

# ***Financial Planning Services ADV Brochure***

March 31, 2021

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This Financial Planning Services Brochure (“Brochure”) provides information about the qualifications and business practices of MML Investors Services. If you have any questions about the contents of this brochure, please contact us at 1-800-542-6767 Option 1,1. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (“SEC”) or by any state securities authority.

Additional information about MML Investors Services is available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). You can search this site by a unique identifying number, known as a CRD number. Our firm’s CRD number is 10409. For more information about MML Investors Services, LLC, please visit our website at [www.mmlinvestors.com](http://www.mmlinvestors.com). MML Investors Services, LLC is an SEC registered investment adviser and broker-dealer. Please note that registration does not imply a certain level of skill or training.

## Item 2 Material Changes

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There are no material changes.

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## Item 4 Advisory Business

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### Overview and Ownership

MML Investors Services, LLC (“MMLIS” or “Firm” or “we” or “us”) is a registered broker/dealer and investment adviser. MMLIS began conducting business in 1981 and has been registered as an investment adviser since 1993. We are a wholly owned subsidiary of MassMutual Holding LLC, whose principal owner is Massachusetts Mutual Life Insurance Company (“MassMutual”). MMLIS’s principal place of business is 1295 State Street, Springfield, MA 01111.

As a broker/dealer and investment adviser, MMLIS is regulated by the SEC, the Financial Industry Regulatory Authority, Inc. (“FINRA”) and by other applicable federal and state regulatory authorities and agencies. We are not registered outside of the United States and our investment adviser representatives (each an “adviser”) are not authorized to provide advisory services to customers located outside of the United States.

### Advisory Services Offered by MMLIS

Approved MMLIS advisers can provide financial planning services to customers (the “Financial Planning Services”). In addition to the Financial Planning Services described in this brochure, MMLIS also offers other investment advisory services, such as asset management programs, wrap programs, money manager programs and generic financial seminars. For more information about any of these other services, please ask your adviser.

### Financial Planning Services in General

Financial planning is an investment advisory service that is designed to be an ongoing and collaborative offering, providing you with written recommendations based on analysis of your financial situation and in alignment with your financial goals and needs. A financial plan presents your current financial situation and provides actionable recommendations based on an analysis of the data you provided. Our advisers provide recommendations that are generic in nature, meaning that they don’t make specific product recommendations or provide analyses of particular securities, annuities, insurance, or other products. Areas that may be covered during the financial planning process include financial position planning, protection planning, income tax planning, business planning, retirement planning, education planning, investment planning, special needs planning, employee benefits planning, and estate planning, among others. The advice you receive does not guarantee future results.

### MMLIS’s Financial Planning Services

Financial planning is a collaborative process between you and your adviser. When you sign up for our Financial Planning Services, you and your adviser will work together to review your current financial position, your goals and objectives, and any financial concerns that you may have. Whether your financial goal is personal or business-related, your adviser will make actionable recommendations, including strategies you may consider implementing to help you reach your goals. Because MMLIS and your adviser must rely on you for the information needed to create or revise the financial plan, it is critical that you provide accurate and complete information.

### Core Financial Topics

Each Financial Planning Services engagement begins with our adviser guiding you through our core financial topics, including your financial position, protection inventory and inventory of basic estate documents, as described below. Each core topic will be accompanied by a statement of adequacy (identifying whether or not your financial position or protection in a specific area is sufficient or not), and/or a statement of action (outlining one of more tasks that you and/or your adviser should complete in the future to help you reach your goals) and/or a statement of acknowledgment (documenting that you are not interested in pursuing a particular subject).

- *Financial Position Inventory* —Your adviser will collect information from you on your financial assets, liabilities, income and expenses in order to provide your net worth and a summary of your income and expenses. Your adviser will provide a written statement on areas of concern or risk, the adequacy (or inadequacy) of your current situation which may warrant further evaluation, action items to consider for improving your situation, and acknowledgement of any topics you do not wish to cover at the given time.
- *Protection Inventory* – Your adviser will collect information on your existing insurance coverages, including life insurance, disability income insurance (for clients that are not retired) and long-term care insurance (for clients of a certain age) to determine if there are any gaps in coverage. Your adviser will provide a written statement, including comments on whether your protection planning warrants further evaluation as a *Protection Planning Goal Based Topic* (described below).
- *Inventory of Basic Estate Documents* — Your adviser will acknowledge the status of your basic estate documents (such as your will, healthcare directive, powers of attorney, etc.). The review will not comment on the legal terms of any estate documents you may have, as your adviser does not provide legal advice.

### Goal-Based Topics

In addition to the core financial topics, your adviser will help you to focus on at least one goal-based topic of your choosing, which may include retirement, education savings, financial position planning, investment planning, income tax planning, estate planning, protection planning, or another type of accumulation goal. Here are some examples:

- *Financial Position Planning* — Planning for future income (such as Social Security planning and/or pension planning), family budgeting, long-term liability management, emergency reserves or strategies for funding major purchases/expenses.
- *Retirement Planning* – Planning for retirement needs in the future or current planning for retirees. Income tax and employee benefits planning may also be addressed within this topic, as needed.
- *Investment Planning* — Applying strategies designed to help optimize portfolio performance to reach future financial goals through a proposed asset allocation model. Please note that this does not include ongoing investment-related advice or monitoring.
- *Protection Planning* – Strategies and recommendations for either a single protection need, such as life, health, disability, long term care, or property and casualty coverage, or

covering all of them comprehensively. Employee benefits planning may also be included under this topic, if warranted.

- *Income Tax Planning*— Working with you and your tax advisor to address general tax considerations related to financial services products, transactions and registrations (types of ownership).
- *Education Planning* - Strategies for funding future needs or current education expenses.
- *Estate Planning*— Working with you and your tax and legal advisors to help you prepare to pass wealth onto your beneficiaries in an efficient manner.
- *Estate Settlement Planning* – Applying strategies to help an estate or testamentary trust meet its obligations, such as distribution of assets and payment of estate taxes. In most instances, estate planning services will include investment planning, income tax planning and/or estate planning strategies as described above. Core Topics are not applicable in this case.

### Core Financial Topics and Goal-Based Topics for Businesses

We also offer Financial Planning Services for businesses. If you are a business owner and contract for business planning services, your adviser will gather basic information and guide you through a review of core financial topics including the structure of your business, its value, its ownership, financial statements and number of employees. Your adviser will provide a written review summarizing areas of concern and whether these core areas of your business need further attention or evaluation as a Goal-Based Topic.

Once this information has been collected, you and your adviser will cover one or more of the following goal-based topics, depending on the type of services that you decide upon:

- *Cash, Capital & Debt Management* – Review of assets and liabilities and strategies for managing them. Please note, however, that neither MMLIS nor adviser perform business valuations.
- *Liability Protection Planning* - Review the entity structure of the business related to protection of personal interests and minimization of liabilities.
- *Business Transition or Succession Planning* — Formulation of potential strategies to establish or modify a formal business transition or succession plan based on business owner goals.
- *Key Employee Planning* – Strategies to retain and attract key employees, including a review of non-qualified deferred compensation and executive/key person compensation strategies.
- *Employee Benefits Planning* — Providing financial advice or recommendations about existing or prospective employee benefit plans that may help to attract or retain talent, including retirement savings vehicles and protection benefits. The review does not provide commentary or advice on the substantive terms of any employee benefit plans the company may have in place. Your adviser will not provide any legal, tax or actuarial advice to you.
- *Personal Capital Management*— Review and coordination, with your attorney and/or tax advisor, of your personal estate documentation and financial position in the context of your business obligations.

- *Exit Phase Planning* -- Analysis of the current state of the business with a focus on the business owner's goal of exiting the business.

We also offer an additional service for corporate employers where we enter into a separate agreement with the employer, who can choose which of the following fixed services they would like to offer to their employees. Advisers may also offer seminars or workshops to employees for a fee.

- *Employee Benefits Planning* - Helping employees navigate through their core employer-sponsored benefit plans, while putting those benefits in the context of their future financial goals.
- *Executive/Key Employee Benefits Planning* – Executive planning helps the employer's most valuable employees better understand the benefits provided to them. The analysis and advice will go beyond the core employee benefits package, and can include complex benefit decisions, such as deferred compensation, company stock, and more. Ideal as a standing service for new executives to the company, recently promoted executives, but can also be used with long-standing executives.
- *Corporate Change Planning* – Helping employees navigate through benefits changes and the transitional effects of an acquisition, merger, layoff or other critical changes within the company.

### The Financial Planning Process

The Financial Planning Services begin when you sign (which may be electronic) and MMLIS processes and accepts the Financial Planning Services Agreement (the "Agreement"). The Agreement is effective as of the date that you sign the Agreement (the "Effective Date").

Since our Financial Planning Services are ongoing, each year, your adviser will provide Financial Planning Services to you and will be available to discuss financial planning topics with you, as long as the Agreement remains in effect. You will also pay a financial planning fee each year that the Agreement is effective. On an annual basis, as part of your Financial Planning Services, your adviser will cover the core financial topics (detailed above) and at least one goal-based topic that you and your adviser agree on. You should confirm that all of the core financial topics, as well as the goal-based topics you agreed to cover, are addressed in your written financial plan each year. Your adviser may or may not include the underlying analysis when delivering your written financial plan; however, you may request that it be delivered to you at any time.

### Your First Year of Financial Planning Services

In the first year, your adviser will analyze the information that you provide in order to deliver a written financial plan that includes actionable recommendations designed to help you achieve your financial goals. He or she will use best efforts to provide you with this document within 365 days of the Effective Date. However, in some circumstances, it may take longer. You and your adviser may also focus on tracking your progress and your adviser will be available upon request to discuss financial topics that you raise.

### Renewal Years of Financial Planning Services

Each year, your Agreement will renew on the anniversary of your Effective Date (the “Renewal Date”) and you will receive a letter confirming that your Financial Planning Services are continuing for another year. Please contact your adviser if you do not receive a confirmation of renewal within 14 days after your Renewal Date. You may also contact the MMLIS Financial Planning Department at the number on the cover page of this Brochure. Your Agreement will automatically renew each year on the Renewal Date, unless it is terminated by you or MMLIS. Please refer to Item 5 (Fees and Compensation) for additional details on termination.

As your financial planning relationship continues each year, you and your adviser will update your plan data and review all of the core financial topics listed above and at least one goal-based topic, as agreed upon by you and your adviser. It is important to let your adviser know if there are any material events that occur in your life, such as marriage, divorce, or birth of a child, because life events can have a significant impact on your financial situation and/or goals. Your adviser will review the written recommendations that he/she has given you and will update them, based upon information you provide on any needed changes or material events throughout the year.

You may change your goals at any time by discussing them with your adviser. Your adviser may also recommend that you further assess one or more additional goals. If your goals have changed, the changes will be confirmed by delivery of recommendations consistent with your new goals. Review your adviser’s recommendations to confirm that the financial advice received fully addresses your new goal(s). If you have any questions, please contact your adviser. If your goals or Financial Planning Services change, you and your adviser should review your fee and discuss whether or not it needs to change based on your new situation.

### Limitations on the Investment Advice

Neither MMLIS, nor any of its advisers, agents, financial service representatives or employees, are authorized or permitted to provide legal, tax, actuarial, or accounting advice to you in connection with any of the services they provide. If you need this type of advice, consult with your own personal attorneys, accountants, actuaries, or tax advisors.

You are responsible for providing accurate and complete information to your adviser because recommendations made by your adviser are based on the data you provide. Your adviser relies on the completeness and accuracy of the information that you provide and does not verify it independently.

When providing Financial Planning Services, our advisers do not make specific product recommendations or provide analyses of particular securities, annuities, insurance, banking products, trust services or other products. In providing Financial Planning Services, our advisers may provide asset allocation advice, make recommendations regarding the purchase of certain types of securities, identify a gap in insurance protection and/or recommend the purchase of a certain type of insurance, but they will not recommend or analyze the purchase, sale or surrender of any particular security or insurance policy. The advice provided to you involves our judgment and our views regarding the economy and the securities markets, and like all predictions of future events, cannot be guaranteed to be accurate. Neither your adviser nor MMLIS can guarantee



the future performance of either the Financial Planning Services or any securities, investments, or other products or services you may purchase or hold.

While our Financial Planning Services under the Agreement will continue until terminated, we do not provide continuous financial planning advice or on-going monitoring of your accounts or any specific securities, investments and other products.

MMLIS and your adviser are not and will not become fiduciaries as defined under the Employee Retirement Income Security Act of 1974, as amended (“ERISA”), and the Internal Revenue Code of 1986, as amended (the “Code”). We and our advisers do not provide investment advice as defined under ERISA and the Code and accompanying regulations.

### Financial Planning Tools

When developing written recommendations as part of our Financial Planning Services, our advisers use software packages and web-based programs that have been reviewed and approved by MMLIS (“Approved Software”). The projections and recommendations generated by the Approved Software typically contain different types of quantitative analyses, which may include asset allocation analysis, Monte Carlo simulations, and other related financial calculations, as well as investment advice. Asset allocation tools are utilized by advisers in determining whether or not you have the appropriate mix of investments, based on your personal financial situation. Monte Carlo simulations are used to approximate your overall probability of success in terms of not outliving your assets/investments. They work by running multiple trials or simulations, using random variables, and ultimately provide a percentage probability of an outcome occurring. In cases where the Monte Carlo analysis indicates a score of 100% (or close to it), note that although this indicates a high probability of a particular outcome, it does not guarantee results, which are hypothetical in nature. The projections and recommendations generated by the Approved Software are not guarantees of future performance.

### Electronic Delivery

When you signed the Agreement, you provided consent to receive any communications that are available from MMLIS and your adviser in electronic format. Such communications may include financial planning documents, privacy policy notices, Form ADV Part 2A and Part 2B Brochures and Supplements, regulatory notices, and other similar communications. These documents may be delivered electronically in a number of ways, including, but not limited to (i) by e-mail or removable storage device with documents available in a Portable Document Format (PDF); (ii) by e-mail with an embedded hyperlink to the document(s); or (iii) by e-mail notifying you that documentation is available for your online viewing by accessing a link or Internet address (URL) contained in the e-mail. In order to receive or access documents delivered to you electronically, you must have a valid e-mail address on record with MMLIS and internet access via a browser that is JavaScript-enabled. In order to access documents provided in PDF form, you must have Adobe Acrobat Reader software (available at no cost at [www.adobe.com](http://www.adobe.com)).

## Item 5 Fees and Compensation

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### Financial Planning Fees and Timing of Payment

You will pay an annual financial planning fee as detailed in your Agreement. A portion of the financial planning fee is paid to your adviser.

The financial planning fees you pay depend upon a variety of factors, including:

- The complexity of your personal financial circumstances and stated objectives;
- The number of goal-based topics that you wish to cover;
- The anticipated time needed to complete the financial plan;
- Your net worth, investable assets, household income, liabilities and sources of income;
- The fee range established by individual advisers (based in part on the level of industry experience and professional designations held by your adviser); and
- The geographic location of you and/or your adviser.

Fees charged by an adviser for Financial Planning Services vary between clients (this is possible even for clients who have the same level of complexity) and from one adviser to another for various reasons. As a result, you may pay more for your Financial Planning Services than what another client pays for comparable services. Our financial planning fees are negotiable and must be agreed upon by you and your adviser.

The minimum fee for Financial Planning Services is \$500. Fees typically do not exceed \$25,000 per year; however, in certain circumstances fees may exceed \$25,000 with prior approval by MMLIS' Home Office. Under certain circumstances, your adviser has discretion to waive the fee.

Fees for the Financial Planning Service are payable by credit card, automatic deduction from a bank or brokerage account (EFT/ACH) or by check payable to MML Investors Services, LLC. Payment can be made in the first year of Financial Planning Services: (1) in full at the time of signing the Agreement; (2) in two equal payments (50% at the time of signing the Agreement and 50% upon delivery of your plan); or (3) in full upon delivery of your plan. Payment can be made in renewal years of Financial Planning Services: (1) in full at the Renewal Date; or (2) in full prior to the end of the renewal year.

### Termination and Refund of Financial Planning Fees

Either party may terminate the Agreement, with or without cause, at any time upon written notice to the other party, which notice by MMLIS may be electronic. Such termination shall not, however, affect any liabilities or obligations incurred under the Agreement prior to such termination. The Agreement's arbitration provision will survive any expiration or termination of the Agreement.

Fees paid in advance for any Financial Planning Services will be refunded in full to any client who enters into an Agreement but decides to terminate the Agreement prior to receipt of any Financial Planning Services. If you terminate the relationship prior to your financial plan being delivered, but after some Financial Planning Services have been provided, any fees already paid will be

refunded, less a fee charged (as determined in MMLIS' discretion) for the time spent preparing the advice prior to notice of termination.

MMLIS may, in its sole discretion, refund fees paid for Financial Planning Services in full if you are not completely satisfied with the Financial Planning Services and you notify MMLIS in writing within thirty (30) days after receipt of the written financial plan, but not later than one (1) year from the Effective Date or Renewal Date, as applicable. As a condition to receiving a refund after all services are received, you may be required to provide certain information to enable MMLIS to determine the reasons for dissatisfaction.

#### Fee Discounts, Free Services and Fee Changes

MMLIS may offer Financial Planning Services at a reduced fee or free of charge for charitable or other purposes. We also may accept payment from third parties, such as employers, through corporate or referral arrangements. Fees are subject to change.

#### Implementation of Recommendations

After receiving general recommendations as part of the Financial Planning Services with respect to categories or types of products that might be appropriate for you, you may decide to implement those recommendations by purchasing products and/or services. The purchase of products and services is completely separate and apart from the Financial Planning Services. It is entirely your decision whether or not to implement your adviser's recommendations in full, in part, or not at all. You may choose to implement your adviser's recommendations with MMLIS, its affiliates, or with any other company. Since the Financial Planning Services are separate and distinct services from implementation, any implementation of the generic financial planning advice provided under the Agreement with MMLIS or an affiliate is achieved through a separate relationship with you. You will have to complete and execute separate applications and/or agreements, which will include more detailed disclosures of the conflicts of interest, such as compensation and marketing arrangements.

Your adviser is a registered representative and investment adviser representative of MMLIS and an insurance agent of MassMutual and/or other affiliated or unaffiliated insurance companies. While you are under no obligation to purchase any products or services from us or our affiliates, your adviser is available in these other capacities to assist you in implementing the generic recommendations made as part of the Financial Planning Services (or to otherwise purchase brokerage or insurance products or investment advisory services). If you choose to implement the recommendations with your adviser, additional compensation, either on a commission, flat fee, or fee on assets under management basis, will be paid to your adviser in his or her capacity as a registered representative, investment adviser representative and/or insurance agent. In addition, if you purchase securities or insurance products issued, sponsored, advised, underwritten, distributed by, or otherwise obtain additional services offered by us or our affiliates, we and/or our affiliates will receive fees in addition to the compensation paid in connection with the sale of the securities or insurance product. This creates a conflict of interest on the part of your adviser when acting as a registered representative, investment adviser representative and/or insurance agent to recommend products and services based on compensation received, rather than solely based on your needs. To help mitigate these conflicts of interest, as part of the

Financial Planning Services our advisers only make generic (i.e., not product specific) recommendations of categories of investments or other products that are appropriate for you (e.g., a growth-oriented mutual fund).

#### Role and Duties Owed by MMLIS and Your Adviser

When your adviser provides Financial Planning Services to you, he/she is acting as investment adviser representative of MMLIS. In contrast, implementation recommendations related to particular securities and insurance products are provided by your adviser in his/her capacity as a registered representative and/or insurance agent. The change in the role played by your adviser when providing Financial Planning Services on one hand, and implementation recommendations, on the other hand, is important. (Your adviser can also provide implementation recommendations related to other advisory programs that are available in his or her capacity as an investment adviser representative, but such recommendations do not involve a change in the role of, or duties owed, by your adviser.)

When your adviser provides Financial Planning Services, he/she is serving as a fiduciary to you and owes you a duty of loyalty and a duty of care. That means your adviser must act in your best interest and may not subordinate your interests to his/her own. When your adviser makes implementation recommendations to you in his/her capacity as a registered representative of MMLIS or as an insurance agent, he/she is no longer acting as a fiduciary to you. This means that when recommending securities and insurance products, while your adviser certainly would treat you fairly, comply with applicable laws, and recommend specific products that are in your best interest, your adviser does not have a fiduciary or advisory relationship with you. Your adviser could favor certain securities or insurance products over others based, in part, on the compensation he or she may receive for selling them.

It is important for you to understand the capacity in which your adviser is acting and the duties your adviser owes you when he or she is making a recommendation to you. It is possible that generic recommendations as part of the Financial Planning Services (for which your adviser serves as a fiduciary, as discussed above) will be provided at or about the same time as he or she makes product-specific implementation recommendations (for which your adviser does not serve as a fiduciary, as discussed above). You should therefore understand which recommendations from your adviser are part of the Financial Planning Services and which are related to implementation of specific products or services. If you are not sure, ask your adviser.

### **Item 6 Performance-Based Fees and Side-by-Side Management**

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MMLIS does not pay performance based-fees related to assets under management to its advisers with respect to the Financial Planning Services described in this Brochure.

## **Item 7 Types of Clients**

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The Financial Planning Services offered by MMLIS are generally appropriate for:

- Individuals
- Married persons
- Non-traditional couples who share goals, expenses and/or income
- Business owners and business entities
- Trusts, estates and charitable organizations

## **Item 8 Methods of Analysis, Investment Strategies and Risk of Loss**

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### **Methods of Analysis**

As noted above in Item 4, our advisers use Approved Software when providing Financial Planning Services. This software uses information and assumptions provided by you and discussed during the financial planning process to prepare an analysis that illustrates your situation at a given point in time. The output from such Approved Software contains quantitative analyses, which may include retirement analysis, cash flow analysis, income tax analysis, automated asset allocation, Monte Carlo simulations, estate planning analysis and other related financial calculations. Hypothetical projections may be made to illustrate potential future results, although it is important to realize that results are not guaranteed, and actual results will vary from those illustrated. The results of the analysis are evaluated by your adviser and are used to make recommendations based on your current financial situation.

### **Sources of Information**

It is critical that you provide current, complete and accurate financial data and information to your adviser. You should carefully review the data and resulting analysis to confirm it is accurate. If incomplete or incorrect data is provided, or if you do not update data and information when your goals or situation changes, the analyses may not be accurate and may overstate or understate your ability to reach your goals.

### **Investment Strategies and Risk of Loss**

There is no guarantee that your goals will be realized if you follow all of the recommendations made by your adviser. Due to the uncertainties involved in purchasing securities and/or insurance products, you can still fail to achieve your goals even if you obtain a financial plan and fully implement the financial plan in accordance with the recommendations provided. In addition to current data about your finances, software used in financial planning relies on many different variables and assumptions, such as hypothetical investment returns and projected retirement or protection planning needs. There is no guarantee that these variables and assumptions are correct.

Asset allocation analysis uses an assessment of your risk tolerance in order to provide you with a proposed asset allocation model. The model is an example of what percentage of your investments should be in certain asset classes, depending on your feelings about risk, time

horizon and investment objectives. Asset allocation models attempt to limit your exposure to an acceptable level of risk and seek to maximize opportunity for growth or income. Implementing any given asset allocation model does not guarantee you will not experience investment losses (including loss of principal).

Monte Carlo analysis is a forecasting tool to help determine if your financial plan will succeed given a range of different market conditions. The Monte Carlo simulation runs investment return trials in order to imitate the random returns you will experience in real life. The simulation uses historical financial data in order to determine the expected return variations of the different trials. As with other software analyses, Monte Carlo requires assumptions to be made and the results are hypothetical. In addition, if there are erroneous facts or assumptions used, the results of the analysis will not be realistic. The outcome of Monte Carlo analysis does not guarantee success or failure.

## **Item 9 Disciplinary Information**

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The following legal or disciplinary events related to MMLIS may be material to your evaluation of whether to receive investment advice from us.

In June 2011, MMLIS entered into a Letter of Acceptance, Waiver and Consent (“AWC”) for the resolution of charges with FINRA. The alleged rule violations relate to the Firm’s compliance with FINRA Rules applicable to Firm compensation in connection with Trade Reporting and Compliance Engine (“TRACE”) eligible securities during the period October 9, 2008 through June 26, 2009 (the “Review Period”). During the Review Period, in 14 transactions, the Firm purchased or sold TRACE-eligible securities as agent for a customer in transactions for a commission or service charge that was in excess of a fair amount, taking into consideration all relevant circumstances. The Firm also failed to enforce its written supervisory procedures by charging commission in excess of the procedure’s limits. The conduct constituted violations of NASD Rule 2440, NASD Rule 3010, NASD Rule 2110 (for conduct prior to December 15, 2008) and FINRA Rule 2010 (for conduct on or after December 15, 2008). Under the Acceptance, Waiver and Consent, the Firm consented to a censure and a fine of \$32,500.

In November 2011, MMLIS entered into an AWC for the resolution of alleged rule violations with FINRA. The alleged rule violations related to the Firm’s compliance with FINRA Rules applicable to filing Forms U5 and amendments to Forms U4 and U5. From approximately May 13, 2008 through October 10, 2010, the Firm failed to file in a timely manner at least 98 filings, including 5 Form U5 filings and 93 amendments to Forms U4 and U5. Forms U4 and U5 contain information regarding the firm’s registered representatives and the rule requires timely updates to these forms. FINRA also found that the Firm failed to establish and maintain a supervisory system and establish, maintain and enforce supervisory procedures that were reasonably designed to achieve compliance with the reporting requirements set forth in Article V of FINRA’s By-Laws. This conduct constituted violations of NASD Conduct Rule 2110 (for conduct prior to December 15, 2008) and 3010 and FINRA Rule 2010 (for conduct after December 14, 2008). Under the AWC, the Firm consented to a censure, a fine of \$300,000 and undertakings related to a review of the Firm’s supervisory systems, written supervisory procedures and quarterly reporting in 2012 to FINRA of

any Form U5 filings or amendments to Forms U4 or U5 the were not timely filed during that quarter.

In December 2012, the Director of The Rhode Island Department of Business Regulation (the "Director") entered into a Consent Order Making Findings and Imposing Remedial Sanctions (the "Order") for the resolution of a matter involving MMLIS. The matter was resolved prior to instituting administrative proceedings. MMLIS neither admitted, nor denied the findings. The matter arose out of the conduct of two former representatives of MML Investors Services who have been barred from engaging in any securities business in the state of Rhode Island as a result of their conduct. On March 28, 2011, MMLIS advised the Securities Division that one of these representatives had embezzled money from one of his clients over the course of ten years by inducing the client to invest in fraudulent and non-existent promissory notes sold through the representative's outside business activity. The Director alleged that MMLIS failed to reasonably supervise these representatives in violation of R.I. Gen. Laws Section 7-11-212(b)(1). The Order directs MMLIS to: (i) immediately cease and desist from any further violations of the Rhode Island Uniform Securities Act of 1990 and the rules promulgated thereunder; (ii) pay a penalty in the amount of \$250,000 to the Rhode Island Department of Business Regulation; (iii) confirm in writing that it has reimbursed the client for losses according to the terms of a settlement negotiated amongst the parties; and, (iv) retain an independent consultant to conduct a comprehensive review of its Rhode Island Detached Branch Offices and registered representatives in such locations and issue a written report to be filed with the Director.

In August 2013, MMLIS entered into an AWC with FINRA. The AWC finds that that the Firm violated FINRA rules by failing to reasonably supervise and investigate certain of its registered representatives engaged in the sale of promissory notes not approved by the Firm. Without admitting or denying the findings, the Firm consented to a censure, a fine of \$125,000 and agreed to pay restitution to investors totaling \$787,847.70. The Firm will provide proof to FINRA that it made restitution to investors no later than six months after August 21, 2013.

In July 2015, MMLIS entered into a Consent Agreement and Order ("Order") with the Commonwealth of Pennsylvania, acting through the Department of Banking and Securities ("Department"), Bureau of Securities Licensing, Compliance and Examinations ("Bureau") for the resolution of a matter effective July 6, 2015. The Firm neither admitted, nor denied the allegations. The matter arose out of the conduct of a deceased former representative of the Firm who operated an unapproved outside business activity through which he issued, offered and sold unregistered promissory notes to certain Pennsylvania residents. The issuance, offer, and sale of the notes by the representative were not approved by the Firm. The Bureau received five complaints and was aware of twelve notes totaling approximately \$385,000. The Firm was subject to a sanction under Section 305(a)(vii) of the 1972 Act, 70 P.S. §1-305(a)(vii) for a failure to reasonably supervise an agent of the Firm. The Order directed the Firm to (i) pay an administrative assessment in the amount of \$100,000; (ii) pay legal and investigative costs in the amount of \$25,000; (iii) comply with the 1972 Act, and its Regulations as adopted by the Department, 70 P.S. §1- 101, et. seq; and (iv) represent to the Department that it had made payments to certain Pennsylvania residents related to the securities activities of the representative and his outside business. Payment to certain Pennsylvania residents in the amount of \$150,840.62 was made on June 30, 2015.

In November 2016, MMLIS entered into an AWC with FINRA for the resolution of a matter. FINRA made findings that the Firm disadvantaged certain retirement plan and charitable organization

customers that were eligible to purchase Class A shares in certain mutual funds without a front-end sales charge ("Eligible Customers"). FINRA found that these Eligible Customers were instead sold Class A shares with a front-end sales charge or Class B or C shares with back-end sales charges and higher ongoing fees and expenses. The AWC stated that the Firm failed to establish and maintain a supervisory system and written policies and procedures reasonably designed to ensure that Eligible Customers who purchased mutual fund shares received the benefit of applicable sales charge waivers. The AWC also stated that the Firm failed to reasonably supervise the application of sales charge waivers to eligible mutual fund sales. FINRA found that the firm relied on its financial advisors to determine the applicability of sales charge waivers, but failed to maintain adequate written policies or procedures to assist financial advisors in making this determination, including failing to establish and maintain written procedures to identify applicable sales charge waivers in fund prospectuses for Eligible Customers. Without admitting or denying the findings, the Firm consented to a censure and agreed to pay restitution to investors totaling \$1,864,167.77, plus interest.

MMLIS (and three other broker-dealers affiliated with MassMutual) entered into an AWC with FINRA for the resolution of a matter effective June 30, 2017. FINRA made findings that the Firm failed to maintain certain electronic books and records in a non-erasable and non-rewritable format known as the "Write Once, Read Many" ("WORM") format that is intended to prevent the alteration or destruction of broker-dealer records stored electronically. The findings also stated that the Firm failed to (i) provide the required 90-day notice to FINRA prior to retaining a vendor to provide electronic storage, (ii) implement an audit system as required for such electronic books and records, (iii) provide letters of undertaking from independent third-parties with the ability to access and download information from the Firm's electronic storage media; and (iv) enforce written supervisory procedures concerning the Firm's storage of electronic brokerage records in WORM format. Without admitting or denying the findings, the Firm consented to a censure and agreed to a fine in the amount of \$750,000 (to be paid jointly and severally by the three other MassMutual affiliated broker-dealers). The Firm also agreed to certain undertakings, mainly to submit to FINRA within 60 days a written plan of how the Firm will conduct a comprehensive review of the adequacy of the relevant policies and procedures (written and otherwise), including a description of remedial measures leading to full compliance.

MMLIS entered into an AWC with FINRA for the resolution of a matter effective March 20, 2020. FINRA made findings that the Firm failed to ensure that access to a third-party system was limited to only those former registered representatives of a company that was acquired by the Firm for whom access was agreed to be given. As a result, additional former registered representatives and associated persons of the Firm had access to the third-party system after the acquisition. Because MMLIS was unaware that these additional registered representatives and associated persons had access to the third-party system after the acquisition, the Firm did not notify the third party when those registered representatives and associated persons ceased to be associated with the Firm. As a result, the third-party did not timely shut off those former registered representatives' and associated persons' access to the third-party system. The third-party system stored customer records and information, including nonpublic personal information. Without admitting or denying the findings, the Firm consented to a censure, a fine of \$75,000, and the entry of findings that it failed to prevent certain registered and associated persons who had been



terminated from the Firm from continuing to access customer records and information, including nonpublic personal information, in violation of the SEC's Regulation S-P and FINRA Rule 2010.

For more information about the above events and other disciplinary and legal events involving MMLIS, please refer to the Investment Advisor Public Disclosure at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov) and FINRA BrokerCheck at [www.finra.org](http://www.finra.org).

## **Item 10 Other Financial Industry Activities and Affiliations**

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MMLIS is registered with the SEC as an investment adviser and a broker/dealer. MMLIS sells general securities (including stocks and bonds) and mutual funds, to the public. MMLIS and its principal executive officers are principally engaged in the securities brokerage business. As part of this business, MMLIS provides a broad range of securities brokerage services to customers, including persons who have enrolled in one of MMLIS' investment advisory programs. MMLIS effects securities transactions for these brokerage customers for compensation and may recommend that customers buy or sell securities or other investment products in which MMLIS or its officers, directors, employees or registered representatives ("related persons") have a financial interest or may themselves purchase or sell. For example, MMLIS may recommend that brokerage customers purchase, among other investments, variable annuity or variable life insurance contracts issued by MMLIS' affiliates.

### Relationship with Affiliates

As noted above, after receiving recommendations as part of the Financial Planning Services, you may decide to implement those recommendations by purchasing products and services. While you are under no obligation to purchase products or services from us, any implementation made through your adviser is done in his/her capacity as a registered representative of MMLIS or one of its affiliates and/or an insurance agent of MassMutual and/or other affiliated or unaffiliated insurance companies. The purchase of products and services is completely separate and apart from the Financial Planning Services. Please refer to Item 5 (Fees and Compensation) for additional details.

MMLIS' management persons, including its directors and executive officers, are registered representatives and/or associated persons of MMLIS. Management persons may also be registered or associated with our affiliated broker/dealers, MML Distributors, LLC and MML Strategic Distributors, LLC and with our affiliated investment advisers, including MML Investment Advisors, LLC.

MMLIS is owned by MassMutual Holding LLC. MassMutual is MassMutual Holding LLC's principal owner. MMLIS's registered representatives and advisors are all licensed insurance agents or brokers of MassMutual or its affiliates. MassMutual requires its career agents to meet minimum sales thresholds of MassMutual annuity and insurance contracts in order to maintain their contractual status as a career agent. MMLIS's registered representatives are all licensed to sell securities and may effect securities transactions for compensation for any client.

MMLIS is the co-underwriter for, and a distributor of, variable products of MassMutual and its subsidiaries. Such variable products are issued by separate accounts which are registered as investment companies. MMLIS may recommend these products to clients in its broker/dealer capacity.

MMLIS is the sole shareholder of MMLIS Financial Alliances, LLC, a Delaware limited liability company which operates as an insurance agency and investment adviser. MMLIS previously received referrals from MMLIS Financial Alliances, LLC and paid a solicitor's fee for such referrals. MMLIS no longer receives referrals for new advisory clients from MMLIS Financial Alliances, LLC as of September 30, 2016.

MassMutual Holding LLC is also the sole shareholder of Barings LLC, a registered investment adviser. MMLIS, in its broker-dealer or investment adviser capacity, may recommend that a client invest in mutual funds advised by Barings LLC.

MML Investment Advisers, LLC acts as an investment adviser, and MML Distributors, LLC acts as principal underwriter, for certain mutual funds, including the MassMutual Select Funds, the MassMutual Premier Funds, MML Series Investment Fund and the MML Series Investment Fund II. MML Distributors, LLC is owned by MassMutual Holding LLC. MMLIS, in its broker-dealer or investment adviser capacity, may recommend that a client invest in these mutual funds.

Recommending a mutual fund advised or distributed by an affiliate (an "Affiliated Fund"), including Barings LLC and MML Distributors, LLC, creates a conflict of interest between MMLIS and advisory clients. Investing in an Affiliated Fund results in additional compensation being paid to MMLIS and/or one of its affiliates. In many cases, there are alternative funds that are available for investment that will provide clients with substantially similar exposure to the asset class or sector represented by an Affiliated Fund. MMLIS addresses this conflict of interest by disclosing it to clients, reviewing suitability of recommended securities and other products and through supervision of the registered representatives and IA Rep.

Additional information on certain related entities is specifically disclosed on Schedule D of Form ADV, Part 1 at Item 7.A. Part 1 of Form ADV can be accessed by following the directions provided on the Cover Page of this Firm Brochure.

#### Other Business Relationships

MassMutual, directly and/or through one or more of its affiliates, owns common shares (approximately 16% of outstanding common shares) and preference shares of, and has certain shareholder rights with respect to, Invesco Ltd. ("Invesco") as a result of the sale of MassMutual's formerly affiliated asset management business, OppenheimerFunds, to Invesco. MMLIS, in its broker-dealer or investment adviser capacity, may recommend that a client invest in an investment product advised and/or distributed by one or more Invesco entities. This conflict of interest is addressed through clear and prominent disclosure to clients, suitability reviews of recommended securities and other products and through supervision of the registered representatives and IA-Reps.

## **Item 11 Code of Ethics, Participation or Interest in Client Transactions and Personal Trading**

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### Confidentiality

MMLIS treats the information gathered from you during the financial planning process as strictly confidential and your information will only be used in conformity with our privacy notice that is provided to you. We will only use your information for business purposes related to our relationship with you. We will not disclose your information to an unaffiliated third party unless we are required to do so by law or regulatory process, as authorized by you in writing, or as otherwise disclosed in our privacy notice.

### Code of Ethics

We have adopted an Investment Adviser Code of Ethics (“Code”) for certain persons of MMLIS in compliance with Rule 204A-1 under the Investment Advisers Act of 1940. This Code establishes required standards of business conduct, as well as policies and procedures that are reasonably necessary to detect and prevent personal trading activities that are, or might be an abuse of fiduciary duties or create conflicts of interest.

The Code requires that all advisors and certain other affiliated personnel (together, “Access Persons”) acknowledge receipt and report violations of the Code. The Code sets forth standards with regard to an Access Person’s personal trading and establishes general prohibitions, including but not limited to, the observance of personal trade blackout periods for certain persons. The Code places additional obligations on Access Persons including the obligation to submit periodic reports to MMLIS regarding their personal accounts, including initial and annual holdings reports and quarterly transactions. SEC rules and guidance exempt certain types of securities and transactions from Code of Ethics reporting.

The principles set forth in the Code that govern personal trading activities for Access Persons include: (1) the duty at all times to place the interest of advisory clients first; (2) the requirement that all covered personal trades be consistent with the Code so as to avoid any actual or potential conflict of interest; and (3) the fundamental standard that individuals should not take inappropriate advantage of their positions at MMLIS with respect to our advisory clients.

To prevent and detect violations of the Code, we review transactions within accounts that have been reported by Access Persons. A copy of the Code of Ethics will be provided to any client or prospective client upon request. Please refer to the cover page of this Firm Brochure for our contact information.

MMLIS or its advisers may give advice or take action in performing their duties for other clients or for their own accounts that differs from the advice provided, or in the timing and nature of action taken, with respect to financial planning clients. In addition, MMLIS and its advisers may give advice or take action in performing their duties for one financial planning client that differs from the advice provided, or in the timing and nature of action taken, with respect to another financial planning client.

Personal transactions in securities by affiliated persons of MMLIS will be subject to the procedures described in our Code of Ethics and Compliance Manual. We may from time to time perform a variety of services for, or solicit business from, a variety of companies including issuers of securities that we may recommend for purchase or sale by our clients. In connection with providing these services, we and our affiliated persons may come into possession of material nonpublic and other confidential information which, if disclosed, might affect an investor's decision to buy, sell or hold a security.

Under applicable law, we and our affiliated persons are prohibited from improperly disclosing or using such information for our personal benefit or for the benefit of any other person, regardless of whether such other person is a client of MMLIS. Accordingly, should we or any of our affiliated persons come into possession of material nonpublic or other confidential information concerning any company, we will be prohibited from communicating such information to clients, and we will have no responsibility or liability for failing to disclose such information to our clients as a result of following our policies and procedures designed to comply with applicable law.

## **Item 12 Brokerage Practices**

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The Financial Planning Services provided under the Agreement are generic and do not involve the purchase or sale of specific securities or other investments or the selection or recommendation of broker-dealers. Any implementation you choose to make through your adviser is done in your adviser's capacity as a registered representative or investment adviser representative of MMLIS or one of our affiliates and/or as an insurance agent of MassMutual and/or other affiliated or unaffiliated insurance companies. MMLIS provides advisory services other than financial planning that are described in other disclosure brochures in which MMLIS's brokerage practices are described.

## **Item 13 Review of Accounts**

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MMLIS oversees the financial planning services provided by its adviser. MMLIS reviews a percentage of plans prior to delivery to the client, and a percentage are reviewed after delivery. The reviews assess the quality of advice and/or the appropriateness of fees. The post-delivery review is conducted on a periodic basis by Financial Planning department members, compliance professionals, and other home office associates. Because MMLIS reviews some, but not all, financial plans, there is no guarantee that your individual financial plan will be subjected to the types of review described above.

Please note that MMLIS does not provide any review or ongoing monitoring for any of your accounts. Additionally, we will not proactively reach out to you based on changing market conditions. It is your responsibility to monitor your own financial situation.

## **Item 14 Client Referrals and Other Compensation**

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Investment adviser representatives of unaffiliated investment advisers may refer a prospective financial planning client to an approved MMLIS adviser in return for a portion of the fee that you

pay for your Financial Planning Services. In this capacity, the referring investment adviser is acting as a “solicitor.” If a referral fee is to be paid for a plan referral, this compensation must be disclosed to the client. In addition, clients will be provided with copies of Part 2 of MMLIS’ Form ADV, a separate statement disclosing the nature of the marketing or referral arrangement (including compensation), and any other document required to be provided under applicable law. The fees that MMLIS pays to third parties under these referral arrangements are not passed on to referred clients (i.e., the client is not charged any additional fees or expenses as a result of the referral arrangement) but depending on the circumstances, the existence of such marketing or referral arrangements may affect the amount of MMLIS’ overall fees.

As discussed in Item 10 above, MMLIS is registered as a broker/dealer in addition to being an investment adviser and your adviser also is a registered representative and an insurance agent in addition to being an adviser. MMLIS and your adviser receive cash and non-cash compensation for selling securities and insurance products to implement the recommendations made. In addition, MMLIS provides a variety of investment advisory services other than financial planning that are described in separate disclosure brochures.

In some circumstances, MMLIS is paid a referral fee by other financial planners for referring potential clients to that investment adviser. The referral fee paid to MML Investors Services varies by investment adviser.

## **Item 15 Custody**

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MMLIS and your adviser do not have custody of client funds or securities in connection with the Financial Planning Services described herein.

## **Item 16 Investment Discretion**

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MMLIS and your adviser do not have investment discretion over client assets in connection with the financial planning services described herein.

## **Item 17 Voting Client Securities**

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MMLIS and your adviser do not exercise voting authority over securities in connection with the financial planning services described herein.

## **Item 18 Financial Information**

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A copy of MMLIS’ Consolidated Statement of Financial Condition is included at the end of this brochure.

## **Important Notices to Clients**

To help the government fight the funding of terrorism and money laundering activities, Federal law requires all financial institutions to obtain, verify, and record information that identifies each person who opens an account. What this means for you: When you open an account, we will ask you for your name, address, date of birth and other information that will allow us to identify you. We may ask to see your driver's license or other identifying documents. Similarly, we will ask for identifying information and/or documents for accounts opened on behalf of an entity, rather than an individual (e.g. trusts, corporations). If you cannot provide the information or documentation we require, we may be unable to open an account or effect a transaction for you.

### **PRIVACY POLICY**

We recognize that our relationships with you are based on integrity and trust. As part of that trust relationship, we want you to understand that in order to provide our products and services to you, we must collect, use and share personal information about you. This Privacy Notice describes policies and practices about how we protect, collect and share personal information related to the financial products and services you receive from us. It also describes how you can limit some of that sharing.

#### ***We Protect Your Personal Information By:***

- Using security measures that include physical, electronic and procedural safeguards to protect your personal information from unauthorized access or use in accordance with state and federal requirements.
- Training employees to safeguard personal information and restricting access to personal information to employees who need it to perform their job functions.
- Contractually requiring business partners with whom we share your personal information to safeguard it and use it exclusively for the purpose for which it was shared.

#### ***Personal Information We May Collect:***

The types of personal information we may collect depends on the type of product or service you have with us and may include:

- Information that you provide to us on applications or forms, during conversations with us or our representatives, or when you visit our website (for example, your name, address, Social Security number, date of birth, income and assets).
- Information about your transactions with us and our affiliates, including your account balances and transactional history.
- Information from third parties such as consumer or other reporting agencies or other institutions if you transfer positions or funds to us.

#### ***We May Share All of the Personal Information We Collect, As Described Above, With:***

- Registered representatives who provide our products and services to you;
- Our affiliated companies, such as insurance or investment companies, insurance agencies or broker-dealers that market our products and services to you;
- Companies that perform marketing or administrative services for us;
- Nonaffiliated companies in order to perform standard business functions on our behalf including those related to processing transactions you request or authorize, or maintaining your account;
- Courts and government agencies in response to court orders or legal investigations;
- Credit bureaus; and
- Other financial institutions with whom we may jointly market products, if permitted in your state.

In addition, we may share certain of your personal information with your registered representative, when he or she leaves MML Investors Services to join another financial institution (whom we call a “departing representative”) so that he or she can continue to work with you at his or her new firm.

### **Important Privacy Choices**

MML Investors Services respects your privacy choices. If you prefer that we do not share your personal information about your accounts held with us with your departing representative, you can opt out of such sharing, that is, you may direct us not to do so. If you wish to opt out of the sharing of your personal information with your departing representative you may:

- Call us at (855) 520-7715

You may make this privacy choice and contact us at any time, however, if we do not hear from you, we may share your information with your departing representative as described above. If this is a joint account, if one joint owner tells us not to share information that choice will apply to the other owner or owners. If you have already told us your choice, there is no need to do so again.

Other than as described above, we will only share your personal information as permitted by law and, if the law requires us to obtain your consent or give you the opportunity to opt-out of some types of sharing, we will do so before sharing the information.

For California and Vermont residents, we will not share your personal information with your departing representative unless we receive your express consent.

If you are no longer our customer, we may continue to share your personal information as described in this Privacy Notice.

If you have questions or concerns about this Privacy Notice, please contact us at (855) 520-7715.

***MML Investors Services, LLC and Subsidiaries***

*Consolidated Statement of Financial Condition  
As of December 31, 2020  
With Report of Independent Registered  
Public Accounting Firm Thereon*

This report is filed as a Public document in  
accordance with Rule 17a-5(e)(3)



# ***MML Investors Services, LLC and Subsidiaries***

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KPMG LLP  
One Financial Plaza  
755 Main Street  
Hartford, CT 06103

## **Report of Independent Registered Public Accounting Firm**

To the Member and the Board of Directors  
MML Investors Services, LLC and Subsidiaries:

### *Opinion on the Consolidated Financial Statement*

We have audited the accompanying consolidated statement of financial condition of MML Investors Services, LLC and Subsidiaries (the Company) as of December 31, 2020, and the related notes (collectively, the consolidated financial statement). In our opinion, the consolidated financial statement presents fairly, in all material respects, the financial position of the Company as of December 31, 2020, in conformity with U.S. generally accepted accounting principles.

### *Basis for Opinion*

This consolidated financial statement is the responsibility of the Company's management. Our responsibility is to express an opinion on this consolidated financial statement based on our audit. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statement is free of material misstatement, whether due to error or fraud. Our audit included performing procedures to assess the risks of material misstatement of the consolidated financial statement, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statement. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statement. We believe that our audit provides a reasonable basis for our opinion.

**KPMG LLP**

We have served as the Company's auditor since 2004.

Hartford, Connecticut  
February 18, 2021

***MML Investors Services, LLC and Subsidiaries***

**Consolidated Statement of Financial Condition**

**December 31, 2020**

***(Dollars in thousands)***

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**Assets**

Cash and cash equivalents	\$ 61,533
Cash segregated under federal regulations	5,035
Commissions and other receivables	38,176
Receivables from related parties	4,705
Secured demand notes	150,000
Prepaid expenses and other assets	32,878
Taxes receivable	4,498
Deferred tax assets, net	<u>5,353</u>
Total assets	<u>\$ 302,178</u>

**Liabilities and Equity**

Commissions and trail commissions payable	\$ 73,323
Payables to related parties	19,660
Accounts payable and accrued expenses	15,065
Taxes payable	1,799
Deferred revenue	34,175
Subordinated liabilities under secured demand note collateral agreements	<u>150,000</u>
Total liabilities	<u>294,022</u>
Member's equity	3,590
Retained earnings	<u>4,566</u>
Total equity	<u>8,156</u>
Total liabilities and equity	<u>\$ 302,178</u>

***The accompanying notes are an integral part of this consolidated financial statement.***

## ***MML Investors Services, LLC and Subsidiaries***

### **Notes to Consolidated Statement of Financial Condition**

**December 31, 2020**

***(Dollars in thousands)***

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#### **(1) Organization**

MML Investors Services, LLC (“MMLIS”) is an indirect wholly-owned subsidiary of Massachusetts Mutual Life Insurance Company (“MassMutual” or “Parent”). MMLIS is the retail broker-dealer for MassMutual’s career agency system and offers a wide variety of investment products and services through MassMutual agents and brokers, including open-end mutual funds, fee-based investment advisory programs, limited partnerships, variable insurance products, unit investment trusts, and general securities.

MMLIS is registered as a broker-dealer and investment adviser with the Securities and Exchange Commission (“SEC”), is a member of the Financial Industry Regulatory Authority, Inc. (“FINRA”), and is licensed as a broker-dealer in all 50 states, Puerto Rico, the District of Columbia, and the Virgin Islands.

MMLIS is the parent company of MML Insurance Agency, LLC (“MMLIA”). MMLIA enables MassMutual agents to sell non-MassMutual insurance products and conducts business in all 50 states, Puerto Rico, and the District of Columbia.

MMLIS is the parent company of MMLISI Financial Alliances, LLC (“MFA”). MFA is a Delaware Series limited liability company that was formed to facilitate referrals made by certain professional firms (“Series A members”) to MMLIS, MMLIA, and MassMutual, for products and services. Prior to September 30, 2016, MMLIS owned a 51% controlling interest in MFA and the Series A members collectively owned the remaining 49%. On September 30, 2016 the membership interests for all active Series A members were terminated, at which time MMLIS’s ownership interest increased to 100%. As part of the termination agreement, revenues earned by MFA for the four-year period ending September 30, 2020 were allocated to the terminated Series A members and MMLIS. Beginning October 1, 2020, all revenues earned by MFA are allocated solely to MMLIS. As of December 31, 2020, MFA is in the process of being liquidated.

MMLIS and MMLIA are organized as limited liability companies pursuant to the Massachusetts Limited Liability Act. The sole member of MMLIS is MassMutual Holding, LLC (“MMH”), whose sole member is MassMutual. For federal and most state tax purposes, MMLIS and MMLIA are treated as single member limited liability companies disregarded as separate entities from their sole owners. The financial results of MFA are included with MMLIS for federal and most state tax purposes (see Note 11). MMLIS, MMLIA, and MFA are collectively referred to herein as the “Company.”

## ***MML Investors Services, LLC and Subsidiaries***

### **Notes to Consolidated Statement of Financial Condition December 31, 2020 (Dollars in thousands)**

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#### **(2) Summary of Significant Accounting Policies**

The significant accounting policies are as follows:

##### ***Basis of Presentation and Principles of Consolidation***

The consolidated financial statements include the accounts of MMLIS, MMLIA, and MFA. MMLIS consolidates entities over which it exercises control and has a greater than 50% ownership interest. The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"). All material intercompany accounts and transactions have been eliminated.

The preparation of financial statements in conformity with GAAP requires the use of estimates. Accordingly, certain amounts in these financial statements contain estimates made by management. Actual amounts could differ from those estimates.

##### ***Cash and Cash Equivalents***

The Company considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. The Company maintains its operating cash in bank deposit accounts, which may exceed federally insured limits. The Company has not experienced any losses on such accounts. The Company invests excess cash in money market mutual funds managed by unrelated third parties, which are classified as cash equivalents. At December 31, 2020, there was \$50,355 invested in money market mutual funds, which are recorded at net asset value. Cash segregated under federal regulations includes funds held in a separate bank account for the exclusive benefit of MMLIS's customers, in accordance with Rule 15c3-3 of the SEC (see Note 5).

##### ***Revenue Recognition and Related Expense***

Commissions, Trail commissions, Investment advisory fees, and Other income from customers, which includes distribution fees, marketing support and strategic partnership revenue, and financial planning fees, are earned from contracts with customers. Revenue from contracts with customers is measured based upon the consideration specified in the contract and excludes any sales incentives and amounts collected on behalf of third parties.

The Company recognizes revenue from customers when it satisfies the performance obligation of transferring control over a service to a customer. A performance obligation may be satisfied over time or at a point in time. Revenue from a performance obligation satisfied over time is recognized by measuring the Company's progress in satisfying the performance obligation in a manner that depicts the transfer of the services to the customer.

## ***MML Investors Services, LLC and Subsidiaries***

### **Notes to Consolidated Statement of Financial Condition**

**December 31, 2020**

***(Dollars in thousands)***

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Revenue from a performance obligation satisfied at a point in time is recognized at the point in time that the Company determines the customer obtains control over the promised service. The amount of revenue recognized reflects the consideration to which the Company expects to be entitled in exchange for those promised services (i.e., the "transaction price"). In determining the transaction price, the Company considers multiple factors, including the effects of variable consideration. Variable consideration is included in the transaction price only to the extent it is probable that a significant reversal of cumulative revenue will not occur. This arises when there are no significant uncertainties with the transaction price. When variable consideration is included in the transaction price, the Company considers the range of possible outcomes, the predictive value of our past experiences, the time period of when uncertainties expect to be resolved and the amount of consideration that is susceptible to factors outside of the Company's influence, such as market volatility or the actions of its customers (See Note 3).

For securities held in brokerage accounts, the Company uses National Financial Services, LLC ("NFS") as clearing agent and custodian to process customer trades and hold customer funds.

Certain amounts received by the Company from NFS, associated with costs incurred by MSI Financial Services, Inc. ("MSI") to change clearing firms (which occurred prior to MSI merging with MMLIS in March 2017), are subject to reclaim by NFS if the Company terminates the clearing agreement before October 2024, the end of the initial nine year term. Certain other amounts received from NFS are fully earned by the Company after a specified period following receipt. Accordingly, such amounts are recognized as revenues on a straight-line basis over the claw-back periods. The unearned portion of such payments totaling \$23,379 is included in Deferred revenue on the Consolidated Statement of Financial Condition ("Statement of Financial Condition").

#### ***Fair Value of Financial Instruments***

The reported carrying values of financial instruments, including cash equivalents, receivables, and payables, approximate their fair values because of the short maturities of these assets and liabilities.

The Company's financial assets subject to credit losses are its receivables from registered representatives, which represent commission payments that are due back to the Company. The receivable is recorded at its amortized cost and is included in Prepaid expenses and other assets on the Statement of Financial Position. In monitoring the credit quality of the receivable, the Company records an allowance for credit losses to reflect the expected amount that will be collected. The allowance is calculated based on collection experience for both active and termed registered representatives. Consideration for future events is not a specific factor in calculating the reserve due to the nature of the receivable.

At December 31, 2020, the receivable from registered representatives totaled \$338, which is net of an allowance for credit losses of \$974.

## ***MML Investors Services, LLC and Subsidiaries***

### **Notes to Consolidated Statement of Financial Condition**

**December 31, 2020**

***(Dollars in thousands)***

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#### ***Income Taxes***

Income taxes are based upon the Company's best estimate of its current and deferred tax assets and liabilities. MFA is a disregarded entity of MMLIS. As such, all MFA income and related taxes are included in MMLIS's financial results.

Deferred income taxes are provided for temporary differences that exist between financial reporting and tax bases of assets and liabilities. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The Company's temporary differences primarily include accrued liabilities and prepaid expenses. The effective tax rate is different from the prevailing corporate U.S. federal tax rate primarily due to permanent differences caused by items such as state taxes.

#### ***Errors and Omissions Claims/Recoveries***

The Company records costs associated with errors and omissions claims as incurred. Recovery of such costs may be received from registered representatives, MassMutual general agents, or from errors & omissions insurance.

#### ***New Accounting Pronouncements***

On January 1, 2020, the Company adopted Accounting Standard Update ("ASU") No. 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, which is effective for periods beginning after December 15, 2019. This guidance adopts the current expected credit loss ("CECL") impairment model which only applies to financial assets carried at amortized cost, including mortgage loans, equipment loans, held to maturity debt securities, and trade, lease, reinsurance and other receivables. CECL is based on expected credit losses rather than incurred losses. CECL is defined as an estimate of all contractual cash flows not expected to be collected from a recognized financial asset (or group of financial assets) or commitment to extend credit. In determining the expected credit loss, the Company is required to consider (a) all available information including historical, current and reasonably supportable forecasts; (b) the entire contractual term of the financial asset; and (c) the time value of money. An estimate of expected credit losses always reflects both the possibility that a credit loss results and the possibility that no credit loss results. Accordingly, this guidance prohibits an entity from estimating expected credit losses solely on the basis of the most likely outcome. Therefore, all financial assets within scope of CECL will have a credit loss allowance. Since the Company has historically recorded an allowance for credit losses against its financial assets that are held at amortized cost, a cumulative effect adjustment to retained earnings was not required. As such, the impact of this guidance did not have a significant effect on the Company's consolidated financial statements.

## ***MML Investors Services, LLC and Subsidiaries***

### **Notes to Consolidated Statement of Financial Condition**

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#### **(3) Revenues from Contracts with Customers**

The following provides detailed information on the recognition of the Company's revenue from contracts with customers.

Commission revenue is earned by the Company as the broker-dealer intermediary on the sale of mutual funds and variable products, and for the sale, execution and settlement of securities transactions within brokerage accounts for customers. This revenue, as well as the related commission, clearing, and distribution costs to fulfill, are recorded at a point in time on trade date, as the performance obligation is satisfied when the securities transactions occur. Commission revenue is primarily earned based upon transaction-based pricing as a percentage of the related sales, payment of which is generally received in arrears either on a weekly or a monthly basis. The Company estimates its accruals for revenues earned from mutual fund sales based upon historical cash receipts over the period from trade date to settlement date. Commission revenue is also earned for supervision and oversight over the distribution of variable products issued by MassMutual. This revenue, as well as the related commission costs to fulfill, is recorded at a point in time as the performance obligation is satisfied when the variable product is issued or renewed (see Note 4). Commissions payable associated with mutual fund and variable product sales is accrued concurrently using the actual payout rate.

Trail commission revenue, which represents asset-based 12b-1 fees paid to the Company by open-end mutual fund companies as well as insurance carriers for variable annuities, are determined based upon the 12b-1 fee rate and average assets under management. These revenues represent a series of distinct services that are substantially the same and have the same pattern of transfer. Services are provided on a daily basis, which represents a performance obligation that is satisfied over time. The Company uses the same measure of progress to determine consideration. Trail revenues are a form of variable consideration since the fees the Company is entitled to vary based upon the customer maintaining assets in their account. Related commission expenses are recognized as the revenue is earned. The Company estimates its accruals for revenues earned in arrears based upon historical cash receipts or assets under management in current and prior periods, as applicable. Commissions payable are accrued concurrently using the actual payout rate.

Investment advisory fee revenue, which represents asset based fees paid by customers for advisory and referral services related to investments in managed account programs, are determined based upon a percentage of assets under management and represent a series of distinct services that are substantially the same and have the same pattern of transfer. Services are provided to the customer on a daily basis, which represents a performance obligation that is satisfied over time as the customer simultaneously receives and consumes the benefits provided by the Company. The Company uses the same measure of progress to determine when the consideration should be recognized. Payments are generally received in advance on a quarterly basis and are recognized evenly throughout the quarter. Investment advisory revenues are a form of variable consideration since the fees the Company is entitled to vary based upon fluctuations related to market performance and the ambiguity related to investor behavior. As such, the revenue is constrained until each month-end when a portion of the revenue becomes known. Related commission expenses, which are a cost to fulfill, are recognized as the revenue is earned. The Company estimates its accruals for revenues received in arrears based upon the volume of transactions, cash receipts, or assets under management in current and prior periods, as applicable. Commissions payable are accrued concurrently using the actual payout rate.



## ***MML Investors Services, LLC and Subsidiaries***

### **Notes to Consolidated Statement of Financial Condition**

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Other income from customers includes distribution fees, marketing support and strategic partnership revenue, and financial planning fees.

Distribution fees represent fees paid to the Company by MassMutual in connection with underwriting and servicing related to the promotion, offering, marketing, and distribution of MassMutual proprietary variable products. Services are provided on a daily basis, which represents a performance obligation that is satisfied over time. Fees are calculated based on actual expenses incurred and are billed and received monthly in the month the services are performed. (See Note 4).

Marketing support and strategic partnership revenue represents fees paid to the Company by product sponsors, generally mutual fund and variable life and annuity issuers, based on either prior or anticipated sales of their products or an agreed upon amount. Services provided may include training, educational conferences, and sales material that support the product sponsors offerings. These services are provided on a daily basis, which represents a performance obligation that is satisfied over time. The Company estimates its accruals for revenues earned based upon either cash trending for sales agreements or actual cash receipts for flat fee agreements. Payments are generally received quarterly. There are no costs to obtain or fulfill the contract associated with this revenue.

Financial planning fees are paid by customers for providing them with financial planning services. The customer may pay the fee up front, over a period of time, or upon receipt of the financial plan. The performance obligation is satisfied upon delivery of the financial plan, generally within six months, at which time revenue is recognized. Related commission expenses, which are a cost to fulfill, are recognized as the revenue is earned. MMLIS records deferred revenue, which is a contract liability, when consideration is received in advance of providing financial planning services. Deferred financial planning fees are included in Deferred revenue on the Statement of Financial Condition and are recognized in the subsequent year.

#### **Contract Assets**

The timing of the Company's revenue recognition may differ from the timing of payment by its customers. The Company records receivables when revenue is recognized prior to payment and it has an unconditional right to payment. Alternatively, when payment precedes the provision of the related services, the Company records prepaid commission expense associated with the advance payment, which is included in Prepaid expenses and other assets on the Statement of Financial Condition, until the performance obligations are satisfied.

***MML Investors Services, LLC and Subsidiaries***

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The Company recorded the following contract assets at December 31, 2020 and 2019:

	<u><b>2020</b></u>	<u><b>2019</b></u>
Commissions, trails, and other receivables	\$ 39,521	\$ 40,520
Commissions, trails, and other receivables from related parties	6,423	6,480
Prepaid financial planning commissions	<u>10,154</u>	<u>5,884</u>
<b>Total Contract Assets</b>	<u><b>\$ 56,098</b></u>	<u><b>\$ 52,884</b></u>

Changes in contract assets are the result of ordinary business activities.

**Contract Costs**

The Company incurred transaction-related costs to fulfill its contracts with customers for which the following contract liabilities were recorded at December 31, 2020 and 2019:

	<u><b>2020</b></u>	<u><b>2019</b></u>
Commissions payable	\$ 73,323	\$ 65,932
Distribution support payable to MassMutual	1,128	874
Deferred financial planning fees	<u>10,796</u>	<u>6,377</u>
<b>Total Contract Liabilities</b>	<u><b>\$ 85,247</b></u>	<u><b>\$ 73,183</b></u>

All Deferred financial planning fees and related prepaid commissions at December 31, 2019 were recognized in 2020. Changes in contract liabilities are the result of ordinary business activities.

**(4) Related Party Transactions and Agreements**

Through underwriting and service agreements, MMLIS is either the retail distributor or the principal underwriter of certain variable life insurance policies and variable annuity contracts issued by MassMutual and its direct and indirect wholly-owned subsidiaries C.M. Life Insurance Company (“C.M. Life”) and MML Bay State Life Insurance Company (“MML Bay State”), respectively. In addition, MMLIS is the sub-distributor of the MassMutual Premier Funds and MassMutual Select Funds (the “MassMutual Funds”) and is placement agent for certain unregistered private placement life insurance and annuity contracts issued by MassMutual. MassMutual agents and brokers who are MMLIS registered representatives sell these above referenced policies, contracts, funds, and private placements for which they receive commissions.

## ***MML Investors Services, LLC and Subsidiaries***

### **Notes to Consolidated Statement of Financial Condition**

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MMLIS provides broker-dealer and distribution services related to retirement products offered by MassMutual through its Individual Retirement Account (“MMIRA”) Program, for which MMLIS earned commissions in 2020. MMLIS incurred distribution support costs from services provided by MassMutual in 2020 associated with this program.

In accordance with the terms of MMLIS’s agreement with MassMutual for the distribution and servicing of registered 401(k) retirement products, MMLIS earned commission and trail revenue in 2020 and incurred distribution support costs from services provided by MassMutual equal to these revenues.

Invesco Distributors, Inc. (“IDI”) is a related party of the Company, per Accounting Standards Codification (“ASC”) 850, *Related Party Disclosures*, through MassMutual’s ownership and significant influence over IDI’s parent, Invesco, Ltd. MMLIS receives trail commissions from IDI as a result of client investment selections that are available in MassMutual retirement products purchased in connection with IRA rollovers and its Retirement Management Account (“RMA”) program. In 2020, MMLIS earned trail commission revenues related to the IRA rollovers and the RMA program and paid distribution support costs equal to these revenues to MassMutual.

On December 31, 2020, MassMutual completed the sale of its retirement plan business to Great-West Life & Annuity Insurance Company (Great-West). MMLIS will no longer provide broker-dealer and distribution services related to the above retirement products.

Pursuant to the distribution and servicing agreements noted above with MassMutual, C.M. Life, and MML Bay State, MMLIS is also compensated for distribution services.

MMLIS earned commissions and trail commissions in 2020 from IDI. The commissions are paid in accordance with the terms of the prospectuses of the individual funds. In addition, the Company earned marketing support from IDI in 2020.

MMLIS has an agreement with the MassMutual Trust Company, FSB (“MMTC”), a wholly-owned subsidiary of MassMutual, for the solicitation and referral of trust fiduciary services. Under the terms of the agreement, MMLIS earned referral fees from client assets invested through MMTC.

All employees of the Company are direct employees of MassMutual. Employee related costs are charged to the Company as part of Management fee expense, in accordance with an intercompany service agreement with MassMutual. For purposes of disclosure within these statements, MassMutual employees who perform work for the Company are referred to as MMLIS employees.

## ***MML Investors Services, LLC and Subsidiaries***

### **Notes to Consolidated Statement of Financial Condition**

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MMLIS's eligible employees and retirees are covered by MassMutual's employees' benefit plans, which provide benefits for certain of its active and retired employees. These benefit plans include funded and unfunded non-contributory defined benefit pension plans, funded (qualified 401(k) thrift savings) defined contribution plans, disability plan, and life and health insurance that is provided through group insurance contracts, some of which are issued by MassMutual. These plans comply with the requirements established by the Employee Retirement Income Security Act of 1974 ("ERISA"). As the plan's sponsor, MassMutual retains the liabilities. MMLIS funds the costs of these plans as they are incurred, which are settled on a monthly basis.

Applicable information regarding the actuarial present value of vested and non-vested accumulated plan benefits and the net assets of the plan available for benefits is omitted, as the information is not separately available for the Company's participation in the pension plan.

MassMutual provides certain life insurance and healthcare benefits (other post-retirement benefits) that cover MMLIS's eligible retired employees and their beneficiaries and covered dependents. The healthcare plan is contributory; a portion of the basic life insurance plan is noncontributory. These benefits are funded by MassMutual as the benefits are provided to the participants. In addition, MassMutual provides access to health insurance coverage for covered retirees and their dependents through a private insurance marketplace, along with a company-funded health reimbursement account.

MassMutual provides retiree life insurance coverage for the Company's eligible employees, who as of January 1, 2010, were age 50 with at least 10 years of service or had attained 75 points, generally age plus service, with a minimum of 10 years of service.

The Company has service agreements with MassMutual that provide for the performance by MassMutual of certain services for the Company including, but not limited to, information systems, benefit plan administration, payroll, legal, compliance, licensing, cash management, and other general corporate services for which MMLIS is charged a management fee. While management believes that these fees are calculated on a reasonable basis, they may not be indicative of the costs that would have been incurred on a stand-alone basis.

MMLIS provides services to MML Strategic Distributors, LLC ("MSD") and MML Distributors, LLC ("MMLD"), both wholly-owned subsidiaries of MassMutual, including, but not limited to, accounting and other general corporate services. Under the service agreements, MSD and MMLD pay management fees to MMLIS for these services.

***MML Investors Services, LLC and Subsidiaries***

**Notes to Consolidated Statement of Financial Condition  
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***Receivables and Payables to Related Parties***

Receivables from related parties consist of the following as of December 31, 2020:

Commissions due from MassMutual	\$ 3,499
Referral fees due from MMTC	1,110
Management fees due from MMLD	13
Management fees due from MSD	5
Other due from MassMutual	<u>78</u>
<b>Receivables from related parties</b>	<b><u>\$ 4,705</u></b>

In addition, commissions, trails, and marketing support receivables from related parties of \$2,924 are included in Commissions and other receivables on the Statement of Financial Condition.

Payables to related parties consist of the following as of December 31, 2020:

Management fees due to MassMutual	\$ 17,315
Distribution support and other costs due to MassMutual	2,326
Secured Demand Note interest due to MassMutual Holding	<u>19</u>
<b>Payables to related parties</b>	<b><u>\$ 19,660</u></b>

Related party receivables and payables are reviewed monthly. Certain management fees are net settled against distribution fees in the current month. All other intercompany balances are generally settled in the following month.

The Company reviews current and future capital needs with its parent on at least an annual basis to ensure that adequate capital is maintained.

**(5) Customer Protection Reserve under SEC Rule 15c3-3**

As a fully computing broker-dealer registered with the SEC, MMLIS is subject to the SEC's Customer Protection rule ("Rule 15c3-3") and is required to maintain a separate bank account designated as "Special Account for the Exclusive Benefit of Customers of MML Investors Services, LLC" for customer funds received. As of December 31, 2020, the balance in this account totaled \$5,035, which is in excess of the required balance, and is included in Cash segregated under federal regulations on the Statement of Financial Condition.

## ***MML Investors Services, LLC and Subsidiaries***

### **Notes to Consolidated Statement of Financial Condition**

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#### **(6) Net Capital Requirements**

As a broker-dealer, MMLIS is subject to the SEC's Uniform Net Capital rule ("Rule 15c3-1"), which requires the maintenance of minimum net capital. Advances to affiliates, dividend payments, and other equity withdrawals are subject to certain notification and other provisions of Rule 15c3-1 and other regulatory requirements. In addition, in accordance with FINRA Rule 4110, equity capital may not be withdrawn for a period of one year after a contribution is made, unless otherwise permitted by FINRA, nor may a dividend be paid in any rolling 35-calendar-day period that would exceed 10 percent of excess net capital. The Company operates under the alternative standard of calculating its minimum net capital, which requires the Company to maintain as its capital the greater of \$250 or 2% of aggregate debits used in computing its reserve requirement. Accordingly, the minimum net capital required is \$250. At December 31, 2020, the Company had net capital of \$121,341, which was \$121,091 in excess of its required net capital.

Certain net assets of MMLIA are included as allowable capital in the consolidated computation of MMLIS's net capital since these assets of the wholly owned subsidiary are readily available for the protection of the Company's customers, broker-dealers, and other creditors, as permitted by SEC Rule 15c3-1.

MFA is accounted for using the equity method of accounting for the purpose of filing MMLIS's FOCUS Report with FINRA, in accordance with FINRA regulations, and is included as a non-allowable asset in the computation of the Company's net capital.

The following is a summary of certain financial information for MFA that is not included in MMLIS's net capital computation in its FOCUS Report as of December 31, 2020:

	<b>MFA</b>	
Assets	\$	69
Liabilities	\$	4
Equity	\$	65

#### **(7) Secured Demand Notes**

The Company holds four Secured Demand Note Collateral Agreements ("SDN") with MMH pursuant to which MMH transferred securities and/or cash to the Company to collateralize MMH's obligation to lend \$150,000 (\$37,500 per SDN) to the Company. The agreements are scheduled to mature on May 14, 2021, May 15, 2023, May 15, 2025, and May 14, 2027, respectively. (See note 12).

At December 31, 2020, the collateral for the outstanding SDNs consisted of U.S. Government securities and cash equivalents with a fair value approximating \$228,694. The Company has not exercised its right to sell or repledge the collateral.

## ***MML Investors Services, LLC and Subsidiaries***

### **Notes to Consolidated Statement of Financial Condition**

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The corresponding liabilities, “Subordinated liabilities under secured demand note collateral agreements,” on the Statement of Financial Condition are subordinate to the claims of general creditors. To the extent that subordinated borrowings are required for the Company’s continued compliance with the minimum net capital requirements under Rule 15c3-1, they may not be repaid.

#### **(8) Litigation, Regulatory Inquiries, Commitments and Contingencies**

The Company is involved in litigation arising in and out of the normal course of business, including, but not limited to, alleged registered representative misconduct, which seeks both compensatory and punitive damages. The Company is, from time to time, also involved in regulatory investigations, inquiries, and internal reviews, certain of which are ongoing. In all such regulatory matters, the Company has and is cooperating fully with the applicable regulatory agency or self-regulatory organization.

The Company evaluates the need for accruals of loss contingencies for each matter. When a liability for a matter is probable and can be estimated, the Company accrues an estimate of the loss and related insurance recoveries, if any. An accrual is subject to subsequent adjustment as a result of additional information and other developments. The resolution of matters are inherently difficult to predict, especially in the early stages of the matter. Even if a loss is probable, due to many complex factors, such as speed of discovery and the timing of court decisions or rulings, a loss or range of loss may not be reasonably estimated until the later stages of the matter. For matters where a loss is material and it is either probable or reasonably possible, then it is disclosed. For matters where a loss may be reasonably possible, but not probable, or is probable but not reasonably estimated, no accrual is established, but the matter, if material, is disclosed. As of December 31, 2020, the Company has \$7,321 included in Accounts payable and accrued expenses on the Statement of Financial Condition for accrued loss contingencies.

On February 16, 2021, a putative class action was filed in the U.S. District Court for the District of Massachusetts against the Company including allegations relating to personal trading in GameStop securities by a former employee and the Company’s alleged failure to supervise the individual. The Company intends to vigorously defend itself.

In the normal course of business, the Company indemnifies and guarantees clearing agents against specified potential losses in connection with their acting as an agent of, or providing services to, the Company or its affiliates. Pursuant to the terms of the agreements between the Company and the clearing agents, the clearing agents have the right to charge the Company for losses that result from a counterparty’s failure to fulfill its contractual obligations. The maximum potential amount of future payments that the Company could be required to make under these indemnifications cannot be estimated. However, the Company believes that since it only trades with customer invested funds, that it is unlikely it will have to make material payments under these arrangements and has not recorded any contingent liability in the consolidated financial statements for these indemnifications as of December 31, 2020. In addition, the Company has the right to pursue collection or performance from the counterparties who do not perform under their contractual obligations.

## ***MML Investors Services, LLC and Subsidiaries***

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#### **(9) Broker's Bond**

The Company carries a broker's blanket fidelity bond in the amount of \$2,000. In addition, the Company is afforded additional coverage under the MassMutual Corporate Fidelity Bond Program in the amount of \$100,000.

#### **(10) Deferred and Incentive Compensation Plans**

Nonqualified deferred compensation plans (unfunded defined contribution plans) are offered by MassMutual allowing certain executives to elect to defer a portion of their compensation.

Key employees of the Company are eligible to participate in a long-term incentive compensation plan sponsored by MassMutual. An individual employee's participation may vary from one cycle to the next based on performance, impact on organization and relative contribution. Awards vest over three years, at which time they are paid in cash, and are subject to forfeiture in the event of termination prior to vesting (other than retirement, death, disability or job elimination).

A short-term incentive compensation plan exists that is offered to substantially all employees not covered by another incentive plan. Employees are eligible for an annual bonus based upon certain factors, including individual and company performance.

MMLIS records the costs of these plans as they are incurred on a monthly basis. The costs associated with these plans are settled on an annual basis, or such other time after payment is made to the employees.

#### **(11) Income Taxes**

The Company is included in a consolidated U.S. federal income tax return with MassMutual and its eligible U.S. subsidiaries. The Company also files income tax returns in various states. MassMutual, and its eligible subsidiaries and certain affiliates (the "Parties"), including the Company, have executed and are subject to a written tax allocation agreement (the "Agreement"). The Agreement sets forth the manner in which the total combined federal income tax is allocated among the Parties. The Agreement provides the Company with the enforceable right to recoup federal income taxes paid in prior years in the event of future net losses that it may incur. Further, the Agreement provides the Company with the enforceable right to utilize its net losses carried forward as an offset to future net income subject to federal income taxes.

The Internal Revenue Service ("IRS") has completed its examination of the years 2016 and prior. The IRS commenced its exam of years 2017-2018 in October 2020. The Company does not expect a material change in its financial position or liquidity as a result of the audit.



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Companies generally are required to disclose unrecognized tax benefits, which are the tax effect of positions taken on their tax returns which may be challenged by the various taxing authorities, in order to provide users of financial statements more information regarding potential liabilities. Management has determined that no reserves for material uncertain tax positions are required at December 31, 2020.

The tax effects of temporary differences that give rise to significant portions of the deferred tax liabilities and deferred tax assets as of December 31, 2020 are as follows:

**Deferred tax assets:**

Legal and other accruals	\$ 2,699
Deferred revenue	<u>5,263</u>
Total deferred tax assets	<u>7,962</u>

**Deferred tax liabilities:**

Prepaid commissions	2,286
Prepaid expenses	<u>323</u>
Total deferred tax liabilities	<u>2,609</u>

<b>Net deferred tax asset</b>	<b><u>\$ 5,353</u></b>
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In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the amount of taxes paid in prior years, scheduled reversal of deferred tax liabilities, projected future taxable income and tax planning strategies in this assessment. The Company has established valuation allowances when it is more likely than not that deferred tax assets will not be realized.

**(12) Subsequent Events**

The Company has evaluated subsequent events through February 18, 2021 the date the financial statement was available to be issued. The following event has occurred subsequent to the balance sheet date and before the date of evaluation:

In January 2021, the Company amended the terms for three of its SDN agreements that mature on May 15, 2023, May 15, 2025, and May 14, 2027, respectively, to extend the maturity date of each agreement by one year and to include an auto-renew provision.