



State of Wisconsin

Jim Doyle, Governor
Jorge Gomez, Insurance Commissioner
Lorrie Keating Heinemann, Secretary,
Department of Financial Institutions

PRESS RELEASE

FOR IMMEDIATE RELEASE
November 30, 2005

DFI and OCI Censure Waddell & Reed for Mishandling Customers' Accounts

Madison, WI – In a jointly issued consent order, the Wisconsin Department of Financial Institutions (DFI)-Division of Securities and the Office of the Commissioner of Insurance (OCI) have censured Waddell & Reed, Inc. and W & R Insurance Agency for mishandling variable annuity investments held by their customers and for "dishonest or unethical practices." Waddell & Reed has been ordered to pay restitution of \$11 million nationwide to compensate customers who were persuaded to exchange their variable annuity investments from one company to another for the sole purpose of acquiring additional income for Waddell & Reed as well as additional commissions and fees for their agents.

"It is important to be cautious when making an exchange," Wisconsin Insurance Commissioner Jorge Gomez said. "Consumers should compare the cost of riders and various charges of their current policy with those of the proposed policy. They also need to consider whether there is a need for new features, a loss of liquidity because of a new surrender period, or a possible surrender charge on the old policy."

Secretary Lorrie Keating Heinemann of DFI added "This case is a good example of the tremendous results that can be achieved by collaboration between state agencies. Investors who were hurt by Waddell & Reed's actions will receive both a refund and the information they need to determine if this was an appropriate investment."

Of the 239 variable annuity exchanges in Wisconsin, those who were negatively affected by this situation will receive a notice from Waddell & Reed before the month of March. The mailing will contain information confirming minimum guaranteed contract death benefits. Certain affected customers will also receive compensation from Waddell & Reed for surrender charges incurred and as an adjustment in contract value.

(more)

Both OCI and DFI were involved in the investigation since variable annuities have features of both securities and insurance products.

In addition, Waddell & Reed agreed to pay a civil monetary penalty of more than \$45,000 to the state to be used to develop a program for investor education with respect to annuity products. In a separate settlement, Waddell & Reed has consented to an order with the NASD* to pay a fine of \$5 million and take corrective action in its policies and oversight of its agents.

The consent order is a result of an investigation by a multi-state group of securities and insurance regulators into Waddell & Reed's suitability determinations and sales practices. Waddell & Reed, based in Overland Park, Kansas, sells mutual funds, insurance products through affiliated insurance agents, variable annuities, variable life and financial planning services. Customers can purchase investments in Waddell & Reed's mutual funds directly or as the investment component of variable annuities underwritten by an insurance company and sold by Waddell & Reed.

* The NASD is the primary private-sector regulator of the American securities industry.

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