

# California Department of Insurance Four-Hour Annuity Training Outline

## Topics to be included in the California Insurance Agents' Training Courses Annuity Suitability Transactions

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### **Background**

Section 1749.8 of the California Insurance Code took effect on January 1, 2005. This law requires that California resident and non-resident life agents who sell annuity products must first complete eight (8) hours of annuity training that is approved by the California Department of Insurance (CDI). In addition, the law also requires life agents who sell annuity products to satisfactorily complete an additional four hours of annuity training every two years prior to their license renewal. For resident agents, this requirement is part of, and not in addition to, their continuing education requirements.

In addition, Assembly Bill (AB) 689 (Chapter 295, Statutes of 2011) Insurance Annuity Transactions became effective January 2, 2012. AB 689 adds Section 10509.915(a) to the California Insurance Code which states that an insurance producer shall not solicit the sale of an annuity product unless the insurance producer has adequate knowledge of the product to recommend the annuity and the insurance producer is in compliance with the insurer's standards for product training. Insurance producers may rely on insurer-provided product-specific training standards and materials to comply with the product-specific training requirement. Please note that AB 689 does not change the annuity training requirements which are stated in Section 1749.8 of the California Insurance Code. The annuity product-specific training is a separate requirement from the eight and four-hour annuity training noted above.

The training curriculum in this four-hour outline is consistent with Section IX, X, and XII of the California Department of Insurance Eight-Hour Annuity Training Outline, Topics to Be Included in Eight-Hour Annuity Training Course. The outline is available on CDI's website at [www.insurance.ca.gov](http://www.insurance.ca.gov). Attachment III – Penalties – Annuity Training from the Eight-Hour Annuity Training course is also available at the end of this outline.

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### **Curriculum Objective – Training Goals**

At the conclusion of this four-hour course, the student shall:

- Be able to identify the information required to be included, types of statements that may not be used, and inappropriate advertisements when advertising annuity products for persons 65 years or older
- Be able to define and identify prohibited sales practices for annuities
- Understand the prohibited sales practice of Pretext Interviews, “unnecessary replacement”, and the requirements for in-home solicitations of annuity products
- Be able to understand the Medi-Cal Guideline requirements regarding annuity suitability transactions
- Be aware of the causes for license suspension and penalties in annuity product sales
- Understand the ethical responsibilities of the agent and insurance company when selling annuities

**These courses should not be used as an opportunity to persuade, indoctrinate or enlighten agents on a particular philosophy, a political or a public policy position. Opinions about state or federal legislation or forecasting the success or failure of legislation should not be included in these courses. Moreover, absolutely no marketing information is allowed in annuity courses.**

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Disclaimer - The California Department of Insurance is released of responsibility for approved course materials that may have a copyright infringement. In addition, no course approved for either prelicensing or continuing education hours or any designation resulting from completion of such courses should be construed to be endorsed by the Commissioner.

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Annuity Suitability Transactions

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<sup>1</sup> Based on a 50-minute credit hour standard.

<sup>2</sup> Based on a standard text of approximately 1 credit hour per 10 pages of text with 44 lines per page and 12 or more words per line depending on the degree of difficulty of the material a minimum of 4,600 words for each hour of credit.

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### **I. Identify and discuss suitability** **5%**

In recommending that individual consumers, including consumers over the age of 65, purchase or exchange an annuity, the insurance producer (or insurer where no producer is involved), must have reasonable grounds for believing that the recommendation is suitable for the individual consumer on the basis of the facts disclosed by the individual consumer as to his or her investments and other insurance products and as to his or her financial situation, needs, and objectives.

- A. Licensing requirements for life-only agents
  - 1. Training (section 1749.8 of the CIC)
- B. Checklist as required by Section 10509.914(e) of the CIC
- C. Insurer responsibilities as required by Section 10509.914 (f)(D) and (E) of the CIC

### **II. Appropriate advertising (Section 1725.5 and 1726 of the CIC)** **30%**

- A. General advertising (Section 1725.5 and 1726 of the CIC)
  - 1. Definition of advertisement: envelopes, stationary, business cards
    - a. Required information to be displayed
    - b. Use of the word "insurance"
    - c. License number
  - 2. Seminars, classes, informational meetings
    - a. Required information to be displayed
    - b. Use of the word "insurance"
    - c. License number
  - 3. Direct mailers
  - 4. Advertisements, coverages, and advertisers may not in anyway imply a product is endorsed by or related to any government agencies (Section 787 of the CIC)
  - 5. Fines and penalty
  - 6. Internet advertising (Section 1726 of the CIC)
- B. Specific advertising to seniors (Section 787 of the CIC)

### **III. The rights and obligations of the insurance producer at contract inception** **5%**

- A. Required disclosures (Section 789.8 of the CIC)
- B. Product specific illustrations (e.g. sales aides) (Section 1725.5, 1726, 10127.11 of the CIC)
- C. Replacement (Section 10509.4, 10509.8 of the CIC)

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D. Importance of reviewing sample contracts

### **IV. Prohibited sales practices**

**35%**

A. Selling annuities for Medi-Cal eligibility (Section 789.9 of the CIC)

1. Selling annuity to persons 65 years and older for purpose of qualifying for Medi-Cal is prohibited if:

- a. If assets are equal to or less than community spouse resource allowance
- b. Senior otherwise qualifies
- c. After purchase senior or spouse does not qualify for Medi-Cal

B. In-Home Solicitations: 24-hour Notice requirement for persons 65 years and older (Section 789.10 of the CIC)

1. Criteria

a. For persons 65 years and older

2. Content of written notice

3. Can not misrepresent true content of meeting

C. Sharing commissions with attorney (Section 1724 of the CIC)

D. Unnecessary replacement (Section 10509.8 and 10509.914 of the CIC)

1. Define "unnecessary replacement"

a. Pay a surrender charge

b. Define substantial financial benefit

2. Examples of unnecessary replacement

3. Replacement of annuities including individuals over 65 years of age or older

E. Bait and switch

1. Pre-text interview-definition and examples

2. Long term care sales

3. Unauthorized practice of law-drafting, delivering, interpreting legal documents (Section 6125 of the Business and Professions Code)

F. Cause for suspension (Section 1668.1 of the CIC)

1. Loans

2. Agent beneficiaries, trustee, and power of attorney

3. Benefits payable to family or friends of agent

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### a. Exceptions

#### G. Penalties (Section 782, 789.3, 1738.5, 10509.9 of the CIC) (Attachment III)

1. Violation of provisions in Section 780 or 781 of the CIC (Section 782 of the CIC)
2. Administrative penalty, amounts, rescission of contracts (Section 789.3 of the CIC)
3. Allegations of misconduct against a person 65 year or over (Section 1738.5 of the CIC)

#### **V. SB 483, Kuehl (Chapter 379, Statutes of 2008) Medi-Cal: home and facility care** **5%**

- A. Home equity limits (Section 14006.15(c) of the Welfare and Institutions Code)
- B. Establishment of hardship exception (Section 14015.1, 10415.2 of the Welfare and Institutions Code)
- C. Look-back period (Section 14015(c) of the Welfare and Institutions Code)
- D. Establishment of requirements related to annuities, designated beneficiaries, and California's role as a remainder beneficiary of annuities (Section 14006.15(a)(2) 14006.41(b), 14009.6 of the Welfare and Institutions Code)
- E. Effect of annuity income on Medi-Cal threshold
- F. Duty of honesty, good faith, and fair dealing; breach of duty (Section 785 of the CIC)

#### **VI. The importance of determining client suitability for annuity sales (Sections 10509.913 and 10509.914 of the CIC). For example:** **10%**

- A. Identify the need for information prior to making recommendations
  1. Age of the consumer
  2. Financial status of the consumer
    - a. Income
    - b. Liquid assets
    - c. Comprehensive LTC Insurance in place?
  3. Tax status of the consumer
  4. Investment objectives of the consumer
  5. Other information to be used or considered relevant
- B. Discuss the need for full contract disclosure (Section 10168.7 of the CIC)
- C. Discuss the required complete record keeping (Section 10509.914 (e) and 10509.915 of the CIC)

#### **VII. Policy cancellation and refunds (Section 10127.10, 10509.6 of the CIC)** **5%**

- A. Free look for persons 60 years and older (Section 786 of the CIC)

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B. Free look for persons younger than 60 years old (Section 10127.9 of the CIC)

### **VIII. Ethics, the agent and the insurance company**

**10%**

- A. What it means to be an agent
- B. Agent responsibility to the insured
- C. Product knowledge
- D. Need and benefit selling
- E. Client confidentiality
- F. The care owed to seniors
- G. Agent's responsibility to the insurance company
- H. Profiling the client
- I. The insurance company – responsibility to agent, the client, the public
- J. Leading by example

### **Attachment III – Penalties defined**