

California Department of Insurance

Four-Hour Annuity Training Outline

Topics to be included in the
California Insurance Agents' Training Courses
How Fixed, Variable, and Index Annuity Contract Provisions Affect Consumers

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.

~~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 V of the Eight-Hour Annuity Training Outline which is available on CDI's Web site at www.insurance.ca.gov).~~

~~In other words, all California resident and non-resident life agents who sell annuity products must satisfactorily complete eight hours of annuity training prior to soliciting individual consumers to sell annuities. 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-

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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 V 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. 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:

- Understand the producer’s legal and ethical obligations toward the consumer (and to the insurer and to regulatory authorities) with regard to the suitability of annuity product recommendations;
- Be able to define “suitability;”
- Be able to define the types of information that must be obtained from the consumer in order to make suitable annuity product purchase recommendations;
- Be able to identify the product features and circumstances where an annuity product would be suitable and it would be unsuitable for a consumer;
- Understand the processes in place to audit and supervise producer activities;
- Identify the regulatory requirements that have been enacted to protect the senior consumer during the purchase and exchange of annuity products;
- Identify how violations of suitability standards may be identified; and,
- Know and understand the penalties provided for violations of applicable laws.

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.

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Annuity Suitability Training Outline					
I.	<u>Identify and discuss suitability defined</u> - 5%	5		10	2
II.	<u>Identify and discuss contract provisions that are typically common to annuities</u> - 10%	6		20	4
II. III.	The need for information prior to making recommendations -25% <u>Identify and discuss income distributions</u> - 10%	7		20	4
III. IV.	The need for full contract disclosure -10% <u>Identify and discuss fixed annuities</u> - 25%	7		50	9
IV. V.	The need for complete record keeping -5% <u>Identify and discuss variable annuities</u> - 10%	8		20	4
V. VI.	Required disclosures -10% <u>Identify and discuss indexed annuities</u> - 25%	8		50	9
VI. VII.	Policy cancellations and refunds -10% <u>Identify and discuss available riders</u> - 10%	9		20	4
VII. VIII.	Legal and ethical obligations -25% Penalties - 5%	9		10	2
VIII.	Identification and penalties for violations -10% <u>Attachment III - Penalties</u>	9			

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.

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- I. Identify and discuss suitability defined** **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 objective.
- 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. ~~Identify the need for information prior to making recommendations~~** **25%**
- A. ~~The consumer's financial status~~
1. ~~Income~~
2. ~~Liquid assets~~
3. ~~Comprehensive LTC Insurance in place?~~
4. ~~Sample financial worksheet~~
- B. ~~The consumer's tax status~~
- C. ~~The consumer's investment objectives~~
- D. ~~Other information to be used or considered relevant~~
- III. ~~Discuss the need for full contract disclosure (Section 10168.7 of the CIC)~~** **10%**
- IV. ~~Discuss the need for complete record keeping (Section 1759.3 of the CIC)~~** **5%**
- V. ~~Required disclosures (Section 789.8 of the CIC)~~** **10%**
- VI. ~~Policy cancellation and refunds (Section 10127.10, 10509.6 of the CIC)~~** **10%**
- A. ~~Free look for persons 60 years and older (Section 786 of the CIC)~~
- VII. ~~Legal and ethical obligations~~** **25%**

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Topics to be included in The California Insurance Agents Training Courses How Fixed, Variable, and Index Annuity Contract Provisions Affect Consumers

- ~~A. Individuals recommending purchases of annuities and insurance products must make suitable recommendations based on the needs assessment conducted with the consumer.~~
- ~~B. Producers are required to make timely and accurate disclosures regarding all product recommendations and purchases must inform purchasers of the Free Look period (Section 786 of the CIC), and describe policy cancellation and refund rights (Section 10127.10 and 10509.6 of the CIC). Producers must also keep thorough and accurate records on all transactions and remit all required documents to the carrier.~~
- ~~C. Producers must be aware of all California Laws and regulations that impact annuity sales and producer recommendations for annuity purchase.~~
- ~~D. There is no obligation when the consumer, including consumers over the age of 65:
 - ~~1. Refuses to provide relevant information requested by the insurer or insurance~~
 - ~~2. to enter into an insurance transaction that is not based on a recommendation of the insurer or insurance producer; or~~
 - ~~3. Fails to provide complete or accurate information.~~~~
- ~~E. Annuities replacing other items or products
 - ~~1. Disclosures required when the applicant requests an immediate investment of funds CIC 10127.10~~
 - ~~2. Disclosures required when the applicant requests an immediate investment of funds CIC 10127.10~~
 - ~~3. Know what the investment requirements are during the Free Look period CIC 10127.10~~~~

~~VIII. Identification and penalties for violations (Section 1668 of the CIC) 10%~~

- ~~A. The course should include at least five examples that show violations of suitability requirements and legal remedies available to regulators and law enforcement.~~

II. Identify and discuss contract provisions that are typically common to annuities 10%

- A. Issues ages (Section 10112 of the CIC)
- B. Maximum ages for benefits to begin
- C. Premium payments (Section 10540 of the CIC)
- D. Surrender charges (Section 10127.10, 10127.12, and 10127.13 of the CIC)
 - 1. Market value adjustment
 - 2. Explain the impact of surrender charges on principal

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- 3. Surrender charge waivers - triggering events
 - a. Nursing homes and similar facilities
 - b. Terminal illness
 - c. Unemployment
 - d. Disability
 - e. Charges and fees
 - f. Death
- 4. Include the required notice & printing requirements
- E. Policy administration charges and fees
- F. Withdrawal privilege options

III. Identify and discuss income distributions

10%

- A. Introduce the application of a split annuity in retirement planning
- B. Introduce the various settlement options
 - 1. Life
 - 2. Joint survivor
 - 3. Period certain
 - 4. Cash refunds
- C. Discuss the advantages and disadvantages of annuitization options

IV. Identify and discuss variable annuities

10%

- A. Additional License requirements
 - 1. Prospectus
 - 2. Financial Industry Regulatory Authority (FINRA)
- B. Typically common contract provisions
 - 1. General vs. separate accounts
 - 2. Variable options
 - 3. Equity-based
 - 4. Risk-based
- C. Charges and fees
- D. Dollar cost averaging
- E. Death benefit guarantees (Section 10168.4 of the CIC)
- F. Living benefit guarantees

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V. Identify and discuss fixed annuities

25%

- A. Typically common contract provisions
 - 1. Death benefits
 - a. Lump sum vs. annuitization
 - b. Provisions
 - 2. Charges and fees
 - 3. Interest rate strategies
 - a. Annual
 - b. Multi-year
 - 4. Interest rate crediting methods
 - a. Portfolio rates
 - b. New money rates
 - c. First year bonus “teaser” rates
 - d. Explain annualized interest rate calculations on bonuses that apply to fixed
 - 5. Minimum Guaranteed Interest Rates (Section 10168.25 of the CIC)
 - a. Low interest rate market and its impact on interest rates

VI Identify and discuss indexed annuities

25%

- A. Primary interest crediting strategies
 - 1. Monthly averaging
 - 2. Point to point
 - a. Annual point to point
 - b. Long term point to point
 - 3. High water mark
 - 4. Annual resets
 - 5. Combination methods
- B. Spreads
- C. Cap rates
- D. Participation rates
- E. Minimum guaranteed interest rate

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- F. Impact of premature surrender charges
 - 1. Two-tier annuities - define concepts

- G. Charges and fees

VII Identify and discuss available riders

10%

- A. Life insurance riders
- B. Long term care benefits riders
 - 1. Terms of riders
 - 2. Differentiate between crisis waivers and long term care riders
- C. Skilled nursing facility rider
- D. Hospice rider
- E. Loan provisions

VIII. Penalties (Section 782, 789.3, 1738.5, 10509.910 et seq. of the CIC)(Attachment III) 5%

- A. Violation of provisions in Section 780 or 781 of the CIC (Section 782 of the CIC)
- B. Administrative penalty, amounts, rescission of contracts (Section 789.3 of the CIC)
- C. Allegations of misconduct against a person 65 year or over (Section 1738.5 of the CIC)
- D. Administrative penalties (Section 10509.9 of the CIC)

Attachment III – Penalties defined