

MEMORANDUM

TO: File Nos. S7-07-18, S7-08-18, S7-09-18

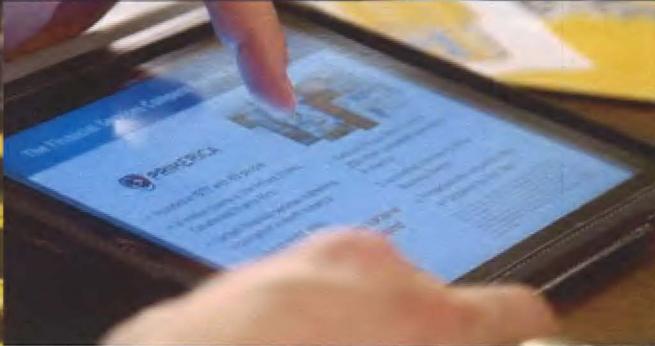
FROM: Lourdes Gonzalez, Assistant Chief Counsel, Division of Trading and Markets

RE: Meeting with Representatives of Primerica

DATE: May 10, 2018

On Monday, April 30, 2018 representatives of the Securities and Exchange Commission (“SEC”) participated in a meeting with representatives of Primerica. The SEC representatives were Roni Bergoffen, Lourdes Gonzalez, Brett Redfearn, and Emily Westerberg Russell from the Division of Trading and Markets. The Primerica representatives present were: Peter W. Schneider, President; Karen L. Sukin, EVP & Deputy General Counsel; and, Greg W. Thomas, Senior Vice President, Federal Government Relations.

The participants discussed, among other things, the SEC’s proposed rules and interpretation relating to standards of conduct for investment professionals. The Primerica representatives also provided the attached power point.



PRIMERICA

SEC Meeting

CONFIDENTIAL

April 30, 2018

Attendees

Peter Schneider, President
Primerica, Inc.

Bill Kelly, CEO, Primerica
Financial Services, Inc.

Karen Sukin, General Counsel,
Primerica Financial Services, Inc.

Greg Thomas, Senior Vice
President, Primerica, Inc.

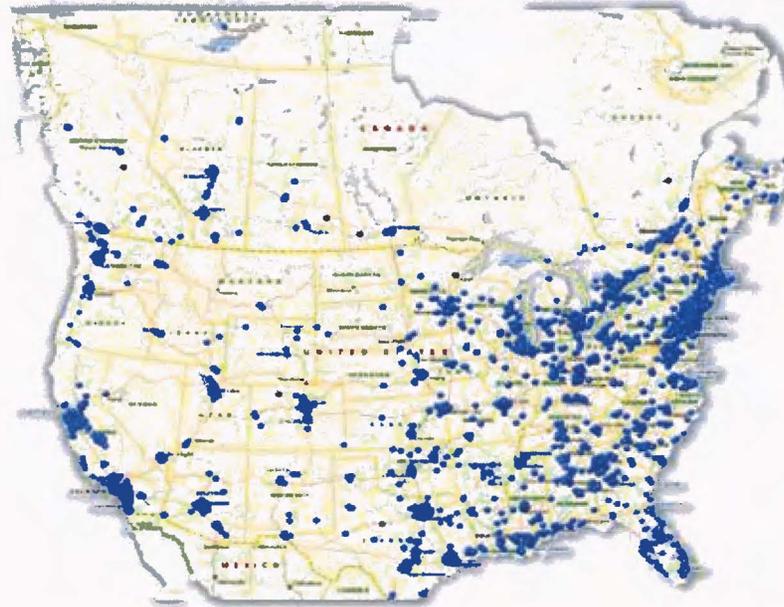
Agenda

- **About Primerica**
 - Our Impact
 - Our Approach
- **SEC Rule Proposal: Topics for Discussion**
 - Rights of Action
 - Financial Incentives
 - Impact on Offerings
 - “Best” Product
 - Client Inquiries
 - Recordkeeping
 - Investment Advisors

Who We Are

124,000 life insurance licensed representatives ⁽¹⁾

24,000 mutual fund licensed representatives ⁽¹⁾
(3,200 investment adviser representative)



\$757 billion of Term Life face amount in force ⁽¹⁾

~\$59 billion in client asset values ⁽¹⁾

● Approximately 5,000 Primerica Regional Vice President businesses in the U.S., Canada and Puerto Rico ⁽²⁾

Buy Term Life

Term Life Insurance Products

underwritten by Primerica, Inc. companies

5 million lives insured in 2016

1.2 billion death benefits paid in 2016

Invest the Difference

Investment & Savings Products

through third-party providers

Over 2 million investment accounts

1.3 million IRAs

1 As of September 30, 2017

2 As of December 31, 2016

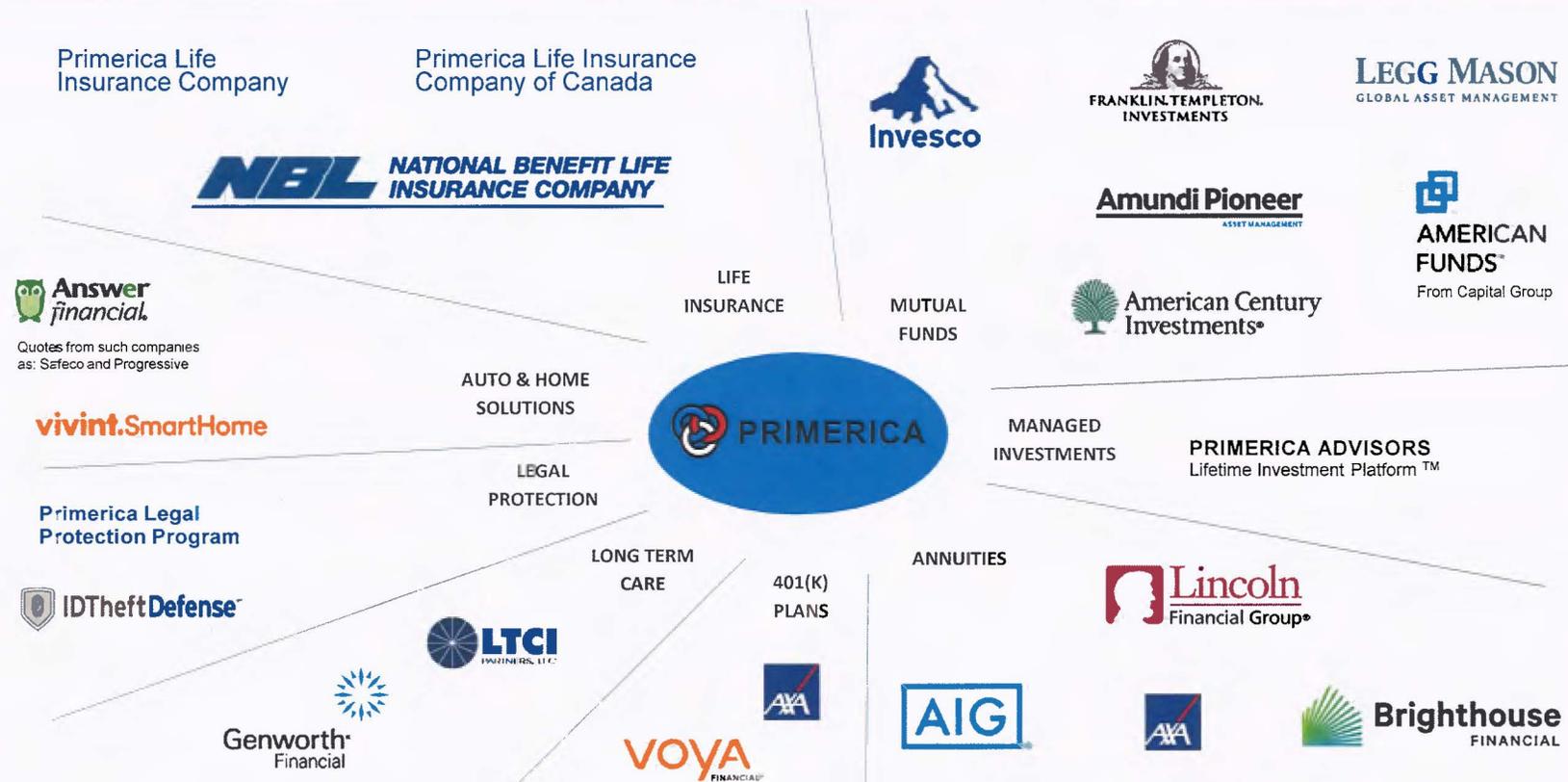
Primerica's Middle-Income Clients



Average household income ¹	\$67,200
Average face amount of term life policy ²	\$242,000
Average age of life insurance clients ²	37 years
Average initial retail mutual fund investment ²	\$10,300
Assets in qualified accounts ²	74%

1. Primerica Financial Need Analysis Clients
2. Full-year 2016

Product Offerings and Distribution



Not all products and services are available in all states, territories, or the District of Columbia. A representative's ability to offer products from the companies listed is subject to state and federal licensing and certification requirements. Please refer to the **Important Endnotes** for additional details about the contractual arrangements and company affiliations detailed above.

Important Endnotes

Auto and Home Insurance: In the U.S., offered through Primerica Secure™, a personal lines insurance referral program in which representatives may refer individuals to Answer Financial Inc., which offers insurance products and services through its licensed affiliates. Primerica, its representatives and the Primerica Secure program do not represent any of the insurers in the program. **Health Insurance:** In the U.S., health insurance is offered through Primerica Financial Services, Inc. by contractual arrangement with GoHealth, LLC. GoHealth, LLC provides a private online health insurance marketplace and a network of health insurance carriers offering health insurance products. **Legal Protection:** In the U.S., ID Theft Defense is offered by contractual agreement between Primerica Client Services, Inc. and Prepaid Legal Services, Inc. d/b/a LegalShield ("LegalShield"). ID Theft Defense is a product of LegalShield, and provides access to identity theft protection and restoration services through an exclusive relationship with Kroll, Inc. In the U.S., Primerica Legal Protection Program legal protection services are offered by LegalShield or applicable subsidiary, through contractual agreement between Primerica Client Services, Inc. and LegalShield. LegalShield provides access to legal services offered by a network of provider law firms to LegalShield members through membership-based participation. **Life Insurance:** Primerica representatives market term life insurance underwritten by National Benefit Life Insurance Company (Home Office: Long Island City, NY) in New York and Primerica Life Insurance Company (Executive Offices: Duluth, GA) in all other U.S. jurisdictions. **Long Term Care:** In the U.S., representatives may offer long term care insurance from Genworth Financial by contractual agreement among Primerica Financial Services, Inc., Genworth Life Insurance Company and Genworth Life Insurance Company of New York. A referral program in which representatives may refer individuals to LTCI Partners, LLC provides long term care insurance from these Genworth companies and other companies unaffiliated with Primerica. **Managed Investments:** PFS Investments Inc. is an SEC Registered Investment Adviser doing business as Primerica Advisors. For additional information about managed investments, please ask your Primerica representative for a copy of the Form ADV Part 2A wrap fee program brochure for each of the Freedom Portfolios and the Lifetime Investment Platform. **Mutual Funds, Variable Annuities and 401(k) Plans:** In the U.S., securities are offered through PFS Investments Inc., 1 Primerica Parkway, Duluth, Georgia 30099-0001. PFS Investments Inc. is a member of FINRA and SIPC. **Primerica DebtWatchers™:** References to Equifax refer to Equifax Consumer Services LLC, a wholly owned subsidiary of Equifax Inc. **Vivint:** Home automation services (including home security) are offered through a referral arrangement by contractual agreement between Primerica Client Services, Inc. Primerica Client Services Inc., PFS Investments Canada Ltd., Vivint, Inc. and Vivint Canada, Inc.

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Middle-Income Families Need One-on-One Help

... To help them save, protect their income streams, and manage debt

Warm Market Approach



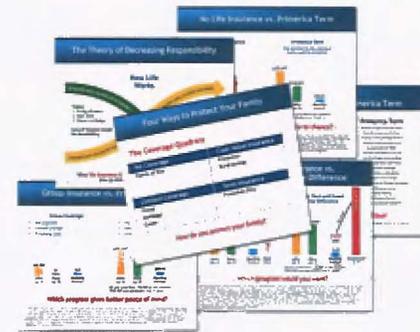
Face-to-Face Meetings
“Across the Kitchen Table”



Appropriate Products to Meet
Their Needs



Client-centric Educational Process
including Financial Needs Analysis



We Have Defended the Interests of Middle Income Consumers In the Fiduciary Debate

● SEC

“[W]e like the Commission’s idea of ensuring that retail customers better understand the responsibilities financial services firms owe to them.”

-July 5, 2013 Comment on SEC Release No. 34-69013; IA File No. 4-606.

“Our comment recommends a standard of care that is grounded in securities law, as directed by the Dodd-Frank Act. It puts clients’ interests first.”

-December 10, 2017, Comments on Investment Adviser and Broker-Dealer Standards of Conduct

● DOL

“The [Fiduciary] Rule is harming the ability of Americans to save for retirement in Individual Retirement Accounts by limiting access to services, products, and needed savings information and by spurring a structural shift to fee-based advisory accounts. . . . Firms are abandoning Main Street households rather than accepting the heightened legal and regulatory risks of serving them.”

-Over twelve comments filed with the Department since 2011.

SEC Proposal: Topics for Discussion

Rights of Action

- **Regulation Best Interest (“RBI”) is not intended to create a private right of action**

“Furthermore, we do not believe proposed Regulation Best Interest would create any new private right of action or right of rescission, nor do we intend such a result.” [RBI at 42]

- **However, taken together with Form CRS Relationship Summary (“Form CRS”), an enforceable right may be created**

“First, a broker-dealer that provides recommendations subject to Regulation Best Interest would include the following wording: ‘We must act in your best interest and not place our interests ahead of yours when we recommend an investment or an investment strategy involving securities.’” [Form CRS at 52]

Financial Incentives

● Disclosure and Mitigation, or Elimination of Financial Incentives

“For example, broker-dealers generally should consider incorporating the following non-exhaustive list of potential practices as relevant into their policies and procedures to promote compliance with (a)(2)(iv) of proposed Regulation Best Interest:

- avoiding compensation thresholds that disproportionately increase compensation **through incremental increases in sales**;
- minimizing compensation incentives for employees to favor one type of product over another, proprietary or preferred provider products, or comparable products sold on a principal basis – for example, **establishing differential compensation criteria based on neutral factors** (e.g., the time and complexity of the work involved);
- eliminating compensation incentives within comparable product lines (e.g., **one mutual fund over a comparable fund**) by, for example, capping the credit that a registered representative may receive across comparable mutual funds or other comparable products across providers;
- implementing supervisory procedures to monitor recommendations that are near compensation thresholds; near thresholds for firm recognition; involve higher compensating products, proprietary products or transactions in a principal capacity; or, **involve the rollover or transfer of assets from one type of account to another** (such as recommendations to rollover or transfer assets in an ERISA account to an IRA, when the recommendation involves a securities transaction) or from one product class to another
- **adjusting compensation for registered representatives who fail to adequately manage conflicts of interest; and**
- limiting the types of retail customers to whom a product, transaction or strategy may be recommended (e.g., certain products with conflicts of interest associated with complex compensation structures).” [RBI at 181]

Financial Incentives

- **Trips, Contests and Awards**

“In addition, we believe certain material conflicts of interest arising from financial incentives may be more difficult to mitigate, certain non-cash compensation that presents conflicts of interest for broker-dealers, for example, sales contests, trips, prizes, and other similar bonuses that are based on sales of certain securities or accumulation of assets under management and may be more appropriately avoided in their entirety for retail customers or for certain categories of retail customers (e.g., less sophisticated retail customers). These practices may include the payment or receipt of Broker-dealers that make recommendations to retail customers that may involve such compensation practices should carefully assess the broker-dealer’s ability to mitigate these financial incentives and whether they can satisfy their best interest obligation.” [RBI at 183]

Financial Incentives

● Sub-Accounting and Other Third Party Fees

- “The Commission recognizes the importance of the brokerage model as a potentially cost-effective (and sometimes, a less costly) option for investors to pay for investment advice. As discussed above, the Commission recognizes, however, that broker-dealer financial incentives—including internal compensation structures and compensation arrangements³⁰³ with third parties — create inherent conflicts that may affect the impartiality of a recommendation. **These financial incentives can create conflicts of interest that may be difficult, if not impossible, to effectively manage through disclosure alone, or to eliminate.** At the same time, the Commission, like other regulators, recognizes that differential compensation may appropriately recognize the time and expertise necessary to understand an investment, and in doing so promote investor choice and access to a range of products, and so elimination of the conflict may not be appropriate or desirable.” [RBI at 177]
- “Conflicts of interest may arise from compensation other than sales compensation. **For example, in the case of mutual funds, compensation for account servicing, sub-transfer agency, sub-accounting, recordkeeping or other administrative services** provides an incentive for a firm to offer the mutual funds from or for which the firm receives such compensation and not offer other funds or products from or for which it does not receive such compensation.” [RBI FN 303]

Impact on Offerings

● “Best,” “Least Expensive,” and “Least Remunerative” Products

- [W]hen a broker-dealer recommends a *more expensive* security or investment strategy over another reasonably available alternative offered by the broker-dealer, **the broker-dealer would need to have a reasonable basis to believe that the higher cost is justified** (and thus nevertheless is in the retail customer’s best interest) based on other factors (e.g., the product’s or strategy’s investment objectives, characteristics (including any special or unusual features), liquidity, risks and potential benefits, volatility **and likely performance** in a variety of market and economic conditions), in light of the retail customer’s investment profile. [RBI at 149]
- [W]e do not believe a broker-dealer could meet its Care Obligation through disclosure alone. Thus, for example, where a broker-dealer is choosing among identical securities with different cost structures, **we believe it would be inconsistent with the best interest obligation for the broker-dealer to recommend the more expensive alternative for the customer, even if the broker-dealer had disclosed that the product was higher cost and had policies and procedures reasonably designed to mitigate the conflict** under the Conflict of Interest Obligations, as the broker-dealer would not have complied with its Care Obligation. Such a recommendation, disclosure aside, would still need to be in the best interest of a retail customer, and **we do not believe it would be in the best interest of a retail customer to recommend a higher-cost product if all other factors are equal.** [RBI at 149]

● Reasonable Diligence

- When retail customer information is unavailable despite a broker-dealer’s reasonable diligence to obtain such information, a broker-dealer would have to consider whether it has sufficient understanding of the retail customer to properly evaluate whether the recommendation is in the retail customer’s best interest. **A broker-dealer that makes a recommendation to a retail customer for whom it lacks sufficient information to have a reasonable basis to believe that the recommendation is in the best interest of that retail customer based on the retail customer’s investment profile would not meet its obligations under the proposed rule.** [RBI at 144]

Recordkeeping

● Six Year Recordkeeping Requirements for RBI and Form CRS

- As part of developing a “retail customer’s investment profile,” proposed Regulation Best Interest may require broker-dealers to seek to obtain certain retail customer information that is currently not required pursuant to Rule 17a-3(a)(17) [RBI at 197]
- [W]e are proposing to amend Rule 17a-3 to add a new paragraph (a)(25), which would require, for each retail customer to whom a recommendation of any securities transaction or investment strategy involving securities is or will be provided, **a record of all information collected from and provided to the retail customer pursuant to Regulation Best Interest, as well as the identity of each natural person who is an associated person of a broker or dealer, if any, responsible for the account.** [RBI at 197]
- Firms would also be required to maintain each amendment to the relationship summary as well as to **make and preserve a record of dates that each relationship summary and each amendment was delivered to any client or to any prospective client who subsequently becomes a client, as well as to any retail investor before such retail investor opens an account.** Requiring maintenance of these disclosures as part of the firm’s books and records would facilitate the Commission’s ability to inspect for and enforce compliance with firms’ obligations with respect to Form CRS. [CRS at161]

● Delivery of Form CRS

- “Communicate any changes made to Form CRS to each retail investor who is an existing customer within 30 days after the amendments are required to be made and without charge.” §240.17a-14(e)(4)

Sophistication

- “Less Sophisticated” Retail Customers

- “Depending on a broker-dealer’s assessment of these factors as a whole, more or less demanding mitigation measures included in reasonably designed policies and procedures may be appropriate. For example, heightened mitigation measures, including enhanced supervision, may be appropriate in situations where the retail customer displays a less sophisticated understanding of securities investing generally or the conflicts associated with particular products involved, where the compensation is less transparent (for example, a payment received from a third-party or built into the price of the product or a transaction versus a straight commission payment), or depending on the complexity of the product.” [RBI at 179]