**BACKGROUND**

Insurance Code [section 1749.8](https://leginfo.legislature.ca.gov/faces/codes_displaySection.xhtml?lawCode=INS&sectionNum=1749.8.) took effect on January 1, 2005. This law requires that California resident and non-resident life licensees who sell annuity products must first complete eight (8) hours of annuity training that is approved by the California Department of Insurance (Department). The law also requires life licensees who sell annuity products to satisfactorily complete an additional four (4) hours of annuity training every two years prior to their license renewal. For resident licensees, this requirement is part of, and not in addition to, their continuing education requirements.

Additionally, in 2012, Insurance Code [section 10509.915(a)](https://leginfo.legislature.ca.gov/faces/codes_displaySection.xhtml?lawCode=INS&sectionNum=10509.915.) became effective. It requires 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. The insurer annuity product-specific training is a separate requirement from the eight and four-hour annuity training noted above.

[Senate Bill (SB) 263](https://leginfo.legislature.ca.gov/faces/billNavClient.xhtml?bill_id=202320240SB263) (Dodd, Chapter 2, Statutes of 2024) Insurance: annuities and life insurance policies becomes effective on January 1, 2025. It includes Insurance Code section 10509.919, which makes the existing Article 9 “Suitability Requirements for Annuity Transactions,” [Sections 10509.910 through 10509.918](https://leginfo.legislature.ca.gov/faces/codes_displayText.xhtml?lawCode=INS&division=2.&title=&part=2.&chapter=5.&article=9.), applicable to recommendations and sales of annuities made before January, 1, 2025. [SB 263](https://leginfo.legislature.ca.gov/faces/billNavClient.xhtml?bill_id=202320240SB263) created the new Article 9.5 “Suitability Requirements for Annuity Transactions,” sections 10509.9200 through 10509.9210 in [SB 263](https://leginfo.legislature.ca.gov/faces/billNavClient.xhtml?bill_id=202320240SB263), which will apply to annuity transactions that occur on or after January 1, 2025.

Insurance Code section 10509.9205(b) in [SB 263](https://leginfo.legislature.ca.gov/faces/billNavClient.xhtml?bill_id=202320240SB263) explains the requirements for completing credit-hour training courses and the timing of completion. Insurance Code section 10509.9205(b)(3) requires that life licensees who are otherwise entitled to sell annuity products prior to January 1, 2025, must complete a one-time eight-credit-hour annuity training by July 1, 2025 in order to sell annuity products. Individuals who become life licensees on or after January 1, 2025 are prohibited from engaging in the sale of annuities until they have completed the required annuity training course. In addition to satisfactorily completing the required one-time eight-credit-hour training course, Insurance Code section 10509.9205(b)(2) requires that life licensees who sell annuity products in California must satisfactorily complete four continuing education credits prior to license renewal every two years, pursuant to Insurance Code section 1749.8(b).

The product-specific training requirements continue to apply to life licensees who sell annuities on or after January 1, 2025. In the new Article 9.5 in [SB 263](https://leginfo.legislature.ca.gov/faces/billNavClient.xhtml?bill_id=202320240SB263), these requirements are located at Insurance Code section 10509.9204(c)(2), (B) and (C).

The training curriculum in this four-hour outline is consistent with Sections IX, X, and XII of the Department’s 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.

**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 to 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 licensee and insurance company when selling annuities.

**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 the topic is significant to the licensee 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 licensee 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 must be articulated in writing to the extent that the licensee can relate the words of the instructor to the course material in a meaningful way. For non-contact courses, each topic must be developed in full so that the licensee can get an understanding of the material as if they were in a contact course.

Discussions of topics must be handled in a neutral manner. These sources should NOT do any of the following:

* Use the opportunity to persuade.
* Indoctrinate or enlighten licensees 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.
* Copyrighted material cannot be inserted or attached to the course material without proper references.
* Attachments to the course material cannot contain the information noted in the above bulleted items.

**Disclaimer**

The California Department of Insurance is released of responsibility for approved course material 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.

**Citations to Authority**

All “Insurance Code” citations in this outline are to the California Insurance Code.

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**I. Identify and Discuss Suitability – “Best Interest Standard”**

“Best Interest Standard” Defined (Insurance Code section 10509.9204). The life licensee must act in the consumer’s best interest under the circumstances known at the time the recommendation is made, by not placing the life licensee’s or insurer’s financial interest ahead of the consumer’s interest and by satisfying four obligations: care, disclosure, conflict of interest, and documentation.

A.  The “Best Interest Standard” applies to sales or recommendations of annuities (Insurance Code section 10509.9210)

B. Licensing requirements for life licensees

1. Training (Insurance Code sections [1749.8](https://leginfo.legislature.ca.gov/faces/codes_displaySection.xhtml?lawCode=INS&sectionNum=1749.8.) and 10509.9205)

2. Required Record keeping (Insurance Code sections [10508.5](https://leginfo.legislature.ca.gov/faces/codes_displaySection.xhtml?lawCode=INS&sectionNum=10508.5.) and 10509.9207)

3. Insurer responsibilities (Insurance Code section 10509.9204, subdivision (c)(2)(D) and (E))

C. Importance of determining client suitability for annuity sales using consumer profile information (Insurance Code section 10509.9203(a)(2))

1. Identify the need for consumer profile information prior to making recommendations. Examples include:

a. Age of the consumer

b. Income

c. Financial situation and needs of the consumer, including:

i. Debts and other obligations

ii. Liquid net worth

d. Financial resources used to fund the annuity

e. Financial objectives of the consumer;

f. Insurance Needs, such as long term care insurance

g. Other relevant information that the producer or insurer knew or reasonably should have known about as provided, by the customer.

D. Best Interest Standard - Four Obligations

1. Care Obligation (Insurance Code section 10509.9204(a)(1))

a. Understand the available recommendation options after making a reasonable inquiry into options available to the producer.

b. Have a reasonable basis to believe the recommended option effectively addresses the consumer’s situation, needs, and objectives over the life of the annuity, as evaluated in light of the consumer profile information listed at California Insurance Code section 10509.9203.

c. Have a reasonable basis to believe that the consumer would receive a tangible net benefit from the transaction over the life of the product.

d. Use reasonable efforts to obtain consumer profile information from the consumer prior to the recommendation of an annuity.

e. Communicate the basis or bases of the recommendation to the consumer orally and in writing and to the insurer in writing.

f. The recommendation to the consumer shall be based on an evaluation of the consumer’s relevant consumer profile information and other relevant information, and shall reflect the care, skill, prudence, and diligence that a reasonable producer with similar authority and licensure who is familiar with those matters would use under the circumstances then prevailing.

g. The consumer profile information, characteristics of the insurer, and product costs, rates, benefits, and features are factors generally relevant in determining whether an annuity effectively addresses the consumer’s financial situation, financial needs, insurance needs, and financial objectives, but the level of importance of each factor under the care obligation of this paragraph may vary depending on the facts and circumstances of a particular case. However, each factor shall not be considered in isolation.

h. In the case of an exchange or replacement of an annuity, the whole transaction must be considered, which includes taking into consideration all of the following:

i. Whether the consumer will incur a surrender charge, be subject to the commencement of a new surrender period, lose existing benefits, such as death, living, or other contractual benefits, or be subject to increased fees, investment advisory fees, or charges for riders or similar product enhancements.

ii. Whether the replacing product would not confer a substantial financial benefit to the consumer in comparison to the replaced product over the life of the product so that a reasonable person would believe the purchase is unnecessary.

iii. Whether the consumer has had another annuity or life insurance policy exchange or replacement and, in particular, an exchange or replacement within the preceding 60 months.

2. Disclosure Obligation (Insurance Code section 10509.9204(a)(2))

a. Complete and provide the consumer with the insurer’s form or the “Insurance Agent (Producer) Disclosure for Annuities” form in Appendix A of the National Association of Insurance Commissioners’ (NAIC) Suitability in Annuity Transactions Model Regulation (#275).

b. Upon consumer’s request, disclose both of the following:

1. Estimated amount of cash compensation the producer will receive; and
2. Whether the cash compensation is a one-time or multiple occurrence amount, and if a multiple occurrence amount, the frequency and amount of the occurrence.

c. Before or at the time of recommendation or sale of an annuity, inform consumer of annuity features, both positive and negative, including any surrender charge period and potential surrender charges, potential tax penalty if the consumer sells, exchanges, surrenders, or annuitizes the annuity, mortality and expense fees, investment advisory fees, any annual fees, potential charges for and features of riders or other options of the annuity, penalties, fees, expenses, limitations on interest returns, potential changes in nonguaranteed elements, insurance and investment components, and market risk.

3. Conflict of Interest Obligation (Insurance Code section 10509.9204(a)(3))

a. Identify and avoid or reasonably manage and prominently disclose any material conflict of interest, including material conflicts of interest relating to an ownership interest. For example, a life licensee having an ownership interest in an insurance company.

4. Documentation Obligation (Insurance Code section 10509.9204(a)(4))

a. At the time of recommendation or sale, provide the consumer and the insurer with a written record of any recommendation and the basis for the recommendation.

E. Applicability of Best Interest Obligation (Insurance Code section 10509.9204(a)(5)) The Best Interest Obligation applies to every producer who exercised material control or influence in the making of a recommendation and received direct compensation as a result of the recommendation or sale, regardless of whether the producer had any direct contact with the consumer.

1. Activities such as providing or delivering marketing or educational materials, product wholesaling or other back office product support, and general supervision of a producer do not, in and of themselves, constitute material control or influence.

F. Additional required disclosures (Insurance Code sections [10168.7](https://leginfo.legislature.ca.gov/faces/codes_displaySection.xhtml?lawCode=INS&sectionNum=10168.7) and 10509.9204(a)(2))

G. The training should note that sales of annuities that are subject to dual regulation with the Securities and Exchange Commission (SEC) must comply with SEC Regulation: “Best Interest,” [17 CFR](https://www.govinfo.gov/content/pkg/FR-2019-07-12/pdf/2019-12164.pdf) Section 240.15/-1, Regulation Best Interest, however the training only needs to cover California law; it does not have to cover the SEC Regulation.

H. Policy cancellation and refunds (Insurance Code sections [786](https://leginfo.legislature.ca.gov/faces/codes_displaySection.xhtml?lawCode=INS&sectionNum=786.), [10127.9](https://leginfo.legislature.ca.gov/faces/codes_displaySection.xhtml?lawCode=INS&sectionNum=10127.9), [10127.10](https://leginfo.legislature.ca.gov/faces/codes_displaySection.xhtml?lawCode=INS&sectionNum=10127.10.) and [10509.6](https://leginfo.legislature.ca.gov/faces/codes_displaySection.xhtml?lawCode=INS&sectionNum=10509.6))

**II. Appropriate advertising (Insurance Code sections** [**1725.5**](https://leginfo.legislature.ca.gov/faces/codes_displaySection.xhtml?lawCode=INS&sectionNum=1725.5.) **and** [**1726**](https://leginfo.legislature.ca.gov/faces/codes_displaySection.xhtml?lawCode=INS&sectionNum=1726)**)**

A. General advertising

1. Definition of advertisement: envelopes, stationery, 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 advertisements may not in any way imply a product is endorsed by or related to any government agencies (Insurance Code section [787](https://leginfo.legislature.ca.gov/faces/codes_displaySection.xhtml?lawCode=INS&sectionNum=787))

5. Fines and penalties

6. Internet advertising (Insurance Code section [1726](https://leginfo.legislature.ca.gov/faces/codes_displaySection.xhtml?lawCode=INS&sectionNum=1726))

B. Advertising specific to seniors (Insurance Code section [787](https://leginfo.legislature.ca.gov/faces/codes_displaySection.xhtml?lawCode=INS&sectionNum=787.))

**III. Rights and Obligations of the Insurance Producer and Insurer**

A. [NAIC Buyer’s Guide](https://content.naic.org/sites/default/files/publication-anb-lp-consumer-annuities-fixed.pdf) required to be provided to consumer as a standalone document (Insurance Code section 10509.9209)

1. The producer should provide the consumer with the NAIC Buyer’s Guide most relevant to the type of product being recommended. Please go to [www.NAIC.org](http://www.NAIC.org) to locate the relevant Buyer’s Guide.

B. Required disclosures (Insurance Code sections [789.8](https://leginfo.legislature.ca.gov/faces/codes_displaySection.xhtml?lawCode=INS&sectionNum=789.8.) and 10509.9204(a)(2))

C. Product specific illustrations (e.g. sales aids) (Insurance Code sections [1725.5](https://leginfo.legislature.ca.gov/faces/codes_displaySection.xhtml?lawCode=INS&sectionNum=1725.5.), [1726](https://leginfo.legislature.ca.gov/faces/codes_displaySection.xhtml?lawCode=INS&sectionNum=1726.), and [10127.11](https://leginfo.legislature.ca.gov/faces/codes_displaySection.xhtml?lawCode=INS&sectionNum=10127.11.))

D. Replacement (Insurance Code sections [10509.4](https://leginfo.legislature.ca.gov/faces/codes_displaySection.xhtml?lawCode=INS&sectionNum=10509.4.), [10509.8](https://leginfo.legislature.ca.gov/faces/codes_displaySection.xhtml?lawCode=INS&sectionNum=10509.8.), and 10509.924(a)(1)(K) )

E. Importance of reviewing sample contracts

**IV. Prohibited Sales Practice**

A. Selling annuities for Medi-Cal eligibility (Insurance Code section [789.9](https://leginfo.legislature.ca.gov/faces/codes_displaySection.xhtml?lawCode=INS&sectionNum=789.9))

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

a. 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 (Insurance Code section [789.10](https://leginfo.legislature.ca.gov/faces/codes_displaySection.xhtml?lawCode=INS&sectionNum=789.10.))

1. Criteria

a. For persons 65 years and older

b. Meeting in the senior’s home

2. Content of written notice

3. Cannot misrepresent true content of meeting

C. Sharing commissions with attorney (Insurance Code section [1724](https://leginfo.legislature.ca.gov/faces/codes_displaySection.xhtml?lawCode=INS&sectionNum=1724.))

D. Unnecessary replacement (Insurance Code sections [10509.8](https://leginfo.legislature.ca.gov/faces/codes_displaySection.xhtml?lawCode=INS&sectionNum=10509.8.) and 10509.9204(a)(1)(K))

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. Pretext interview – definition and examples, including trust mills (Insurance Code sections [785.4](https://leginfo.legislature.ca.gov/faces/codes_displaySection.xhtml?lawCode=INS&sectionNum=785.4.) and [791.02(u)(1) through (4)](https://leginfo.legislature.ca.gov/faces/codes_displaySection.xhtml?lawCode=INS&sectionNum=791.02.))

2. Long-term care sales

3. Unauthorized practice of law-drafting, delivering, interpreting legal documents (Business and Professions Code sections [6125](https://leginfo.legislature.ca.gov/faces/codes_displaySection.xhtml?lawCode=BPC&sectionNum=6125.) and [6126](https://leginfo.legislature.ca.gov/faces/codes_displaySection.xhtml?lawCode=BPC&sectionNum=6126.))

F. Cause for suspension (Insurance Code section [1668.1](https://leginfo.legislature.ca.gov/faces/codes_displaySection.xhtml?lawCode=INS&sectionNum=1668.1.))

1. Loans

2. Licensee named as beneficiary, trustee, and/or power of attorney

3. Benefits payable to family or friends of licensees

a. Exceptions

G. Penalties (Insurance Code sections [782](https://leginfo.legislature.ca.gov/faces/codes_displaySection.xhtml?lawCode=INS&sectionNum=782.), [789.3](https://leginfo.legislature.ca.gov/faces/codes_displaySection.xhtml?lawCode=INS&sectionNum=789.3.), [1738.5](https://leginfo.legislature.ca.gov/faces/codes_displaySection.xhtml?lawCode=INS&sectionNum=1738.5.), [10509.9](https://leginfo.legislature.ca.gov/faces/codes_displaySection.xhtml?lawCode=INS&sectionNum=10509.9.), and 10509.9206)

1. Violation of provisions in Insurance Code sections [780](https://leginfo.legislature.ca.gov/faces/codes_displaySection.xhtml?lawCode=INS&sectionNum=780.) or [781](https://leginfo.legislature.ca.gov/faces/codes_displaySection.xhtml?lawCode=INS&sectionNum=781.) (Insurance Code section [782](https://leginfo.legislature.ca.gov/faces/codes_displaySection.xhtml?lawCode=INS&sectionNum=782.))

2. Administrative penalty, amounts, rescission of contracts (Insurance Code sections [10509.9](https://leginfo.legislature.ca.gov/faces/codes_displaySection.xhtml?lawCode=INS&sectionNum=10509.9.) and 10509.9206)

3. Allegations of misconduct against a person 65 years or over (Insurance Code section [1738.5](https://leginfo.legislature.ca.gov/faces/codes_displaySection.xhtml?lawCode=INS&sectionNum=1738.5.))

**V. Medi-Cal**

A. Home equity limits (Welfare and Institutions Code [WIC] section [14006.15(c)](https://leginfo.legislature.ca.gov/faces/codes_displaySection.xhtml?lawCode=WIC&sectionNum=14006.15.))

B. Establishment of hardship exception (WIC sections [14015.1](https://leginfo.legislature.ca.gov/faces/codes_displaySection.xhtml?lawCode=WIC&sectionNum=14015.1.) and [10415.2](https://leginfo.legislature.ca.gov/faces/codes_displaySection.xhtml?lawCode=WIC&sectionNum=14015.2.))

C. Look-back period (WIC section [14015(c)](https://leginfo.legislature.ca.gov/faces/codes_displaySection.xhtml?lawCode=WIC&sectionNum=14015.))

D. Establishment of requirements related to annuities, designated beneficiaries, and California’s role as a remainder beneficiary of annuities (WIC sections [14006.15(a)(2)](https://leginfo.legislature.ca.gov/faces/codes_displaySection.xhtml?lawCode=WIC&sectionNum=14006.15.), [14006.41(b)](https://leginfo.legislature.ca.gov/faces/codes_displaySection.xhtml?lawCode=WIC&sectionNum=14006.41.), and [14009.6](https://leginfo.legislature.ca.gov/faces/codes_displaySection.xhtml?lawCode=WIC&sectionNum=14009.6.))

E. Effect of annuity income on Medi-Cal threshold

**VI. Policy Cancellation and Refunds (Insurance Code sections** [**10127.9**](https://leginfo.legislature.ca.gov/faces/codes_displaySection.xhtml?lawCode=INS&sectionNum=10127.9.)**,** [**10127.10**](https://leginfo.legislature.ca.gov/faces/codes_displaySection.xhtml?lawCode=INS&sectionNum=10127.10.) **and** [**10509.6**](https://leginfo.legislature.ca.gov/faces/codes_displaySection.xhtml?lawCode=INS&sectionNum=10509.6.)**)**

A. Free look for persons 65 years and older (Insurance Code section [786](https://leginfo.legislature.ca.gov/faces/codes_displaySection.xhtml?lawCode=INS&sectionNum=786.))

B. Free look for persons younger than 65 years old (Insurance Code section [10127.9](https://leginfo.legislature.ca.gov/faces/codes_displaySection.xhtml?lawCode=INS&sectionNum=10127.9.))

**VII. Ethics, the Licensee and the Insurance Company**

A. What it means to be a licensee

B. Licensee responsibility to the insured

C. Product knowledge

D. Need and benefit selling

E. Client confidentiality

F. The care owed to seniors

G. Licensee’s responsibility to the insurance company

H. Profiling the client

I. The insurance company – responsibility to licensee, the client, and the public

J. Leading by example

**VIII. Attachment III – Penalties Defined**