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# Education & Training Principles

Fixed annuities play a vital role in helping consumers to provide for their own financial security in retirement. All stakeholders touched by fixed annuities – government, the industry, and consumers – share a common objective to protect consumers.

NAFA, as the only independent, non-profit organization dedicated exclusively to promote the awareness and understanding of fixed annuities, has created a series of Principles papers to provide stakeholders with guidance and education on key issues affecting fixed annuities.

Producer education and training plays a key role in promoting consumer confidence in the fixed annuity industry. This paper discusses producer education and training considerations involved in fixed annuity sales and offers guidance in shaping such education and training.

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## **Background Discussion on Education & Training and its History**

NAFA and its members support appropriate, suitable sales and uniform guidance on the processes and procedures for suitability determination, monitoring, and supervision. Education and training the field force is a key element to achieving this goal.

Fixed indexed annuities are insurance products regulated by the various state departments of insurance. The primary distribution for fixed annuities, including indexed, declared rate, and income annuities, is the independent producer channel.

The producer typically works with an Independent Marketing Organization (“IMO”). The IMO assists the producer with marketing, training, and case design. The IMO will earn a percentage of the commission generated when the producer completes a sale. IMO’s typically work with a number of insurers and deal in a number of different products. Fixed indexed annuities are just one type of insurance product they assist with in the sales process.

A portion of fixed indexed annuity sales are completed through the broker-dealer channel. Many producers that sell fixed indexed annuities also maintain active securities licenses.

The insurance industry is discussing ways to improve the communication and enhance assistance between regulators, producers, and insurers in an effort to improve the general market conduct environment.

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# contents .....

1. The Education & Training Mission
2. Role of Insurance Regulators, Insurers, & Producers
3. General Areas of Study Principles
4. Supervision & Producer Compliance Principles
5. NAFA's Role

## **Mission**

The purpose of education and training is to ensure that producers maintain the knowledge and skills necessary to make suitable and appropriate recommendations of fixed annuities or fixed indexed annuities by attaining and maintaining an adequate level of knowledge and skill about:

- ▶ The state laws governing sales of the sale of fixed annuities (including but not limited to suitability, disclosure, advertising, and replacement),
- ▶ Insurer requirements for submitting, processing, delivering, and servicing customer policies, and
- ▶ Applying that knowledge and skill when making the recommendation of a fixed annuity.

Education and training also includes the wisdom to recognize the limitations of their knowledge and when additional or renewal training or education is necessary. Producers must make an ongoing commitment to learning and professional improvement.

## **Role of Insurance Regulators, Insurers, & Producers**

Insurance Regulator Responsibilities:

In order to conduct a suitability analysis and make a suitability determination, producers must receive training on the requirements of the NAIC Model Regulation through their state insurance department's insurance licensing process and continuing education requirements. The training should include information pertaining to:

1. Annuity suitability,
2. Replacement,
3. Disclosure,
4. Ethics, and
5. Material features of annuity products.

Insurer Responsibilities:

Insurers shall develop and make available product specific training materials or programs reasonably designed to promote producer understanding of the material features of the annuity products offered by the insurer.

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#### Producer Responsibilities:

A producer shall not recommend the sale of an annuity product unless the producer understands the material features of the specific product recommended.

## General Areas of Study Principles

### Annuity Basics

Identify and discuss some of the various types of annuities based on their unique identifying characteristics according to when benefits are paid out according to policy owner risk.

### Annuity Contract Provisions

Identify and discuss contract provisions common to many fixed annuities including interest rates, interest crediting, issue age, maturity, withdrawal/surrender charge waivers (circumstances when withdrawals may be enhanced or surrender charges waived fully or partially), liquidity options, premium payment options, market value adjustments, administration charges and fees, annuitization options, death benefits, and principal and interest guarantees.

### Interest Crediting Strategies

Identify and discuss additional contract provisions common to many fixed annuities that provide for one or more indexed crediting strategies, including caps, participation rates, asset fees, and indexing options (monthly averaging, point to point, etc). Identify and discuss issues specific to index strategy performance.

### Annuity Riders

Identify and discuss, in general terms, some of the typical riders that are available for annuities.

### Advantages and Disadvantages of a Fixed Deferred or Income Annuity

Discuss the primary advantages and disadvantages of annuities, differentiating the effects for those consumers over 65 versus those under 65.

### Selling to Seniors

Identify and discuss special issues that apply to senior consumers.

### Courses on Material Features of Fixed Annuities

1. General
  - a. Types of Fixed Annuities
  - b. Two-Tier Annuities
2. Guaranteed Insurance Elements
  - a. Maturity Date and Surrender Charges
  - b. Minimum Guarantee
  - c. Principal Protection Guarantee
  - d. Income Guarantee
3. Pricing & Interest Crediting
  - a. Deferred – Declared Rate and Indexed Rate
  - b. Immediate
  - c. Guaranteed vs. Non-guaranteed
  - d. Bonuses – How They Generally Work
  - e. Contingent Bonuses & Vesting
  - f. Non-contingent Bonuses
4. Liquidity & Payout Options
  - a. Deferred Liquidity Features & Impact on Interest
  - b. Death Benefits
  - c. Income Riders
  - d. Immediate Payout Options – How to Choose the Right Fit
5. Structuring the Contract
  - a. Owner, Annuitant, Beneficiary Issues
  - b. Rollovers and Transfers
  - c. Creditor Protection and Probate
6. Taxation
  - a. Taxation of Non-Qualified Annuities
  - b. Taxation of Qualified Annuities
  - c. Taxation on Withdrawals, Exchanges, Loans, Gifts and Bequests

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## **Courses on Suitability, Advertising, Disclosure, and Replacement**

### **Suitability Principles**

Identify the suitability principles and key areas of suitability determination. Discuss the NAIC Suitability in Annuity Transactions Model Act, the importance of determining client suitability for fixed annuities, the need for full contract disclosure, and complete recordkeeping.

### **Advertising & Disclosure Principles**

Explain the concept of advertising and what constitutes advertising. Identify the accuracy and truthfulness principles, principles for identification of the advertiser and the product, the disclosure principles, the principles for use of professional designations by producers, and the fixed indexed annuity-specific principles. Understand the Prohibited Statements and Words. Discuss the NAIC Disclosure Model and its relationship to the sale of fixed annuities.

### **Replacement/Disclosure**

Identify the replacement principles and material features of the fixed annuity that must be disclosed to ensure that the consumer understands the annuity that is being recommended. Discuss the NAIC Disclosure & Replacement regulations and their importance to ensure a suitable, satisfied, and appropriate sale.

## **Supervision & Producer Compliance Principles**

An insurer must establish a supervision system that is reasonably designed to achieve the insurer's and its producers' compliance with the NAIC Model Suitability Regulation in effect in the state where the annuity is sold.

## **NAFA's Role**

NAFA is a national trade association exclusively dedicated to promoting the awareness and understanding of fixed annuities – including income, declared rate, and indexed. NAFA is the only association whose sole purpose is advocating for fixed annuities and educating regulators, legislators, consumers, members of the media, industry

personnel, and distributors about fixed annuities and their benefits to retirees and those planning retirement.

NAFA has developed and filed a 4 hour Suitability Course modeled after the Iowa Indexed Product Certification course that is approved in all 50 states. NAFA has also developed a 3 hour course focused explicitly on fixed indexed annuity product features and indexed interest crediting methodology, also approved in all 50 states. Finally, NAFA has developed a 1-hour suitability course focusing on the process of suitability determination, the questions to be asked, and their relationship in the overall suitability recommendation. NAFA will be filing a 4-hour course on Suitability, Advertising, Disclosure, and Replacement that meets the principles and desired outcomes of this paper.

NAFA will work with other trade associations and state insurance departments to promote the awareness and understanding of state suitability, advertising, and disclosure laws and insurer requirements.

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# Attachment 1

## NAIC Insurance Producer Training – Adopted December 1, 2009

### Section 7. Insurance Producer Training

- A. 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. An insurance producer may rely on insurer-provided product-specific training standards and materials to comply with this subsection.
- B. (1)
  - (a) An insurance producer who engages in the sale of annuity products shall complete a one-time four (4) credit training course approved by the department of insurance and provided by the department of insurance-approved education provider.
  - (b) Insurance producers who hold a life insurance line of authority on the effective date of this regulation and who desire to sell annuities shall complete the requirements of this subsection within six (6) months after the effective date of this regulation. Individuals who obtain a life insurance line of authority on or after the effective date of this regulation may not engage in the sale of annuities until the annuity training course required under this subsection has been completed.
- (2) The minimum length of the training required under this subsection shall be sufficient to qualify for at least four (4) CE credits, but may be longer.
- (3) The training required under this subsection shall include information on the following topics:
  - (a) The types of annuities and various classifications of annuities;
  - (b) Identification of the parties to an annuity;
  - (c) How fixed, variable and indexed annuity contract provisions affect consumers;
  - (d) The application of income taxation of qualified and non-qualified annuities;
  - (e) The primary uses of annuities; and
  - (f) Appropriate sales practices, replacement and disclosure requirements.
- (4) Providers of courses intended to comply with this subsection shall cover all topics listed in the prescribed outline and shall not present any marketing information or provide training on sales techniques or provide specific information about a particular insurer's products. Additional topics may be offered in conjunction with and in addition to the required outline.
- (5) A provider of an annuity training course intended to comply with this subsection shall register as a CE provider in this State and comply with the rules and guidelines applicable to insurance producer continuing education courses as set forth in [insert reference to State law or regulations governing producer continuing education course approval].
- (6) Annuity training courses may be conducted and completed by classroom or self-study methods in accordance with [insert reference to State law or regulations governing producer continuing education course approval].
- (7) Providers of annuity training shall comply with the reporting requirements and shall issue certificates of completion in accordance with [insert reference to State law or regulations governing to producer continuing education course approval].
- (8) The satisfaction of the training requirements of another State that are substantially similar to the provisions of this subsection shall be deemed to satisfy the training requirements of this subsection in this State.
- (9) An insurer shall verify that an insurance producer has completed the annuity training course required under this subsection before allowing the producer to sell an annuity product for that insurer. An insurer may satisfy its responsibility under this subsection by obtaining certificates of completion of the training course or obtaining reports provided by commissioner-sponsored database systems or vendors or from a reasonably reliable commercial database vendor that has a reporting arrangement with approved insurance education providers.

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