarding the costs associated with the Commission taking a number of different approaches to establishing a uniform fiduciary standard of conduct for BDs and RIAs. Although Primerica appreciates the careful consideration demonstrated in the Commission's request, our response is conditioned on the substance contained in any forthcoming concrete proposal put forth by the Commission or any other federal agency.

I. PRIMERICA

OUR COMPANY

Primerica is a leading distributor of basic savings and investment products to middle-income households throughout the United States. Primerica assists consumers by meeting their needs for term life insurance, which we underwrite, and for investments and other financial products, which we distribute on behalf of third parties. Primerica has been in business since 1977 and currently insures more than 4.3 million lives. In 2012 alone we delivered over $1 billion in death benefits to families; these payments often made an enormous difference in the future of the families who lose their primary breadwinner. We currently maintain approximately 1.9 million investment accounts on behalf of our clients, with almost $40 billion in assets under management.[1] With approximately 92,400 licensed life insurance representatives and 16,500 U.S. securities licensed representatives at December 31, 2012, Primerica is the largest independent financial services marketing firm in North America.

Our mission is to help families become properly protected, debt free and financially independent. We carefully select our product suite to fit the basic needs of middle income clientele. Our offerings are straightforward, simple, and necessary.

OUR CLIENTS

As a Main Street company for Main Street North America, Primerica helps provide access to financial education, products and services for the underserved middle-income market, which is defined by us to be those households earning $30,000-$100,000. Our average customer household earns $65,000 per year. This middle-market represents approximately 50% of U.S. households.

PFSI's securities customers overwhelmingly hold their investments in IRAs, college savings and other tax-advantaged plans, which comprise approximately 1.3 million of our 1.9 million investment accounts.[2] This is in part because many individuals within the middle-income market do not have the opportunity to invest in an employer-provided defined benefit or contribution plan.[3] In fact, less than one in five Generation X and Y Americans will have a pension[4]; almost half of all wage and salary workers in the U.S. have no access to an employer-provided plan.[5]

We believe IRAs are an effective tax-advantaged savings vehicle especially for many Main Street Americans. IRAs grant all individual workers the opportunity to invest in their future and discourage them from making early withdrawals before retirement.

OUR PRODUCTS

Primerica offers a complimentary *Financial Needs Analysis* to potential customers in order to help them better understand their current financial situation and see how well they are planning for the goals they set. Along with this *Financial Needs Analysis*, Primerica representatives provide financial education materials that teach the basics of how money works. This simple

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[1] In North America.
[2] As of December 31, 2012.
[3] *Employment-Based Retirement Plan Participation: Geographic Differences and Trends*, EBRI, 2011, available at http://www.ebri.org/pdf/briefspdf/EBRI_IB_11-2012_No378_RetParticip.pdf.
[4] "Top Five Ways Gen X and Gen Y Consumers Can Improve Their Chances for a Secure Retirement," *LIMRA*, April 18, 2013 available at http://www.limra.com/Posts/PR/News_Releases/LIMRA___Top_Five_Ways_Gen_X_and_Y_Consumers_Can_Improve_Their_Chances_for_a_Secure_Retirement.aspx.
[5] *Supra* note 3.

analysis and education on investment principles is often the first review our middle-income customers have ever experienced regarding their household finances. This makes our services absolutely crucial for improving the saving habits of Main Street, since a near majority of middle-income Americans, when just exposed to the basic concepts of retirement savings, respond by positively changing their behavior.[6]

Life Insurance

Primerica specifically designs and underwrites its own life insurance products to best serve middle-income consumers. Primerica sells only term life insurance, which costs less and provides more protection than other forms of life insurance. Our policies have level premiums for terms of 10, 20, 30 and 35 years. This, combined with our unique distribution system, enables us to help families practice the modicum of "Buy Term and Invest the Difference." Applying this principle allows Main Street America to learn how best to reallocate their scarce resources in order to get maximum death protection for their families and save for retirement. Using Primerica's products, middle-income Americans can protect their loved ones while working towards financial independence. The average face amount of our in-force life insurance policies issued in 2012 was approximately $243,000. As of December 31, 2012, we had $670 billion of face amount of insurance in force throughout North America.

Securities

PFSI's 16,500 Financial Industry Regulatory Authority ("FINRA") registered representatives comprise one of the largest broker-dealers in the United States, and is devoted to providing middle-income households affordable access to securities investments, most of which are primarily held in IRAs. PFSI enters into contractual agreements with third-party product manufacturers to distribute and market a wide range of investment and savings products selected specifically to help Main Street consumers. We distribute the products of some of the most well-known and reputable firms in the industry. In some ways, we are defined by what we do *not* do. PFSI does not offer any proprietary funds nor does it engage in principal trading. No individual stocks can be purchased from us, nor do we offer options, commodities, or structured products. We have for many years only offered mutual funds, variable annuities, college savings plans and small business savings plans; therefore, our securities representatives generally hold Series 6 and 63 FINRA registrations. In 2010 PFSI registered with the Commission as an Investment Adviser. Approximately 2,100 of our registered representatives are also registered as Investment Adviser Representatives.

[6] Helman, Greenwald, Copeland & VanDerhei, "The 2010 Retirement Confidence Survey: Confidence Stabilizing, But Preparations Continue to Erode," EBRI, March 2010, available at http://www.ebri.org/pdf/briefspdf/EBRI_IB_03-2010_No340_2010_RCS.pdf at 25.

Through leading U.S. manufacturers, we offer products that reflect diversified asset classes and varied investment styles. Each firm whose products we distribute has individual funds with long track records, and each continually evaluates its fund offerings and adds new funds on a regular basis. We believe these asset management firms provide funds that appropriately meet the investment needs of our clients. Overall, our mutual fund offerings include 148 Morningstar four- and five-star rated mutual funds from our various fund families.

Firm Expenses

While commissions (both up-front and trail based) and incentive programs are the primary sales-related costs for Primerica, the firm has significant fixed operating costs including operation centers for processing and customer service, technology infrastructure, compliance and supervision systems, personnel, and a variety of other non-variable costs of operating a large retail broker dealer. These costs are substantial and without this supporting infrastructure, we would be unable to fulfill our client and regulatory responsibilities and therefore serve our current market. Specific to the Request for information about the costs of our compliance system, 12.3% of our employees are engaged in legal, supervisory or compliance-related activities. This means over 210 employees in the United States and Canada. Employee oversight is supplemented by OSJs who come from our Field Force. Our call center and internet operations supplement the face-to-face activities of our representatives and allow our clients to seek help from a company representative in addition to their sales representative, as needed.

II. ACCESS FOR THE MIDDLE-INCOME MARKET

Saving for retirement is among the most important priorities for middle-income families.[7] However, such families face high student loans, mortgage payments, credit card bills, and utility payments and similar challenges when trying to find enough to save for an emergency and retirement. Our customers often feel there is “too much month at the end of the money.” These challenges, along with low financial literacy rates, cause many to simply put off retirement savings for another day. Studies have found that “49% of Americans are not saving for retirement and fewer than 56% of younger Americans (age 18-40) are contributing to a retirement plan.”[8] The sooner individuals begin to invest, the fewer dollars they need each month to reach their goals, yet many simply pay the high cost of waiting, which leaves them less prepared for an emergency and retirement.[9]

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[7] *2010 Survey of Consumer Finances*, Federal Reserve Board, June 2012, available at http://www.federalreserve.gov/pubs/bulletin/2012/pdf/scf12.pdf.

[8] *eNation Survey*, LIMRA, April 2012.

[9] Johnson, Angela, *76% of Americans Are Living Paycheck-to-Paycheck*, CNNMoney, June 24, 2013, http://money.cnn.com/2013/06/24/pf/emergency-savings/index.html. It states that 27% of Americans surveyed had no savings at all); Coyle, Emily, *Is True Retirement An Outdated Concept*, USA Today, June 16, 2013, available at

The importance of a financial representative to improving household savings is well documented. Individuals who work with a financial representative have more confidence about meeting their financial goals and save more than those who work alone.[10] Many middle-income households and the general public commonly perceive, incorrectly, that they lack the discretionary income to build wealth. A lack of financial education not only contributes to this misguided perception but actually can validate it, by leading workers to misallocate the limited resources they could otherwise invest.[11] Often, current spending habits cause individuals to think investing is simply not an available option; in fact, in a survey conducted jointly by Primerica and the Consumer Federation of America, many Main Street consumers felt that winning the lottery was a more likely scenario for achieving wealth than patiently saving and investing.[12] A more recent joint survey found that 67% of middle-income Americans had made at least one "really bad financial decision" that typically cost them $5,000 or more.[13]

Registered representatives willing to sit down at a family's kitchen table can serve as a financial coach to a household, encouraging families to focus now on their financial future, which, if neglected, often only becomes more acute over time. Specifically, such representatives help de-mystify the stock market and illuminate ways to reduce current expenses to make money available to invest today, even if it is as low as $50 per month. They teach individuals how compound interest on that $50 works against them when it is on a credit card, but how that same compound interest can work for them when the $50 is invested. This education – which is the core of what Primerica does – often leads middle-income families to trade bad financial habits for disciplined saving and investing. Such skills enhance their chances of reaping the reward of increased savings and larger investment account balances. Having affordable access to personal financial representatives is an essential component to developing a thriving middle class. Over the course of almost four decades, Primerica has opened millions of accounts for households whose financial quandary never would attract large Wall Street firms.

As members of this middle-income market, many of Primerica's customers have never considered investing for retirement before meeting with one of our representatives. We recognize the importance of combating this problem not only by structuring our business model to reach middle income consumers, but also by creating and maintaining a positive environment that embraces the diverse backgrounds existing within the middle-income market. We believe

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http://www.usatoday.com/story/money/personalfinance/2013/06/16/is-true-retirement-outdated/2372115/. It states that 40% of retirees wait until within 10 years of retirement to begin planning.

10 LIMRA, *Advisors Matter*, February 2013.

11 Holland, Kelley, *America's Grade For Financial Literacy: F*, Today.com, June 4, 2013 available at http://www.today.com/money/americas-grade-financial-literacy-f-6C10193794.

12 Primerica-Consumer Federation of America Study, October 1999, available at http://www.consumerfed.org/pdfs/primerica.pdf.

13 Primerica-Consumer Federation of America Study, September 2012, available at http://investors.primerica.com/Mobile/file.aspx?IID=4245322&FID=14563613.

that diversity among representatives is the best way for all to "reach their potential and maximize their contributions to our strategic goals and objectives" in improving the financial lives of Main Street American families.[14] Primerica and its African American, Hispanic American, and Women in Primerica Leadership Councils promote financial independence among Main Street's different backgrounds. As a result, both our sales force and our customer base are generally more diverse than the U.S. general population. Approximately half of our life insurance customers and a quarter of our securities customers are either African American or Hispanic American.[15] Mirroring the population we serve, a slight majority of our securities customers are female.[16]

III. ACCESS FOR ALL NECESSITATES MORE THAN ONE BUSINESS MODEL

More than a single, uniform business model is vital to serving the diversity of households in our country. Today, the American public generally has three ways to receive help meeting financial challenges. They can (1) use online systems to educate and guide themselves and invest online without the assistance of the adviser; (2) work on a transactional basis with a personal registered representative; or (3) employ a full-time registered investment adviser. These three choices provide individual investors the opportunity to pick the business model that best serves their diverse and unique interests.

Registered representatives are paid a commission, whereas, investment advisers charge an advisory fee, normally based on the percentage of assets under management. Given this choice, the majority of Americans – 88% of individuals – choose to use an online provider or a commission-based personal financial representative for their investment needs.[17] Fee-based investment advisers serve the remaining 12%.[18] Another way to look at how Americans use the two models is to look at IRA accounts. Over half of all IRA accounts hold less than $25,000. Ninety-eight percent of these accounts utilize a transactional, commission-based brokerage for their IRAs.[19]

Middle-income families, who are generally buy and hold savers, are often better served using a commission-based representative. The lower priced personal service of a commission-based representative allows many middle-class individuals to accumulate more long-term savings than

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[14] "Diversity Management: Trends and Practices in the Financial Services Industry and Agencies after the Recent Financial Crisis," GAO Report, Apr. 2013, at 4 & 5.
[15] As of January 2013.
[16] As of January 2013.
[17] *2010 Standard of Care Harmonization Impact Assessment for SEC*, SIFMA and Oliver Wyman, 2010, available at http://www.sec.gov/comments/4-606/4606-2824.pdf.
[18] *Ibid.*
[19] *Assessment of the Impact of the Department of Labor's Proposed "Fiduciary" Definition Rule on IRA Customers*, Oliver Wyman, April 12, 2011, available at http://www.dol.gov/ebsa/pdf/WymanStudy041211.pdf at 2. As of June 2013, Primerica's average IRA account size was around $19,000.

if these same individuals were paying the higher fees of a fee-based adviser.[20] The fact is that for most Main Street Americans, a fee-based adviser, if utilized, would be the most expensive way to get investment education and guidance because fee-based advisers must be compensated to actively and continuously manage the invested assets. Further, because of the small account balances in the accounts of most middle-income consumers, RIAs are not readily available to them; because fees earned are based on assets under management, 80% of fee-based advisers aim to serve individuals with at least $250,000 in assets.[21] On average, a customer of a fee-based advisor pays over $6,200 a year in compensation for the help he receives.[22] This sum is out of reach for most families.[23]

Primerica recognizes that many Main Street investors with mid-sized accounts desire options when determining what level of service they want when investing their money; thus, in 2010, Primerica began offering managed accounts. When structuring this side of the business, Primerica had an objective of adding a managed account product with an account minimum of $10,000 to make this product available to as many consumers as possible; unfortunately, high recurring annual costs rendered the option financially unworkable for accounts this small under practical and regulatory standards. In fact, the high recurring annual fees became higher as a percentage of account size the smaller the accounts were. Our analysis showed us that, at a $5,000 size, an account would end up paying over six percent of its assets annually simply to support the costs associated with maintaining the account. As a result, the minimum initial investment in the program was set at $25,000 which was the lowest amount where strong client value could be maintained. Since the launch of our program in 2010, we have not had strong interest from our clients or our representatives for advisory accounts below this $25,000 amount. The average account size of our customers' managed accounts substantially exceeds that of our customers' brokerage accounts, and significantly exceeds our $25,000 minimum.

Reasons for the differences in costs between the two models are no mystery: they are attributable to the major difference in the current system between the duties of RIAs and BDs. According to U.S.C § 78j(b), BDs, when talking with their customers must ensure that the guidance is suitable only at the time of the transaction. Conversely, RIAs provide continuous and regular portfolio

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[20] *Study on Investment Advisers and Broker-Dealers*, Staff Study, Securities and Exchange Commission, p. 162 (Jan. 2011).

[21] *Financial Planning for the Middle-Class*, Kiplinger, August 2011, available at http://www.kiplinger.com/article/retirement/T023-C000-S002-financial-planning-for-the-middle-class.html.

[22] See *Investor and Industry Perspectives on Investment Advisers and Broker-Dealers*, RAND Institute for Civil Justice, 2008 at 73. The RAND Study indicates that the "typical [annual] fee charged to investors started at 1.25 percent for $100,000 to $1 million assets under management." Thus, assuming an average account size of $500,000 and a best-case 1.25% fee, this puts the average compensation at $6,250.

[23] Anderson, Brian, "Middle-income America isn't ready for fee-based advice," *LifeHealthPro*, May 28, 2016, available at http://www.lifehealthpro.com/2013/05/28/middle-income-america-isnt-ready-for-fee-based-adv?ref=hp, (stating "LIMRA found that only 1 in 5 consumers are willing to pay more than $100 for investment advice.") (Also stating, "Just 1 in 10 [consumers] would pay [$2,500 up front for an initial analysis], and 71% said they would seek another advisor or go without professional services altogether.").

management services on their clients' accounts. BDs have a suitability obligation while RIAs must carry a fiduciary burden. As a general rule, RIAs must spend more time handling each account than the transactional practice of BDs. These differences drive up the cost of RIA services. It is unrealistic to believe, we respectfully submit, that RIA services can be performed at BD fee levels. Again, we believe that our Main Street, "buy and hold" investors do not want to pay the fees associated with RIAs for services they generally do not want.

Because of these factors, most middle-class families whose goal is saving for retirement using systematic purchases in a buy-and-hold strategy are better served by the less expensive commission-based, business model.[24] Moreover, the commission-based model is in many ways the *only* access to investment opportunities available to this group since first-time savers generally do not meet the minimum asset thresholds for a fee-based advisor and are not self-initiating the use of online options. With only 15 percent of middle-income households willing to rely on Internet, publications, or TV for savings and investment information and advice, the personal, one-on-one financial education and guidance Primerica's registered representatives provide Main Street are crucial to building consumer confidence and positively changing investor attitudes.[25] In short, initiating savings and investments through an online provider is not something most workers are comfortable doing.[26] As a result, it is paramount that American workers have access to an affordable financial representative. The commission-based business model provides that affordable access. Each model is designed to serve a specific portion of the population; no single model can effectively serve every investor.

IV. Third-Party Revenue Sources are Needed to Support the Brokerage Model

Like almost all broker dealers, Primerica receives a variety of different types of revenue, and all of these revenue types (commissions, trail compensation, revenue sharing, and recordkeeping payments) are critical to cover the company's fixed costs. Without any one of these revenue streams, the firm would have to re-consider how to serve the markets it delivers its services to. Unlike many other financial services companies, Primerica can open a securities account for our customers with a minimum initial investment of only $250.[27] Only 17 percent of Main Street consumers can afford to save more than $250 a month, which makes our minimum monthly contribution, which can be as low as $25, extremely affordable and important for most middle-

[24] *Supra* note 19.

[25] Primerica-Consumer Federation of America Study, September 2012, available at http://investors.primerica.com/Mobile/file.aspx?IID=4245322&FID=14563613. And *The 2012 Retirement Confidence Survey: Job Insecurity*, *Debt Weigh on Retirement Confidence*, *Saving*s, Employee Benefits Research Institute, March 2012, available at http://www.ebri.org/pdf/briefspdf/EBRI_IB_03-13.No384.RCS1.pdf.

[26] *Supra* note 10.

[27] Under certain conditions we can open one for as little as $50.

income households.[28] We do this while still maintaining high levels of customer service; we are there for the customer when they need us.

However, when PFSI distributes a financial product to a client, we provide services and incur fixed costs in connection with that sale beyond the transaction itself, such as account servicing and marketing expenses. For example, PFSI operates customer-service call centers, provides customers 24-7 internet access to their accounts, makes portfolio analytical tools and software applications available to our representatives, and produces educational material. The smaller-size accounts typical of middle-income investors incur marginally higher costs. This is why some in the financial services industry focus more on affluent customers.

Primerica can serve small investors without sacrificing service because payments from the mutual fund family, along with our unique business model, help keep costs affordable to the Main Street investor. Commissions on small transactions alone cannot support our infrastructure; for that reason, revenue sharing, 12b-1 fees, marketing and support payments, and recordkeeping fees are necessary if our market is to receive any professional help. Many fund families pay these account servicing fees on a per-position basis (i.e. they pay the same fee for each position held regardless of the size of the account), such fees help subsidize Primerica's costs of carrying large numbers of small balance accounts. If any of these indirect payments were prohibited, then middle-income investors/savers would either pay more, by directly paying the actual cost for the services they currently receive, or be denied personal financial education and guidance altogether. Firms like ours could not afford to offer the same services we now provide. In fact, without each of its current revenue streams it is likely that access to certain services or products would in the very least be limited.

V. DISCLOSURE & OTHER PRACTICES CAN MITIGATE POTENTIAL CONFLICTS

The Request seeks data and other information describing the nature and magnitude of broker-dealer or investment adviser conflicts of interest that arise from receipt of third-party payments. We can offer two points significant to this request. As noted above, PFSI's receipt of indirect payments benefits middle-income investors by allowing more expansive, affordable access to financial education and investment options. Furthermore, for a number of reasons, we strongly believe that any theoretical conflict of interest one could argue our representatives have is overwhelmed by the strong desire to achieve customer satisfaction and maintain a long term relationship. Nevertheless, as a firm, we have taken concrete steps to mitigate whatever small, potential conflicts in theory exist.

First, we do not disclose to our registered representatives the amount received from our third-party revenue sharing agreements, nor do they get paid any portion of revenue sharing. Also, the

[28] *Fiduciary Standards: The Best Choice for Main Street Investors?* NAIFA, Oct. 2011 at.2

vast majority of the funds offered by our fund partners have level 12b-1 fees. [29] Third, our registered representatives, do not receive any incentives (bonuses, trips, etc.) as a means of selling one fund over another. Furthermore, the highly competitive nature of the financial services industry and the importance placed upon reputation work to constrain any possible conflicts of interest.[30] PFSI recognizes the importance of providing, and does in fact, give clear and concise information to our clients about their investments, such as an explanation of how PFSI and its representatives are compensated when they buy a mutual fund or variable annuity product. Our client brochures, which are attached, "Important Information About Your Mutual Fund Investment," and "Understanding Deferred Variable Annuities," demonstrate this type of disclosure. PFSI actually requires our representatives to deliver these types of documents to their clients prior to making sales.[31] Finally, our Compliance Department has developed surveillance techniques to identify any potentially problematic behavior.

Even though there tends to be a halo effect around the actions of other jurisdictions, we should thoroughly study and learn from these actions. The recent actions taken by the United Kingdom's Financial Services Authority demonstrate the negative effects of trying to entirely eliminate all conflicts of interest. The FSA currently prohibits receipt of ongoing charges unless there are ongoing services and prohibits receipt of commissions. News reports have indicated the adverse effect this is having on the general public.[32] Notably, UK consumers have seen a decreasing ability to access financial education and guidance; without commissions, BDs have very little incentive to reach out to the middle-income market, whose constituents then are left largely without the services that they need. The FSA model does not differ greatly from the potential system studied by Oliver Wyman and commented on by Fischel and Kendall in 2011. Consequently, these reports can help shed light as to the nature and magnitude of the negative effects that would arise from trying to completely eliminate all conflicts of interest.[33]

VI. SPECIFIC COMMENTS REGARDING POTENTIAL COMMISSION RULEMAKING

GENERAL RELATIONSHIP GUIDE

In order to deal with the customer confusion cited in the Request, we encourage the Commission to incorporate a simplified, plain-English disclosure regime into any action it takes in regards to

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[29] Many tax-exempt fixed-income funds and money market funds offer level 12b-1 fees of 0.15%.
[30] Fischel, Daniel & Todd Kendall, *Comment to the Department of the Labor on a Proposed Rule Regarding Fiduciary Status Under ERISA*, Apr. 12, 2011, available at http://www.dol.gov/ebsa/pdf/1210-AB32-PH056.pdf at 24.
[31] See Exhibit A.
[32] Pollock, Greg, "Ban commissions on mutual funds, decrease access," Financial Post, Jun. 13, 2006, available at http://opinion.financialpost.com/2013/06/06/ban-commissions-on-mutual-funds-decrease-access/.; *Supra* note 23.
[33] *Supra* notes 19 and 30.

Section 913. Primerica supports the use of a general relationship guide akin to part 2a of form ADV ("General Relationship Guide") when delivering personalized investment advice to retail customers. We believe that a General Relationship Guide can serve as the ideal and primary mechanism through which broker-dealers would fulfill their duty of loyalty to retail customers. Whether dealing with an investment adviser or a broker-dealer, the person best equipped to advance the interest of the retail customer is the individual investor. A well-designed, simple, clear and concise General Relationship Guide will arm retail customers with the information necessary to make informed decisions about products, services, fees and potential conflicts of interest. A General Relationship Guide has the potential to advance investor protection, and if implemented effectively, minimize transition costs and preserve investor access and choice.

While we are confident of the potential benefits of a General Relationship Guide, a cost-effective delivery and updating regime is of critical importance to maintaining middle-market access to investment services. Unlike investment advisers, a broker-dealer's duty to its retail customers generally arises only on a transactional basis. The duty may arise once, or may arise intermittently on multiple occasions over the life of an account. Primerica strongly encourages the Commission to permit firms to publish a General Relationship Guide on the web, and then deliver to retail customers, no later than account opening, a short, concise disclosure that refers the customer to the web-based General Relationship Guide and FINRA's BrokerCheck portal for information about the registered representative. We envision that delivery of the initial disclosure often would occur by email, giving the customer ample opportunity to access the firm's website and carefully review the General Relationship Guide. This type of approach is critical as it will provide meaningful disclosure to the retail customer and allow firms a cost-effective method of meeting the obligation. Customers at all times would have access to the firm's current General Relationship Guide on the firm's website.

NON-CASH COMPENSATION

The Commission's Request advises interested parties to assume that non-cash compensation in the form of prizes and trips would be prohibited. However, there is no discussion of why the assumption is necessary or why the FINRA rule governing sales contests is inadequate. We encourage the Commission to reconsider this assumption. Non-cash compensation can play an important part in attracting and motivating registered representatives, which in turn increases access for retail investors. It is critical and in the interest of retail investors that the Commission not limit compensation in any way that would restrict access to investment advice. Any perceived conflicts associated with non-cash compensation can be ameliorated through simple, up-front disclosure and equal weighting of different product sales.

LEGAL CLAIMS

PFSI is concerned that establishing a uniform fiduciary standard for BDs and investment advisers could have unintended consequences that could ultimately end up hurting middle-income investors. PFSI has implemented robust compliance systems to supervise the activity of its registered representatives. The result of these efforts, along with our offering of basic savings and investing products, is that PFSI receives relatively few customer complaints and even fewer customer arbitrations. Most of those we do receive result from exaggerated market volatility, not customer confusion about the services offered or the applicable legal standard. Broker-dealers are rightly concerned about how the implementation of a uniform fiduciary standard would affect their costs of compliance and their susceptibility to legal awards for alleged failures to live-up to the new standard. For many firms, a fiduciary standard will translate into higher costs of compliance that can be passed on to their affluent customers. At PFSI, however, those higher costs of compliance will have a direct effect on middle-market access to investment services, as many of our customers will be unable to absorb those higher costs.

Furthermore, PFSI urges the Commission to consider alternative methods of dispute resolution for the securities industry. Adequate remedies currently exist for claims of misconduct, but the adversarial nature of the court and arbitration systems often increase the expense of, and decrease the parties' satisfaction with, traditional dispute resolution. Our experience is that customer dissatisfaction with their investment experience revolves around market performance. We attempt to resolve these without litigation or arbitration. The Commission might consider an ombudsman system, designed to facilitate the resolution of disagreements without expensive and time-consuming litigation or arbitration. Such a system could greatly benefit the smaller investors that we typically serve.

VII. CURRENT REGULATORY ENVIRONMENT

The Request asked for information regarding our current regulatory environment. As an introducing broker-dealer, PFSI is registered with and regulated by all 50 states, the Commission, and FINRA. We perform the suitability review of investment recommendations, but do not hold client accounts. We are also subject to regulation by the Municipal Securities Rulemaking Board, the United States Treasury Department, and the United States Department of Labor.

As an approved non-bank custodian under Internal Revenue Service regulations, we may act as a custodian or trustee for certain retirement accounts. In 2011, PFSI became an SEC-registered investment adviser and, under the name Primerica Advisors, began offering a managed accounts program. Primerica Shareholder Services is registered with the Commission as a transfer agent and, accordingly is subject to Commission rules and examinations.

Combined, the relevant organizations ensure that PFSI is complying with all regulations governing its business operations, including sales methods and charges, trade practices, the use and safeguarding of customer securities, capital structure, recordkeeping, and conduct and supervision of our employees. FINRA even imposes obligations on BDs to understand, preclude or impose restrictions on registered representatives' outside business activities that may impose a risk of potential harm to investors.

Industry-wide, more than half of all broker-dealers are often examined by regulators every year;[34] conversely, a fee-based adviser can expect to be examined on average once every 11 years.[35] Some FINRA officials have noted that "broker-dealers are subject to much greater regulatory oversight, in terms of both compliance examinations and enforcement efforts."[36] BDs are also subject to broad, extensive and detailed supervisory requirements with which advisers do not have to comply. For example, Rule 3010 requires BDs to have written supervisory policies and procedures (to manage its representatives) designed to achieve compliance with Commission and FINRA rules and regulations.[37] The major obligation placed upon BDs is the suitability standard. This covers recommended purchases, sales, and holds.[38]

CURRENT REGULATORY BODIES

Different businesses in Primerica are regulated by the following entities within the United States federal government (this list excludes any regulations over our Canadian companies):

[34] U.S. Securities and Exchange Commission, *Study on Enhancing Investment Adviser Examinations as Required by Section 914 of the Dodd-Frank Wall Street Reform and Consumer Protection Act*, January 2011, at 30-31.

[35] Callahan, David, "Wall Street's Watchdog: Too Many Responsibilities, Too Little Capacity," Mar. 25, 2011, available at http://policyshop.squarespace.com/display/ShowJournal?moduleId=9514124&registeredAuthorId=1357305&currentPage=30.

[36] *The Best of Both Worlds: A Fact-Based Analysis of the Legal Obligations of Investment Advisers and Broker-Dealers and a Framework for Enhanced Investor Protection*, Wrona, James S., Business Lawyer, 00076899, Nov2012, Vol. 68, Issue 1at 1.

[37] A BD's supervisory system must include designated principals to execute supervisory activities, assign each registered representative to a supervisor, have written procedures for conducting office inspections, include no less than annual supervisory meetings with each registered representative and registered principle, and include branch office inspections.

[38] FINRA Rule 2111 says that broker-dealers "must have a reasonable basis to believe that a recommended transaction or investment strategy involving a security or securities is suitable for the customer based on the information obtained through the reasonable diligence of the [broker-dealer] to ascertain the customer's investment profile."

- **Department of Justice** (DOJ)
- **Department of Labor** (DOL)
- **Department of the Treasury** (Treasury)
- **Federal Communications Commission** (FCC)
- **Federal Deposit Insurance Corporation** (FDIC)
- **Financial Industry Regulatory Authority** (FINRA)
- **Federal Reserve Board** (FRB)
- **Federal Trade Commission** (FTC)
- **Internal Revenue Service** (IRS)
- **Municipal Securities Rulemaking Board** (MSRB)
- **Securities and Exchange Commission** (Commission)

IMPACT OF POTENTIAL DOL FIDUCIARY RULEMAKING

With regard to the current regulatory environment, it is the upcoming DOL fiduciary rulemaking that marks the greatest challenge to providing specific data or analysis about the impact of the different alternatives the Commission might use to create a uniform fiduciary standard. As the Commission is well aware, the DOL is currently working on a rule that would establish a new definition of fiduciary for retirement plan and middle-income IRA accounts. A significant degree of conflict exists between the Commission's efforts and those of the DOL. Such conflict prohibits many financial services companies from being able to assess the impact of the Commission's regulatory regime. This is especially true for Primerica because Individual Retirement Accounts represent approximately two-thirds of the accounts middle-income families open through affordable registered representatives.

If the DOL's new standard resembles the DOL's proposed 2010 fiduciary definition, then Primerica has calculated that we would have to increase our minimum securities investment to an amount that would be prohibitive to well over 70% of the middle-income IRA accounts we open.[39] In short, PFSI would be unable to serve most of Main Street. Indeed, a consumer expert testified to Congress that "if you apply an absolute ERISA no conflict of interest and no third-party compensation model and particularly [for IRAs],… the broker-dealers are going to exit that business."[40] Overall, the Commission's and DOL's two respective regulations could impose conflicting rules that aim to regulate the same activity – one-on-one conversations that take place between one registered representative and one client. While we are willing to help better inform the Commission and other interested stakeholders about the potential impact of regulatory action on the underserved, middle-income market, the information we are providing could be of limited value if the DOL acts ahead of the Commission and in a manner inconsistent within the plain meaning of Section 913's business model neutral language.

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[39] As of 2011.

[40] House Committee on Financial Services, Subcommittee on Capital Markets and Government-Sponsored Enterprises, *Hearing on Broker-Dealers and Investment Adviser Regulation*, September 13, 2011.

Ultimately, although the DOL's 2010 proposal was well intentioned, Primerica agrees with the direction taken by Congress under Dodd-Frank – the Commission is the best agency to address this matter. With its 79 years of substantial experience regulating securities and protecting investors, the Commission is best able to evaluate and judge the impact of potential rules affecting the sale or purchase of securities traded within individual investors' accounts. We believe that it is for this reason that, in response to the financial crisis of 2008, Congress, when writing the Dodd-Frank Act, specifically assigned the Commission, and not the DOL, the authority to investigate any potential need for additional rulemaking in this area. Thus, the Commission's own efforts might ultimately obviate the need for the DOL to propagate its own rule.

Primerica strongly encourages meaningful and significant cooperation and communication between the Commission and the DOL. We do recognize that the two agencies act under the authority of different laws. However, Main Street Americans cannot afford to have two conflicting sets of rules governing the one conversation they have with a BD.

VIII. CONCLUSION

Primerica supports the Commissions' efforts to pursue enhanced investor protections that remain business model neutral and carefully avoid "pricing out" middle-income America from investment services. Because each business model is tailored to offer the best products and services available for a specific part of the market, any rulemaking that significantly alters one of these business models would result in limiting consumer access to services and investment and savings opportunities.

Primerica believes that any existing conflicts of interest within the marketplace can be mitigated. In particular, we support a disclosure-based standard that enhances investor protection and promotes a robust marketplace in which retail investors will continue to have meaningful choice in how they access investment education and guidance.

We appreciate the opportunity to share our concerns about the potential impact of an overly restrictive standard, as well as our thoughts regarding specific issues contained in the Request.

Very Truly Yours,

William A. Kelly
President & CEO, PFS Investments Inc.
[redacted]

Mutual Funds Offered by PFSI

With the large number of mutual funds available in the marketplace today, PFSI believes that it can better service its clients by focusing the firm and our representatives on a smaller group of fund families that offer a wide selection of top-quality funds. We call this group of fund families our Select Group and we allow them greater access to our representatives to provide training, marketing support and educational presentations. Likewise, Select Group funds are the only fund families PFSI promotes to its representatives. Fund families may be chosen to be in the Select Group for any number of reasons including popularity among our representatives and clients, strength of fund offerings in a particular category, marketing support made available to our representatives, revenue sharing payments to the firm, or an agreement to obtain transfer agent or other services from Primerica Shareholder Services ("PSS"), an affiliate of PFSI. While our representatives are free to sell funds from other fund families offered by the firm, the relationship PFSI maintains with the Select Group funds will influence our representatives to sell these funds. For a list of the fund families in the Select Group please visit our Web site at www.shareholder.primerica.com. From time to time, the firm has promotional opportunities which cannot accommodate participation by all members of the Select Group. The firm offers these opportunities to members of the Select Group based on total assets under management, year-to-date fund sales or other criteria.

How PFSI and Your Representative are Compensated When You Buy a Mutual Fund

PFSI and your representative receive compensation when you invest in a mutual fund. The amount of the compensation depends upon the fund purchased, the amount invested and the share class selected. Generally, Class A shares charge an up-front sales charge and part of this amount is paid to PFSI and your representative as compensation. Class B and C shares do not charge an up-front sales charge, but PFSI and your representative earn compensation at the time of the sale. This charge is passed on to you through the higher annual fees and/or CDSC associated with these shares. In addition, with your purchase of Class A, Class B or Class C shares, PFSI and your representative receive smaller periodic payments called "trails" as long as you retain the shares you purchased. PFSI representatives participate in award and incentive programs in which they may receive trips or other non-cash compensation based on their securities sales. As of December 1, 2007, PFSI pays the commission to its representatives on the sale of Legg Mason B shares and, in turn, PFSI receives (i) any contingent deferred sales charges incurred by PFSI customers on the redemption of B shares in Legg Mason funds, and (ii) the services and distribution fee assessed by Legg Mason on B shares held by PFSI customers. This arrangement may result in PFSI earning more compensation on the sale of B shares in Legg Mason funds than on the sale of B shares in any other fund company. Neither your representative nor his or her supervisor, however, receives any portion of this additional compensation. Also, PFSI receives other compensation for providing custodial services to certain retirement plan customers that invest in Invesco, Legg Mason or Pioneer funds. PFSI receives additional payments as explained below.

Revenue Sharing from Mutual Fund Families

PFS Investments Inc. ("PFSI") endeavors to collect a mutual fund support fee, or what has come to be called a revenue sharing payment, from the fund families we offer to the public. These revenue sharing payments are paid out of the investment adviser's or other fund affiliate's assets and not from the fund's assets. The assets of the investment adviser or other fund affiliate, however, may be in part derived from services provided to the fund and paid for out of the fund's assets. It is important to note that neither our representatives, nor their supervisors, receive any portion of these payments. We expect the revenue sharing arrangements resulting in the largest payments to PFSI to require the following: (i) a one-time payment of up to .25 percent (25 basis points) of an investor's purchase amount and (ii) a quarterly payment of up to .0175 percent (1.75 basis points) for as long as the fund family retains the investor's assets. For example, on an investment of $10,000, (none of which is invested in the money market fund discussed below), the maximum revenue sharing payment PFSI would receive would be a one-time payment of $25 and $1.75 for each calendar quarter that the fund retains the assets. These revenue sharing arrangements will vary and some fund-family affiliates may pay less.

Separately, PFSI may receive additional revenue sharing on investments in the following Legg Mason funds: Western Asset Liquid Reserves and Western Asset Tax-free Reserves. Though the revenue sharing arrangements with these funds vary, the maximum revenue sharing payment PFSI could receive is .0435 percent (4.35 basis points) per quarter. Accordingly on an investment of $10,000, PFSI could receive a maximum payment of $4.35 for each quarter that the fund retains the assets. PFSI may receive less depending on which fund holds the assets and other factors determined by the investment advisor to the fund.

For a list of participating fund families and other important information, please go to www.shareholder.primerica.com and click on "Revenue Sharing." All revenue sharing arrangements are subject to change at any time. For more information, please refer to a fund's description of its revenue sharing practices, usually included in its prospectus or Statement of Additional Information.

Other Payments From Mutual Fund Families

PFSI may be reimbursed by any of the fund families we offer (or their affiliates) for expenses incurred for various meetings, seminars, and conferences held in the normal course of business or other promotional activities. An affiliate of PFSI, PSS provides transfer agent or other shareholder services, to Invesco, Legg Mason, American Century and Pioneer funds, for the benefit of PFSI's customers and is compensated for these services. At any time, PSS may provide similar services to other fund families offered by PFSI.

Brokerage Services Provided By PFSI

PFSI is a registered broker-dealer that offers mutual funds, variable annuities and college savings plans. PFSI and its registered representatives may utilize financial tools in providing advice in connection with these brokerage services. PFSI and its representatives do not offer "financial planning services," hold themselves out as "financial planners," create or deliver "financial plans," or provide tax or legal advice.

Before investing, carefully consider a fund's investment objective, risks, fees, charges and expenses. For a Prospectus or Summary Prospectus containing this and other information, contact your PFSI representative or go to the fund company's website. Please read and consider the Prospectus carefully before you invest.

This brochure is updated periodically. The most recent version is available on our website at www.shareholder.primerica.com. To obtain a Statement of Additional Information for any mutual fund, please contact the fund company or go to its website.

FINRA BrokerCheck is a free tool to help investors check the background of FINRA-registered securities firms and representatives. For questions regarding BrokerCheck, or to obtain a free investor brochure, please call toll-free (800) 289-9999 or go to FINRA's website at www.finra.org.

Investments in mutual funds are not FDIC insured or bank-guaranteed and may lose value.

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PFS Investments Inc.
Member FINRA

Important Information About Your Mutual Fund Investment

This document contains important information about your mutual fund investment, including an explanation of the costs associated with investing in mutual funds, suggestions on how to reduce those costs and other valuable infor mation. We hope you will take the time to read it carefully. Each mutual fund is different from the next, and the investment features, opportunities and expenses vary from fund to fund. You should read the prospectus carefully and discuss your investment goals and objectives with your PFS Investments ("PFSI") representative. An informed investor has a much greater chance of success and we are committed to your success. PFSI is the reg istered broker-dealer within the Primerica group of companies through which securities are offered.

PRIMERICA®

The Costs Associated with Investing in Mutual Funds

Before investing in mutual funds, it is important that you understand the fees and expenses that you will be charged. All mutual funds have fees and expenses. These costs are important because they affect the return on your investment. Generally, for the mutual funds offered by PFS Investments Inc. ("PFSI"), the fees fall into two categories: sales charges and annual expenses. Annual expenses include management fees, distribution and service (12b-1) fees, the cost of shareholder mailings and other fund operating expenses. These fees are disclosed in the fee table found in the front of a fund's prospectus.

Most mutual funds offer different pricing arrangements, or different "classes" of shares, to meet the needs of different investors. Share classes represent ownership in the same mutual fund but offer investors a choice in how to pay for the fund. For example, many funds offer Class A, Class B and Class C shares. The different pricing arrangements for these shares are explained below.

Class A Shares

Class A shares generally have a front-end sales charge and lower annual expenses. If, for example, you have $10,000 to invest in a fund and the front-end sales charge is 5%, you would be charged $500, and the remaining $9,500 would be invested in the fund.

Typically, Class A shares allow discounts to the sales charge for larger investments. These discounts, known as "breakpoints," help to reduce the overall cost of investing. Each prospectus contains a "breakpoint" schedule that indicates the sales charge based on the amount invested. For example, a fund might charge a sales charge of 5.75% for purchases under $50,000, reduce the charge to 4.75% for purchases of $50,000 or more but less than $100,000, and further reduce the charge at still larger amounts. You may be able to qualify for a breakpoint on the basis of a single purchase, or by aggregating multiple purchases by using "Rights of Accumulation" or a "Letter of Intent," which are explained below.

Rights of Accumulation — Most mutual funds allow investors to add the value of previous purchases of Class A shares within the same fund family, to the value of the current A share purchase, to qualify for breakpoint discounts. Also, many mutual funds allow investors to add the value of previous purchases of Class B shares to a current purchase of Class A shares to achieve a breakpoint. In either case, previous purchases may include purchases in accounts you hold or in accounts held by certain of your relatives, such as spouses or children. Each mutual fund family is different; you should consult with your PFSI representative and review the mutual fund's prospectus or Statement of Additional Information to determine what the rules are. Finally, if you wish to rely upon investments in accounts of related persons to qualify for a breakpoint discount, you must advise your representative of those accounts.

Letters of Intent — Many mutual funds allow investors to qualify for breakpoint discounts by electing or signing a Letter of Intent, which commits the investor to purchasing a specified amount of Class A shares within the next 13 months. For example, if an investor plans to purchase $50,000 of Class A shares over the next 13 months in multiple transactions, electing a Letter of Intent would allow the investor to receive the $50,000 breakpoint on all of the individual purchases made in that period. Additionally, some funds offer retroactive Letters of Intent that allow recent purchases to count towards achieving a breakpoint. If an investor fails to invest the amount required by a Letter of Intent, at the end of the 13 months the fund is entitled to collect sales charges based upon the amount actually invested, which may be done by selling shares in the account. If you intend to make multiple purchases within a 13-month period, you should consult your PFSI Representative and the mutual fund prospectus to determine if it would be beneficial for you to elect a Letter of Intent.

As you can see, understanding the availability of breakpoint discounts is important because it may allow you to purchase Class A shares at a lower price, which may affect your decision on which share class to buy. If you wish to learn more about mutual fund breakpoints, you should review the investor alert "Mutual Fund Breakpoints: A Break Worth Taking" on FINRA's Web site (www.finra.org).

Class B Shares

Investments in Class B shares are not subject to a front-end sales charge. Instead, purchasers of Class B shares are normally required to pay a back-end sales charge or contingent-deferred sales charge (CDSC) if they sell shares during a specified time period (typically five or six years). Generally, the CDSC is assessed on the lesser of the market value of the shares sold or the historical cost of the shares. For example, suppose you invest $10,000 in Class B shares of a fund. Because there is no front-end sales charge, all of your money is invested. Assume your account grows to $11,000 in the second year and you redeem the entire account. If the fund charges a 4% CDSC against withdrawals in the second year, you would be charged a CDSC of $400 (4% x $10,000) and receive proceeds of $10,600. In addition to the CDSC, Class B shares are generally subject to higher annual expenses than Class A shares. For these reasons, Class B shares are not, and should not be viewed as, "no-load" shares.

The CDSC associated with an investment in Class B shares declines over time, and is eliminated entirely at the end of the designated holding period (typically five or six years). At some point after the expiration of the holding period, Class B shares typically "convert" into Class A shares to obtain the lower annual fees associated with Class A shares. Before buying a Class B share, make sure you check the prospectus to determine how long you will have to hold the shares before they convert to A shares.

Although investments in Class B shares usually do not require payment of a front-end sales charge, it is important to bear in mind that

Class B shares can cost you more over time than Class A shares, due to the CDSC and the higher annual fees. This is especially true for larger investments that are eligible for greater breakpoint discounts allowed by Class A shares. If you intend to invest in Class B shares, you should discuss with your PFSI representative whether an investment in Class A shares might be more beneficial to you, considering the availability of breakpoints, Rights of Accumulation, Letters of Intent and the lower annual fees. Also, if you have an existing B share investment, at some point it may be beneficial for you to place your additional contributions into A shares, if your mutual fund family allows Class B share holdings to count towards Class A share breakpoints.

While there can be benefits to owning Class B shares, Class A shares tend to be more appropriate for large, longer-term investments due to their lower annual expenses and breakpoint discounts. PFSI does not accept purchases of Class B shares in amounts of $100,000 or more. In addition, the firm has set lower individual purchase limits on certain funds. For more information, please consult your PFSI representative.

Class C Shares

Class C Shares, like Class B shares, have no front-end sales charge and have higher annual expenses than Class A shares. Generally, there is no CDSC unless the shares are sold within the first twelve months. Unlike Class B shares, Class C shares never convert to Class A shares and therefore are more appropriate for shorter-term investors. PFSI offers Class C shares only in certain accounts where Class A shares are unavailable.

Some of the information herein has been adapted from FINRA's Investor Alert titled "Class B Mutual Fund Shares: Do They Make the Grade." We invite our clients to review this Alert and to examine other important information on FINRA's Web site **(www.finra.org)**. In particular, FINRA provides a mutual fund expense calculator to assist investors in determining which share class in a fund family offers the least expensive fee structure.

Opportunities To Reduce The Cost of Your Mutual Fund Investment

Here are several steps that you can take to make sure you are paying the lowest possible sales charge for a mutual-fund investment:

Understand how breakpoints work.

Read the fund's prospectus and Statement of Additional Information. Check the fund's website for information about sales charges and other costs of owning the fund.

Review your mutual fund holdings.

Before purchasing a mutual fund, review your account statements and those of your family members to identify opportunities to achieve sales charge discounts through Letters of

Intent and Rights of Accumulation. Remember, most mutual funds allow you to aggregate holdings in different accounts, different share classes and holdings by certain family members to achieve sales charge discounts.

Keep your PFSI representative informed.

Be sure to tell your PFSI representative about all of your mutual fund investments and those of your family. Also, discuss any plans you may have for making additional purchases in the future, such as rolling-over an IRA or starting a college fund. Discuss with your PFSI representative your expected investment time horizons. With this information, your PFSI representative can help you select a share class that minimizes the fees that you will pay over the life of your investment.

Investing In Multiple Fund Families

Some investors choose to invest in multiple fund families to obtain additional diversification or to access the higher rated funds offered by the different fund families. Note that this investment strategy may increase the cost of investing in mutual funds by reducing the opportunities to achieve breakpoint discounts. Also, there is no guarantee that a multi-family investment strategy will provide significant additional diversification or outperform a single-family strategy.

Past Performance of a Mutual Fund is No Guarantee of Future Results

Keep in mind, investing in mutual funds involves certain risks. Investment returns and principal value will fluctuate, so that an investor's shares, when redeemed, may be worth more or less than their original cost. Generally, investments offering the potential of high returns are accompanied by a higher degree of risk. Investments in small-cap and mid-cap companies involve greater risks and volatility than investments in large-cap companies. Investing in mutual funds that purchase foreign securities is subject to risks not associated with domestic investing, such as currency fluctuations and changes in political and economic conditions. In addition to the normal risks associated with equity investing, more narrowly focused investments typically exhibit higher volatility than investments that diversify across many sectors and companies. High-yield bonds are rated below investment-grade and involve more risk than higher-rated securities. These and other risks associated with investing in mutual funds are described in the fund's prospectus, which should be read carefully before investing.

Guaranteed Minimum Accumulation Benefit - guarantees that your contract value will be a minimum amount after a fixed number of years regardless of investment performance.

Many variable annuities offer more than one guaranteed income option. When considering whether to elect a particular guaranteed income option, be sure that you understand the additional cost associated with the option, which will serve to reduce the product's investment returns. Most guaranteed income options are subject to restrictions on withdrawals, which will be fully explained in the contract prospectus. If you violate the withdrawal restriction by withdrawing too much money in any contract year, the guarantee is generally reduced or, in some instances, altogether eliminated. When used appropriately, withdrawal guarantees provide unique opportunities for retirement planning. The guarantees are backed by the issuing insurance company and are subject to the insurance company's claims paying ability.

Multiple Investment Options

Many deferred variable annuities offer multiple investment options that are managed by different investment advisers. As the need arises or your investment objectives change, variable annuities generally allow you to switch your money between these various investment options without incurring income taxes or additional sales charges. Avoiding sales charges and deferring taxes until gains are withdrawn from the variable annuity are important benefits. The longer you hold the variable annuity and the more you avail yourself of the different investment options, the more valuable these benefits will be to you. We recommend that you take the time to review the investment options offered by the variable annuity you are considering and discuss them with your representative. Make sure the variable annuity offers investment choices you may need in a long-term investment vehicle.

Automatic Portfolio Rebalancing

When discussing your investments, you and your representative should select an investment allocation that balances your investment goals with your risk tolerance. Over time, market fluctuations and investment results can cause the investment allocation to change from the mix that you originally intended. This may increase your investment risk. Some deferred variable annuities provide a rebalancing option that will automatically (quarterly, semi-annually, or annually) realign your investment to your original allocation. (Please note that as you grow older or your life circumstances change, your investment objectives may change. Therefore, we recommend that you periodically review your investment allocation to make sure that it remains consistent with your changing objectives.)

Differences in Costs of Variable Annuities vs. Mutual Funds

Variable annuities generally have expenses associated with the death benefits and optional living benefits (both are described more fully above) which mutual funds do not have since they do not offer such benefits. The exact expenses and sales charges for each product are described in their respective prospectuses. You should carefully review the benefits of the products and decide whether you consider them to be worth the additional cost given your financial situation and goals. As with any investment, it is important that you understand the fees and expenses as they will reduce the overall return you obtain from the product. The higher the fees and expenses, the more they will reduce your returns. For example, suppose you invest in a variable annuity that returns 9% before expenses in the first year. If the total expenses of the product equal 2.6% annually, then your net return for the first year would be 6.4%. Generally, the annual fees and expenses assessed by variable annuities include fixed charges for the base product with standard features and additional charges for any optional features chosen. Typically, the fixed charges for the base product include: (i) a mortality and expense risk charge, (ii) an administrative charge, (iii) the charge assessed by an investment portfolio on the money it manages, and (iv) an annual contract charge. Additional charges for optional benefits may include a charge for an enhanced death benefit feature and a charge for an optional living benefit (guaranteed income benefit or guaranteed withdrawal feature).

Early Retirement and 72(t) or (q) Withdrawals

Some people desire to retire early and live off their savings and investments. If you plan to retire prior to reaching age 59 ½, you need to understand that withdrawals from a variable annuity prior to age 59 ½ are subject to a 10% I.R.S. early withdrawal penalty. The penalty equals 10% of the earnings withdrawn from the account. This penalty can be avoided, however, by opting to participate in a 72(q) or (t) program. Internal Revenue Code Sec. 72(q) (non-qualified variable annuities) and 72(t) (qualified accounts such as IRAs) permit penalty-free withdrawals if the withdrawals follow one of three IRS formulas for "substantially equal periodic payments." Upon request, your product issuer should provide you with the allowable payment amount under each approved method. It is very important to understand that once you elect a 72(t) or (q) program, you are committed to continuing the withdrawals for the longer period of 5 years or until you reach age 59 ½. Generally, if you alter the withdrawal schedule by taking more or less money, then all of the withdrawals taken under the program become subject to the 10% early withdrawal penalty.

While a 72(t) or (q) program is beneficial for many early retirees, there are instances in which locking into such a program may not be in your best interest. If you are younger than 50, then having to commit to a particular withdrawal amount for ten years or more may be unreasonable. If you are nearly age 59 ½, remember that the periodic withdrawals must be continued for the **longer of 5 years or to age 59 ½.** Beginning withdrawals at age 58 would mean that the withdrawals could not be altered for five years or until you reach age 63. Finally, before starting a 72(t) or (q) program, talk to your tax adviser and note the following:

- The IRS's calculation of allowable 72(t) or (q) withdrawals in no way guarantees that the assets in the account will last the entire period of the withdrawals.
- Just because the IRS dictates that you must withdraw a certain amount, does not mean that you have to spend that amount. If you are concerned about outliving your money, than you might consider living on less than the allowable withdrawals and saving the remainder.

Before You Decide to Buy a Deferred Variable Annuity, Make Sure You Can Answer "Yes" to the Following Questions

- Do you plan to use the variable annuity primarily to save for retirement or a similar long-term goal?
- Do you have other funds to cover planned expenses, and emergency funds to cover unexpected expenses? (Withdrawing funds from a variable annuity may cause you to incur withdrawal charges.)
- Do you understand how the withdrawal charge works and how to avoid the withdrawal charge?
- Are you interested in one of the distinct features that a variable annuity offers, such as the death benefit, living benefit, automatic portfolio rebalancing, annuitization or the ability to transfer among different investment options without incurring additional charges?
- If you are investing in a variable annuity through a tax-advantaged retirement plan, such as an IRA, do you understand that you are not receiving any additional tax-deferral benefit from the variable annuity?
- Do you understand the fees and expenses of the variable annuity?

- Do you understand that your account value may decrease if the underlying investment options perform poorly?

Exchanging one Variable Annuity to purchase another

New deferred variable annuity products are frequently introduced and may contain improved or previously unavailable features and/or lower expenses and fees. Many people consider exchanging their deferred variable annuity for a new one with more options and features. Before you exchange your existing variable annuity, you should consider the following points:

- If you terminate your existing contract, will you incur a surrender or withdrawal charge? If so, how much?
- Are the features offered by the new variable annuity, which are not offered by your existing variable annuity, worth the additional expense (if any)?
- Have you considered the impact on your liquidity that will result from a new withdrawal charge period?
- Will you lose some of your death benefit by exchanging contracts?

Section 1035 of the Internal Revenue Code allows for the direct exchange of an annuity or life insurance contract for another annuity without tax consequences. If you are considering exchanging your variable annuity or terminating a whole-life insurance policy, you may be able to benefit from Section 1035. Talk to your Registered Representative and speak with your tax adviser.

For More Information

Before purchasing a deferred variable annuity, you owe it to yourself to learn as much as possible about how they work, the benefits they provide, and the charges you will pay. For more information, contact your PFSI registered representative or review the following information on the web: *"Variable Annuities: What You Should Know,"* which is on the SEC's website at **www.sec.gov/investor/pubs/varannty.htm**; and these FINRA Investor Alerts, "Variable Annuities: Beyond the Hard Sell," and "Should You Exchange Your Variable Annuity," both of which may be found on FINRA's website at **www.finra.org.** You may also write to the SEC at the following address:

Office of Investor Education and Advocacy
U.S. Securities and Exchange Commission
100 F Street, N.E., Washington, D. C. 20549-0213
Fax: (202) 772-9295

Variable annuities are subject to market risk, including the possible loss of principal. Variable annuities are sold by prospectus only. The contract prospectus contains information about the contract's features, risks, charges and expenses. The investment objectives, risks, and policies of the investment options are described in their relevant prospectuses. Please read and consider the prospectuses carefully before investing or sending money. Please consult your Registered Representative for a contract prospectus and for prospectuses for the investment portfolios.

Investments in annuities are not FDIC insured or bank-guaranteed and may lose value.

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PFS Investments Inc.
Member of FINRA

Understanding Deferred Variable Annuities

This brochure contains general information about deferred variable annuities, and is intended solely to help you understand the features they offer. We hope that you will find this information helpful. When considering an investment in a particular variable annuity, make sure that you have all the information you will need. The contract prospectus contains information about the contract's features, risks, charges and expenses. The investment objectives, risks, and policies of the investment options are described in their respective prospectuses. Please read and consider the prospectuses carefully before investing. PFS Investments Inc. ("PFSI") believes that an informed investor has a much greater chance of success and we are committed to your success. PFSI, a subsidiary of Primerica, Inc. is the registered broker-dealer through which deferred variable annuities and other securities are offered.

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What Is a Deferred Variable Annuity?

In general, a variable annuity is a contract between an investor and an insurance company whereby the insurance company promises to make periodic payments to the owner or beneficiary, starting immediately (an immediate variable annuity) or at some future time (a deferred variable annuity). Moreover, a deferred variable annuity allows you to save and invest in the various professionally-managed options offered within the variable annuity. Generally, these investment options work like mutual funds and invest in stocks, bonds and other securities that offer the opportunity for higher returns than fixed interest rate investments. As with mutual funds, these investment options are subject to market risk, including the possible loss of principal. In addition deferred variable annuities offer various features and benefits that are not offered by mutual funds. There are charges for these additional features and benefits, and that is why deferred variable annuities generally have higher costs than mutual funds. When deciding whether to purchase a deferred variable annuity, you must decide whether these features and benefits are worth the additional fees. This brochure deals with only deferred variable annuities, though they may be identified from time-to-time as simply "variable annuities."

A deferred variable annuity is a longer-term investment designed for saving for retirement or other long-term goal. A primary benefit of a variable annuity is that it allows your money to grow on a tax-deferred basis. In other words, you are not taxed on investment earnings until you withdraw them from the contract. This allows the money that otherwise might have been withdrawn to pay taxes to remain invested and continue to grow and compound. This benefit of tax-deferred growth, however, comes with the penalty on early withdrawals. If you withdraw money from a variable annuity before reaching age 59½, you may be subject to an "early withdrawal penalty" imposed by the IRS. The penalty equals 10% of the investment earnings withdrawn from the account. Also, earnings withdrawn from a variable annuity are taxed at ordinary income rates and are not eligible for the lower rates associated with capital gains tax treatment. Lastly, when the owner of a variable annuity dies, the beneficiary is taxed on all appreciation or earnings that remain in the account. This is different than investments held in a taxable account which receive a basis that is stepped-up to the market value on the date of the owner's death, thereby avoiding any additional income tax on untaxed appreciation in the account.

The higher your federal income tax bracket, the greater the potential benefit you could receive from the tax-deferral feature of a variable annuity. Many experts agree, however, that you should maximize your deductible contributions to tax-advantaged retirement accounts (such as a 401(k) or IRA), before investing in a variable annuity to obtain tax-deferred growth.

Annuities in Tax-Advantaged Retirement Accounts

Many people consider investing in a variable annuity within a tax-advantaged retirement plan (such as an IRA, 403(b), SEP or Keogh). When considering the purchase of a variable annuity within a tax-advantaged retirement plan, you need to understand that money in a tax-advantaged retirement plan is already tax-deferred, and therefore, the tax-deferral feature of a variable annuity will be of no benefit to you. The decision to purchase a variable annuity within a tax-advantaged retirement plan must be based on the other features and benefits of the variable annuity, not the tax-deferral feature. Likewise, the taxation of withdrawals from a tax-advantaged retirement plan depends upon the tax rules that govern the plan, not the variable annuity or other investment within the plan.

"Free Look" Period

Deferred variable annuities allow a "free look" period during which you can cancel the contract without paying withdrawal charges. The "free look" period begins when you receive the contract and its length will vary depending on the product and state-specific requirements. A "free look" period of ten (10) days is common, but you should review the contract prospectus to determine the "free look" period for the product you are considering. You should use the "free look" period to review the features and costs of your variable annuity and confirm that the product is consistent with your investment goals. Should you desire to cancel the contract during the "free look" period, you should follow the instructions in the contract prospectus. Your refund may be more or less than your investment (or "purchase payment") depending upon the performance of the investment options or sub accounts you chose, unless your state requires the refund of the amount invested.

Withdrawal Charge

Most deferred variable annuities do not assess up-front sales charges. They do, however, usually assess a charge on the withdrawal of purchase payments during the withdrawal charge period, which is a period of time after a purchase payment is made. The withdrawal charge period is usually eight or nine years, but differs from product to product. The charge is usually higher in the earlier years, lower in the later years and is eliminated when the withdrawal charge period ends. A new withdrawal charge period will apply to each purchase payment made. For example, a withdrawal charge period will apply to your initial investment and if you make a subsequent investment five years later, a new withdrawal charge period will apply to the subsequent investment. It is important that you understand how the withdrawal charge works for any variable annuity you are considering. Consult the contract prospectus for the amount of the withdrawal charge and the length of the withdrawal charge period. To get the most out of a variable annuity you should do your best to avoid withdrawal charges, which means you should have other funds available to you in the event of an emergency or unexpected expense. Before buying a variable annuity, consider your liquidity needs.

Some deferred variable annuities provide ways to withdraw limited amounts during the withdrawal charge period without incurring the withdrawal charge. For example, a variable annuity may allow the withdrawal of a certain percentage of the account during each contract year without assessing a withdrawal charge. Also, a variable annuity may waive the withdrawal charge in some circumstances, such as, allowing investment earnings or IRS-required minimum distributions from a qualified contract to be withdrawn free of charge. Please see the contract prospectus for the product you are considering for the details about the withdrawal charge and free withdrawal opportunities.

Before investing in a variable annuity, it is important to understand how the withdrawal charge works. Because of the withdrawal charge and the IRS penalty on early withdrawals, a variable annuity is not suitable for individuals with short-term investment goals. In fact, PFS Investments will not accept the purchase of a variable annuity when an investor's withdrawal plans (as disclosed at the time of purchase) will cause the investor to incur a withdrawal charge.

To better understand how the withdrawal charge works, let's look at a hypothetical example of a $10,000 investment based on the following withdrawal charge schedule.

Number of Complete Years From Receipt of Purchase Payment →	0	1	2	3	4	5	6	7	8 or more
Withdrawal Charge (% of Purchase Payment) →	8	8	7	7	6	5	4	3	0

Let's assume that 3 months into the fourth contract year, the account

has earned $1,000, and there have been no additional investments or withdrawals. Now, the owner has an unexpected expense and submits a withdrawal request for $3,000. Assume the prospectus states that amounts are withdrawn in the following order: (i) earnings, (ii) a Free Withdrawal Amount of 10% per year, and (iii) purchase payments not previously withdrawn, on a first-in, first-out basis. Pursuant to the prospectus, the $1,000 of earnings would come out first, free of withdrawal charges. Next would be the Free Withdrawal Amount which is 10% of the purchase payments not previously withdrawn. In this example, 10% of $10,000 is $1,000. So far, the owner is able to withdraw $2,000 without incurring a withdrawal charge, but he still needs another $1,000. The last $1,000 would come from purchase payments not previously withdrawn and would incur a withdrawal charge. Withdrawal charges are assessed based upon the number of complete years in the contract. For purchase payments that have been in the contract for 3 complete years the withdrawal charge is 7% (see the schedule above). The last $1,000 the owner needs would be subject to a withdrawal charge of $70 (7% x $1,000). To summarize, the insurance company would send the owner a check for $3,000, but the account would show a deduction of $3,070, which includes the withdrawal charge. The earnings withdrawn from the contract ($1,000) would be taxable income to the owner and, if under age 59 1/2, the owner may incur the 10% early withdrawal penalty ($100). Finally, note that this owner has exhausted the Free Withdrawal Amount for the year and won't be eligible for an additional Free Withdrawal Amount until the first day of the next contract year.

Death Benefits

A common feature of a deferred variable annuity is a death benefit. In today's marketplace, most variable annuities offer a standard death benefit that comes free of additional charges, and optional enhanced death benefits that provide additional protection for an additional fee. The following examples illustrate two of the more common death benefit options.

Principal Protection: A principal protection benefit is a standard feature in most deferred variable annuities. A typical principal protection death benefit might provide that upon your death your beneficiaries would receive the greater of (i) the actual value of your contract, or (ii) your total contributions less any withdrawals. Note that your beneficiaries would be guaranteed to receive at least the total of your contributions less any withdrawals, and therefore, would be protected against losses to your investment at the time of your death. For example, assume you had invested $10,000 in a deferred variable annuity with a principal protection death benefit, had taken no withdrawals, and had died at a time when your account was worth only $8,000. Pursuant to the death benefit, the insurance company would contribute $2,000 to the $8,000 account value, and your beneficiaries would receive a total of $10,000.

Annual Step-Up: Some deferred variable annuities may offer an optional death benefit that offers enhanced protection for an additional fee. For example, an optional death benefit might provide that upon your death your beneficiaries would receive the greater of (i) the actual value of the contract, (ii) your total contributions less withdrawals, or (iii) the highest value the contract had attained on any contract anniversary (i.e. the stepped-up value), adjusted for withdrawals. For example, suppose that you had invested $10,000 in the contract, which grew to a value of $12,000 on the first anniversary. The value of this death benefit would have "stepped up" from $10,000 to $12,000, to protect the investment gains. Assume further that the financial markets declined in the following year and that you died when the actual value of your investment was only $8,000. Pursuant to this death benefit, assuming you had taken no withdrawals, the insurance company would contribute $4,000 to your existing $8,000 and your beneficiaries would receive a total of $12,000 – the "stepped up" value of the death benefit.

Finally, know that most death benefits, or certain of their features, terminate when the contract owner reaches a certain age. You should keep this in mind when you are evaluating particular variable annuity products. These age limitations should be explained in the contract prospectus.

Annuity Payment Options

All deferred variable annuities provide annuity payment options. Electing an annuity payment option means that you transfer some or all of your assets in the variable annuity to the insurance company in exchange for a guaranteed stream of payments. The size of the payments and the length of time you receive them depend upon several factors, including the amount of assets you choose to pay to the insurance company or "annuitize," the type of payment option you elect, and your age at the time you make the election. Deferred variable annuities generally offer several annuity payment options. The following are examples of common annuity payout options.

- *Life Annuity* – guarantees that you will receive payments for as long as you live. Upon your death, however, no additional payments are made to your beneficiaries. Generally, among the various annuity options, a life annuity provides the largest payments.
- *Life Annuity With 10 Years Guaranteed* – guarantees that you will receive payments for as long as you live. Should you die before receiving payments for at least 10 years, the insurance company will make the payments to your beneficiaries for the remainder of the 10 year period.
- *Joint and Last Survivor Annuity* – The insurance company will make payments as long as either the annuitant or the joint annuitant are alive.

These are only a few of the payment options that are generally available. Consult the contract prospectus of the product you are considering to determine the options it offers. As people live longer lives, annuity payments can help guard against outliving your money and represent a valuable retirement planning option.

Optional Living Benefits

Some deferred variable annuities offer optional living benefits for an additional cost that provide guaranteed income during the life of the owner. Contrary to annuitization, electing a living benefit does not require you to give up control of your account value to receive the benefit payments. Some common living benefit options are described below.

Guaranteed Minimum Withdrawal Benefit - generally guarantees the owner the ability to withdraw a fixed percentage of the initial investment every year for a set number of years. As long as no more than the designated amount is withdrawn each year, the owner is guaranteed to receive in total withdrawals the amount of the initial investment, even if the actual investment value declines due to poor market performance. For example, suppose a GMWB allows withdrawals of 5% per year for 20 years, and the initial investment is $100,000. In this case, the GMWB would guarantee income of $5,000 per year for 20 years (20 x $5,000 = $100,000) regardless of the account value. Of course, if the value of the account increases, you would have the benefit of the investment gains as well.

Lifetime Guaranteed Minimum Withdrawal Benefit – guarantees an annual withdrawal of a fixed percentage of the investment for the life of the owner, even if the actual investment value declines due to poor market performance. For example, suppose the LGWB permits an annual withdrawal of 5% and the investment is $500,000. In this case, the owner could withdraw $25,000 per year for life regardless of the actual value of the investment. The LGWB helps to provide assurance that the owner will not "outlive" her money.