

California Department of Insurance Four-Hour Annuity Training Outline

Topics to be included in the California Insurance Agents' Training Courses Taxation and Suitability of Annuities

Background

~~Section 1749.8 of the California Insurance Code took effect on January 1, 2005. This law states that 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) followed by four (4) hours of CDI approved annuity training every license renewal period thereafter.~~

~~After an agent completes the initial eight hours of training, the agent must complete a four hour annuity training course beginning with their subsequent license term. For instance, if a life agent completes the eight hour training in December 2008 and the life agent's renewal is in February 2009, that life agent will be required to complete the four-hour training requirement on or before his or her February 2011 renewal. This training should be consistent with the initial 8 hour annuity training (i.e. Section VI, VII, and Section IX of the Eight Hour Annuity Training Outline which is available on CDI's Web site at www.insurance.ca.gov).~~

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-

California Department of Insurance Four-Hour Annuity Training Outline

Topics to be included in the California Insurance Agents' Training Courses Taxation and Suitability of Annuities

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 from Section VI, VII, and IX 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. Attachment III – Penalties – Annuity Training from the Eight-Hour Annuity Training course is also available at the end of this outline.

California Department of Insurance Four-Hour Annuity Training Outline

Topics to be included in the California Insurance Agents' Training Courses Taxation and Suitability of Annuities

Curriculum Objective – Training Goals

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

- Be able to understand the implications of annuities
- Be able to ~~differential~~ differentiate between income taxation of qualified and non-qualified annuities
- Understand issues of ~~ethics and compliance~~ buyer competency
- Understand issues of annuity product ethics and compliance

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.

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.

California Department of Insurance Four-Hour Annuity Training Outline

Topics to be included in the California Insurance Agents' Training Courses Taxation and Suitability of Annuities

TABLE OF CONTENTS

Topic		Page		Contact Course Time (Minutes) ¹	Non-Contact Course (Pages) ²
Background		1			
Curriculum Objective - Training Goals		3			
Table of Contents		4			
Annuity Income Taxation of Qualified and Non-Qualified Annuities and Suitability of Annuities Training Outline					
I.	<u>Identify and discuss suitability (Attachment III) - 5%</u>	5		10	2
II.	Qualified plans and annuities – 25%	5		50	10
III.	<u>Discuss the application of income taxation of qualified and non-qualified annuities - 40 35%</u>	5		80 70	14 13
IV.	The importance of determining client suitability - 20%	6		40	7
V.	Required disclosures - 10% (Attachment III)	7		20	4
VI.	Policy cancellations and refunds - 5%	7		10	2
	<u>Attachment III – Penalties</u>				

¹ Based on a 50-minute credit hour standard.

² 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.

California Department of Insurance Four-Hour Annuity Training Outline

Topics to be included in the California Insurance Agents' Training Courses Taxation and Suitability of Annuities

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.
(see Attachment III)

- 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. Qualified and non-qualified plans and annuities

25%

- A. Differences between qualified and non-qualified
- B. Qualified vs. non-qualified Types of plans
 - 1. Defined benefit
 - 2. Defined contribution
 - 3. IRA (Individual retirement account)
 - 4. Roth IRA
 - 5. TSA (Tax Sheltered Annuity) (403b)
 - 6. 401-~~K~~ (k)
 - 7. SEP (Simplified Employee Pension Plan)
- C. Annuities and retirement planning
- C. ~~Differences between qualified and non-qualified~~

III. Discuss the application of income taxation of qualified and non-qualified annuities, including but not limited to, the following instances:

**40
35%**

- A. Payment of premiums
- B. Cash value accrual (Section 10168.2 of the CIC)
- C. Partial withdrawals
- D. Loans and assignments

California Department of Insurance Four-Hour Annuity Training Outline

Topics to be included in the California Insurance Agents' Training Courses Taxation and Suitability of Annuities

- E. IRS (Internal Revenue Service) Section 1035 exchanges
- F. Gift of an annuity
- G. Sale of an annuity by the owner
- H. Death of an annuity owner (Section 10168.2 of the CIC)
 - 1. Ordinary income tax adjustment
- I. Death of an annuitant
 - 1. Ordinary income tax adjustment
- J. Annuity benefits distributions
 - 1. Discuss the exclusion ratio and its application in distribution calculations
 - 2. Tax-deferred compounding
 - a. Discuss the proper way to compute taxable vs. tax-deferred vs. tax-free returns
 - b. Discuss the long term effect of tax-deferred compounding vs. other available investment choices
- K. Tax effect on beneficiary estate issues
- L. Disclaimer -Attachment II (Section 789 of the CIC)
 - 1. If a life agent offers to sell to a client any life insurance or annuity product, the life agent shall advise the client or the client's agent in writing that the sale or liquidation of this product may have tax consequences.
 - 2. The life agent shall disclose that the client may wish to consult independent legal counsel or financial advice before buying, selling or liquidating any assets being solicited or offered for sale.
 - 3. ~~This course is not intended to provide advice~~ A life agent shall not provide detailed advice with issues surrounding income and estate taxation of annuities. If expert tax assistance is required, life agents shall advise client to consult with other professionals.

IV. Discuss The importance of determining client suitability for annuity sales (Section 10509.915 of the CIC). For example: **20%**

- A. Identify the need for information prior to making recommendations
 - 1. Age of the consumer
 - 2. ~~The consumer's~~ Financial status of the consumer
 - a. Income
 - b. Liquid assets

California Department of Insurance Four-Hour Annuity Training Outline

Topics to be included in the California Insurance Agents' Training Courses Taxation and Suitability of Annuities

- c. ~~Comprehensive~~ LTC Insurance ~~in place?~~
 - 3. ~~The consumer's~~ Tax status of the consumer
 - 4. ~~The consumer's~~ 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)~~
 - B. Discuss the need for complete record keeping (Section 1759.3, 10509.914(e) and 10509.915 of the CIC)

- V. **Identify required disclosures (~~Section 789.8 of the CIC~~) (Attachment III)** **10%**
 - A. Discuss the need for full contract disclosure (Section 101687.7 of the CIC)

- VI. **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)
 - B. Free look for persons younger than 60 years old (section 10127.9 of the CIC)

Attachment III – Penalties defined