

California Department of Insurance Eight-Hour Annuity Training Outline

TOPICS TO BE INCLUDED IN EIGHT-HOUR ANNUITY TRAINING COURSE

OVERVIEW

The following outline is a listing of the topics that must be addressed as part of all 8-hour annuity courses designed to meet the requirements of SB 620 (Chapter 547, Statutes of 2003), Annuities: life insurance: required disclosures and prohibited sales practices and how annuities affect Medi-Cal as stated in SB 483 (Chapter 379, Statutes of 2008). Medi-Cal: home and facility care, and AB 689 (Chapter 295, Statutes of 2011) Insurance: annuity transactions.

CURRICULUM OBJECTIVES

Each topic must be developed in its entirety and should explain (not merely recite) chaptered legislation and pertinent regulations. Each topic should *include an explanation of* why they are significant to the agent and client. The subjects do not need to be presented in this outline order. However, they do need to be developed in a clear and meaningful manner so that the student derives a clear understanding of the pertinent issues and implications. All statistical information and points of fact must be referenced to the original source data.

Examples are encouraged to illustrate points and concepts.

For contact courses, the topics need to be articulated in writing to the extent that the student can relate the words of the instructor to the course material in a meaningful way. For correspondence courses, each topic must be developed in full so that the reader can get an understanding of the material as if he or she was in a contact course.

Discussions of topics must be handled in a neutral manner. These sources should **NOT**:

- Use the opportunity to persuade;
- Indoctrinate or enlighten agents on a particular philosophy or a political or public policy position;
- Opinions about state or federal legislation or forecasting the success or failure of legislation should not be included in these courses;
- No marketing information is allowed in annuity courses;
- Copyright material cannot be inserted or attached to the course material without proper references; and,
- Attachments to the course material cannot contain the information noted in the above bulleted items.

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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Course providers are required to demonstrate the following:

- Provide a detailed understanding of all the topic areas with how the issues affect seniors;
- Show continuity of explanations in the course textbook, examples, references, and citations;
- Provide easy to read text. Rather than seemingly unrelated pieces of data, the text should have a narrative explanation of why/how parts fit together;
- Reach or state conclusions (i.e., why is this topic important and what does it mean for the policyholder);
- Substantiate information with material presented; and,
- Courses should be focused on needs of consumers and the problems and solutions associated with annuities, especially as they affect seniors.
- How annuities affect persons that are 60 years and older including Medi-Cal eligibility.

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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<u>Topic</u>	<u>Page</u>	Contact Course Time (Minutes) ¹	Non- Contact Course (Pages) ²
Overview and Curriculum Objectives	1		
Table of Contents	3		
Annuity Training Outline	4		
I. Historical development of annuity contracts – 5%	4	20	3.5
II. Discuss the primary uses of annuities – 10 8%	4	32	6
III. Introduce the types of annuities recognizing the various classifications of annuities – 5%	4	20	3.5
IV. Identify the parties to an annuity – 5%	4	20	3.5
V. How fixed, variable, and index annuity contract provision affect consumers – 20% 15%	5	80 60	14 11
VI. Qualified plans and annuities – 5%	7	20	3.5
VII. Discuss the application of income taxation of qualified and non-qualified annuities – 10%	8	40	7
VIII. Advantages and disadvantages – 8%	9	32	6
IX. Introduce sales practices for California insurance agents – 20% 15%	9	80 60	14 11
X. <u>SB 483, Kuehl. Medi-Cal: home and facility care - 10%</u>	<u>12</u>	<u>40</u>	<u>7</u>
<u>XI. The Senior Market – 10%</u>	<u>12</u>	<u>40</u>	<u>7</u>
<u>XII. Penalties - 2%</u>	<u>13</u>	<u>8</u>	<u>2</u>
<u>XIII. Role of the California Life and Health Insurance Guarantee Association in relationship to annuities – 2%</u>	<u>13</u>	8	2
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Attachment II, Life Agent Disclosure Requirements	<u>14</u>		
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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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Annuity Training Outline

- I. Historical development of annuity contracts** **5%**
 - A. How they have evolved to the products and practices we see today as they relate to consumers
 - B. Market overview

- II. The primary uses of annuities** **10 8%**
 - A. Annuities defined
 - 1. An annuity is defined as the liquidation of a principal sum to be distributed on a periodic payment basis to commence at a specific time and to continue throughout a specified period of time or for the duration of a designated life or lives.
 - B. How does the utilization of annuities help fulfill consumer's retirement goals as compared to other financial planning vehicles? (e.g. certificates of deposit, mutual funds, bonds, savings accounts, etc)?

- III. Introduce the types of annuities ~~recognizing the various classifications of annuities.~~** **5%**
 - A. Annuity type according to when benefits are paid out
 - 1. Define immediate annuity
 - 2. Define deferred annuity
 - 3. Distinguish between the characteristics of the two types
 - B. Annuity type according to how and when premiums are paid
 - 1. Define single premium annuities
 - 2. Define flexible premium annuities
 - 3. Distinguish between the characteristics of the two types
 - C. Annuity type according to investment options offered
 - 1. Define variable annuities
 - 2. Define fixed annuities
 - 3. Define indexed annuities
 - 4. Distinguish between the characteristics of fixed, indexed, and variable annuities
 - D. Distinguish the relationship between the annuity types reviewed in A, B, C and how they relate to your client

- IV. Identify the parties to an annuity** **5%**
 - A. Describe the rights and obligations of the annuity owner
 - 1. Identify the entities eligible for annuity ownership

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2. Distinguish the rights of the annuity owner in owner-driven contracts
3. Distinguish the rights of the annuity owner in annuitant-driven contracts

B. Describe the rights and obligations of the annuitant

1. Identify the entities eligible for the role of annuitant
2. Distinguish the role of annuitant in owner-driven contracts
3. Distinguish the role of annuitant in annuitant-driven contracts

C. Describe the rights and obligations of the insurance company (Section 10127.10, 10127.11, 10127.12, 10127.13, and 10509.6 of the CIC)

1. Distinguish obligations with insurance company issued non-qualified annuities
2. Distinguish obligations with insurance company issued annuities for individual retirement accounts, tax sheltered annuities, and qualified retirement plans
3. Introduce insurance rating services and how they indicate an insurer's financial strength
4. Advertising responsibilities (Section 787 of the CIC)
5. Policy cancellation and refunds (Section 786, 10127.10, and 10509.6 of the CIC)

D. Describe the rights of and options available to beneficiaries

1. Identify how beneficiaries may be affected by SB 483
2. Discuss the settlement options available to beneficiaries
 - a. As a surviving spouse
 - b. As an individual or an entity other than a surviving spouse

V. How fixed, variable, and index annuity contract provisions affect consumers 20 15%

A. Identify and discuss contract provisions that are typically common to annuities

1. Issues ages (Section 10112 of the CIC)
2. Maximum ages for benefits to begin
3. Premium payments (Section 10540 of the CIC)
4. Surrender charges (Section 10127.10, 10127.12, and 10127.13 of the CIC)
 - a. Market value adjustment
 - b. Explain the impact of surrender charges on principal
 - c. Surrender charge waivers - triggering events
 - i. Nursing homes and similar facilities
 - ii. Terminal illness
 - iii. Unemployment
 - iv. Disability
 - v. Charges and fees
 - vi. Death

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- d. Include the required notice & printing requirements
5. Policy administration charges and fees
6. Withdrawal privilege options
- B. Identify and discuss income distributions
 1. Introduce the application of a split annuity in retirement planning
 2. Introduce the various settlement options
 - a. Life
 - b. Joint survivor
 - c. Period certain
 - d. Cash refunds
 3. Discuss the advantages and disadvantages of annuitization options
- C. Identify and discuss ~~contract provisions that are typically common to~~ fixed annuities
 1. Death benefits
 - a. Lump sum vs. ~~5-year pay-out~~ 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 accounts
 5. Minimum Guaranteed Interest Rates (Section 10168.25 of the CIC)
 - a. Low interest rate ~~environment~~ market & its impact on interest rates
- D. Identify and discuss variable annuities
 1. ~~How they are sold and~~ License requirements (e.g. prospectus)
 - a. Prospectus
 - b. Financial Industry Regulatory Authority (FINRA)
 2. Typically common contract provisions
 - a. General vs. separate accounts
 - b. Variable options

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- c. Financial Industry Regulatory Authority
- d. Equity-based
- e. Risk-based
- 2. Charges and fees
- 3. Dollar cost averaging
- 4. Death benefit guarantees (Section 10168.4 of the CIC)
- 5. Living benefit guarantees
- E. Identify and discuss ~~contract provisions common to~~ indexed annuities
 - 1. Primary interest crediting strategies
 - a. Monthly averaging
 - b. Point to point
 - i. Annual point to point
 - ii. Long term point to point
 - c. High water mark
 - d. Annual resets
 - e. Combination methods
 - 2. Spreads
 - 3. Cap rates
 - 4. Participation rates
 - 5. Minimum guaranteed interest rate
 - 6. Impact of premature surrender charges
 - a. Two-tier annuities - define concepts
 - 7. Charges and fees
- F. Identify and discuss available riders
 - 1. Life insurance riders
 - 2. Long term care benefits riders
 - a. Terms of riders
 - b. Differentiate between crisis waivers and long term care riders
 - 3. Skilled nursing facility rider
 - 4. Hospice rider
 - 5. Loan provisions

VI. **Qualified and non-qualified plans and annuities**

5%

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- A. ~~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)
- B. Annuities and retirement planning
- C. ~~Differences between qualified and non-qualified~~

VII. Discuss the application of income taxation of qualified and non-qualified annuities, including but not limited to, the following instances: 10%

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

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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.

VIII. A. Advantages and disadvantages

8%

1. Advantages of annuities
 - a. For persons under 60 years old
 - b. For persons 60 years and older
 - c. Surrender charges
2. Disadvantages of annuities
 - a. For persons under 60 years old
 - b. For persons 60 years and older
 - c. Surrender charges
3. Illustrate/show the advantages and disadvantages of the following types of investment alternatives to annuities that include CD's, money markets, savings, mutual funds, stocks, bonds, commodities, options, limited partnerships, promissory notes, real estate investment trusts, and viatical settlements

IX. Introduce sales practices for California insurance agents

20 15%

- A. Required insurance producer product training (Section 10509.915(b) of the CIC)
- B. Describe the rights and obligations of the insurance producer at contract inception
 1. Required disclosures (Section 789.8 of the CIC)
 2. Product specific illustrations (e.g. sales aides) (Section 1725.5, 10127.11 of the CIC)
 3. Replacement (Section 10509.4, 10509.8 of the CIC)
 4. ~~Free Look Period (Section 786, 10127.10 of the CIC)~~
 4. Importance of reviewing sample contracts
- C. Appropriate advertising (Section 1725.5 of the CIC)
 1. General advertising (Section 1725.5 of the CIC)
 - a. Definition of advertisement: envelopes, stationary, business cards
 - i. Required information to be displayed

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- ii. Use of the word “insurance”
 - iii. License number
 - b. Seminars, classes, informational meetings
 - i. Required information to be displayed
 - ii. Use of the word “insurance”
 - iii. License number
 - c. Direct mailers
 - d. 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)
 - e. ~~Any person or entity that is exempt from licensure is a direct response provider (Section 1725.5[h], 1749.8[d] of the CIC)~~
 - e. Fines and penalty
 - 2. Specific advertising to seniors (Section 787 of the CIC)
- D. Prohibited sales practices
- 1. Selling annuities for Medi-Cal eligibility (Section 789.9 of the CIC)
 - a. Selling annuity to persons 65 years and older for purpose of qualifying for Medi-Cal is prohibited if:
 - i. If assets are equal to or less than community spouse resource allowance
 - ii. Senior otherwise qualifies
 - iii. After purchase senior or spouse does not qualify for Medi-Cal
 - 2. In-Home Solicitations: 24-hour Notice requirement for persons 65 years and older (Section 789.10 of the CIC)
 - a. Criteria
 - i. For persons 65 years and older
 - b. Content of written notice
 - c. Can not misrepresent true content of meeting
 - 3. Sharing commissions with attorney (Section 1724 of the CIC)
 - 4. Unnecessary replacement (Sections 10509.8 and 10509.914 of the CIC)
 - a. Define "unnecessary replacement"
 - i. Pay a surrender charge
 - ii. Define substantial financial benefit
 - b. Examples of unnecessary replacement
 - c. Replacement of annuities including individuals over 65 years of age or older
 - 5. Bait and switch

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- a. Pre-text interview-definition and examples
 - b. Long term care sales
 - c. Unauthorized practice of law-drafting, delivering, interpreting legal documents (Section 6125 of the Business and Professions Code)
 6. Cause for suspension (Section 1668.1 of the CIC)
 - a. Loans
 - b. Agent beneficiaries, trustee, and power of attorney
 - c. Benefits payable to family or friends of agent
 - i. Exceptions
 7. Penalties (Section 782, 789.3, 1738.5, 10509.9 of the CIC) (Attachment III)
 8. ~~SB 483, Kuehl. Medi-Cal: home and facility care~~
 - 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)~~
~~Establishment of requirements related to annuities, designated beneficiaries, and~~
 - d. ~~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. Discuss The importance of determining client suitability for annuity sales (Section 10509.915 of the CIC). For example:
1. Identify the need for information prior to making recommendations
 - a. Age of the consumer
 - b. ~~The consumer's~~ Financial status of the consumer
 - i. Income
 - ii. Liquid assets
 - iii. ~~Comprehensive~~ LTC Insurance in place?
 - c. ~~The consumer's~~ Tax status of the consumer
 - d. ~~The consumer's~~ Investment objectives of the consumer
 - e. Other information to be used or considered relevant
 2. ~~Discuss the need for full contract disclosure (Section 10168.7 of the CIC)~~
 2. Discuss the required record keeping (Section 1759.3, 10509.914(e) and 10509.915 of the CIC)
- F. Identify required disclosures (Attachment II)
1. Discuss the need for full contract disclosure (Section 101687.7 of the CIC)

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- G. Policy cancellation and refunds (Section 10127.10, 10509.6 of the CIC)
 - 1. Free look for persons 60 years and older (Section 786 of the CIC)
 - 2. Free look for persons younger than 60 years old (section 10127.9 of the CIC)

- X. **SB 483, Kuehl (Chapter 379, Statutes of 2008) Medi-Cal: home and facility care** **10%**
 - 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)

- XI. **The Senior Market** **10%**
 - A. Market volatility ~~R~~risk tolerance and the senior client
 - B. Pre-retirement vs. post-retirement planning
 - C. Financial concerns
 - 1. Social security
 - 2. Retirement plan distributions
 - 3. Investing retirement assets
 - 4. ~~Surrender charges~~
 - D. Insurance concerns
 - 1. Health
 - 2. Long term care
 - 3. Estate planning
 - E. Selling to the senior market
 - 1. Product complexity
 - 2. Surrender charges
 - 3. The issue of buyer competence
 - a. The recognition of indicators that a prospective insured may lack the short-term memory or judgment to knowingly purchase an insurance product

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- b. When are there rescissions of a contract based on mental incompetence (Section 38 and 39 of the California Civil Code)
- c. Family involvement / power of attorney

4. Unique ethics and compliance issues

5. Suitability for the senior market

XII. Penalties (Section 782, ~~786~~, 789.3, 1738.5, 10509.910 et seq. of the CIC) (Attachment III) **2%**

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)

4. Administrative penalties (Section 10509.9 of the CIC)

XIII **Role of the California Life and Health Insurance Guarantee Association in relationship to annuities (Section 1067 of the CIC)** **2%**

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Attachments

I	Attachment I, Annuity Legislative History - Provider Reference
II.	Attachment II, Life Agent Disclosure Requirements (Section 789.8 of the CIC)
III.	Attachment III - Penalties