

PRESS RELEASE

JANET NAPOLITANO
GOVERNOR



CHRISTINA URIAS
DIRECTOR

ARIZONA DEPARTMENT OF INSURANCE

2910 North 44th Street, Suite 210, Phoenix, Arizona 85018-7256 · (602) 912-8456 · FAX: (602) 912-8452

www.id.state.az.us

Media Contact: Erin Klug
Public Information Officer
(602) 912-8456

October 20, 2005
For Immediate Release

Arizona Variable Annuity Investors to Receive \$97,000 in Refunds Waddell & Reed, Inc. Enters Settlement to Resolve Charges of Inappropriate Variable Annuity Exchanges

PHOENIX – The Arizona Department of Insurance (ADOI) entered into a multi-state settlement with Waddell & Reed, Inc. and W&R Insurance Agency, Inc. (collectively, “Waddell & Reed”), to resolve allegations of inappropriate variable annuity sales transactions. Waddell & Reed agreed to pay \$31,773 in penalties and return approximately \$97,000 to Arizona investors financially harmed as a result of 81 variable annuity exchanges.

The Arizona Corporation Commission (Securities Division)¹ joined ADOI in the settlement and the two agencies will equally divide the penalties for deposit into the State General Fund. The NASD² and various state insurance and securities regulators negotiated a total multi-state settlement involving the return of \$11 million to investors nationwide.

Because variable annuities contain both insurance and securities features, both the ADOI and the Corporation Commission regulate variable annuity sales. The ADOI licenses the producers (agents) and insurers that sell variable annuities and the Corporation Commission registers and oversees securities dealers and salespersons.

Waddell & Reed variable annuity customers ~ watch your mailbox!

You may be eligible for certain refunds if a Waddell & Reed financial advisor exchanged your variable annuity with *United Investors Life Insurance Company* for a variable annuity with *Nationwide Life Insurance Company* between January 1, 2001 and August 2002.

Visit www.wrsettlementadmin.com

to learn more.

¹ Corporation Commission’s Public Information Officer is Heather Murphy, (602) 542-0844.

² The National Association of Securities Dealers (NASD) entered a separate settlement with Waddell & Reed in April 2005.

Consumer Harm

Waddell & Reed instructed its financial advisers to systematically recommend that customers exchange their *United Investors Life Insurance Company* variable annuities for *Nationwide Life Insurance Company* variable annuities, thereby increasing their sales commissions, but resulting in significant financial harm to their customers given the cost consequences of the exchange. In most of these cases, the annuity customers paid significant surrender penalties, received reduced benefits, and/or paid higher fees over the life of the annuity, including:

- Increased mortality and expense (M&E) charges
- Increased surrender period
- Decreased death benefits
- Empty “Bonus Rider”, and/or
- New fees for previously provided benefits.

“Waddell & Reed and its advisers benefited from these unsuitable transactions by generating new commissions and additional fees for themselves, at the expense of their customers in Arizona and nationwide. These settlements puts the money back in the hands of the consumers, where it rightfully belongs,” said Christina Urias, Arizona Insurance Director.

Restitution

The settlement agreement requires Waddell & Reed to send notification letters to their Arizona customers by October 31, 2005, affording eligible customers the option to receive refunds by check or account deposit by December 31, 2005.

The refunds will include reimbursement of the surrender penalties and some annuity holders will receive additional compensation because they were eligible for an annuity with richer benefits and lower fees, but Waddell & Reed moved them to an inferior product with higher commissions. Waddell & Reed will also increase the death benefits of annuity holders whose exchange resulted in a decreased death benefit and they have already reimbursed customers who purchased a seemingly empty “bonus rider” credit which was unlikely to ever materialize.

Existing Waddell & Reed annuity holders should visit www.wrsettlementadmin.com or call the NASD at (800) 695-5416 for more information about their refund eligibility.

###