WISCONSIN ANNUITY TRAINING COURSE

Mandatory Topic List

Minimum length of training shall be sufficient to qualify for at least 4 continuing education credits, but may be longer. Instructors should design their courses to be educational in nature and may 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 addition to those indicated here.

I. Types of Annuities (15 mins)

Identify and discuss the various types and classifications of annuities based on their unique identifying characteristics.

A. Annuity type identified according to when benefits are paid out
   1. Immediate annuities
   2. Deferred annuities
   3. Split annuities

B. Annuity type identified according to how and when premiums are paid
   1. Single premium annuities
   2. Flexible premium annuities

C. Annuity type identified according to policyowner risk
   1. Variable annuities
   2. Fixed annuities
      a. Declared rate fixed annuities
      b. Indexed fixed annuities

D. Two-tiered annuities
   Define what a two-tiered annuity is and discuss the different benefit levels they provide and generally how the different benefit levels can be accessed

II. The Parties to an Annuity (10 minutes)

A. Discuss difference between the annuitant and the owner of the contract

B. Discuss stranger-originated annuity transactions (STATs)

III. Annuity Contract Provisions (75 mins)

A. Discuss contract provisions common to fixed, variable, and indexed annuity contracts and their affect on consumers (30 mins)

1. Interest rates

   Discuss the concept of Portfolio Based Interest Rates, New Money Based Interest Rates and the impact the general interest rate environment has on crediting rates

   a. Initial rates (one year guarantee or multiple year guarantee)

   b. Bonus rates (premium bonus, annuitization bonus, persistency bonus)

   c. Renewal rates

   d. Minimum guaranteed rates

2. Issue age guidelines (minimums and maximums)

   a. Owner's age

   b. Annuitant's age

3. Annuity date

   a. Fixed date

   b. Optional date

4. Withdrawal/Surrender charge waivers

   a. Nursing home waiver

   b. Terminal illness waiver

   c. Unemployment waiver

   d. Disability waiver

5. Premium payments

   a. Single premium

   b. Flexible premium

   c. Required premium payments vs. optional premium payments

6. Withdrawal/Surrender charges

7. Market value adjustments

8. Contract administration charges and fees

9. Withdrawal privilege options

10. Annuitization options

11. Death benefits
    a. Lump-sum vs. extended pay out
    b. Available settlement options

12. Principal guarantee

13. Loan provisions

B. Discuss additional contract provisions common to many fixed annuities that provide for one or more indexed crediting strategies (20 mins)

1. Terminology
    a. Cap rates (guaranteed minimums and maximums)
    b. Participation rates (guaranteed minimums and maximums)
    c. Spreads/Asset Fees (guaranteed minimums and maximums)

2. Common indexed crediting strategies
    a. Fixed interest
    b. Monthly averaging
    c. Point to point
        i. Annual point-to-point
        ii. Long term point-to-point
    d. High-water mark
    e. Annual reset
    f. Combination methods

3. Consumer choice to allocate/reallocate amongst strategies

C. Discuss issues specific to index strategy performance (20 mins)

1. Explain why participation rates fluctuate and why they are often less than 100%

2. Explain in general how insurers invest the premium allocated to an indexed strategy

3. Explain the impact mid-term withdrawals could have on interest credits

4. Explain the difference between a minimum non-forfeiture interest rate and a minimum annual credited interest rate

5. Provide a historical perspective and the realities associated with the following
    a. Hypothetical models
    b. Actual returns
    c. Renewal rates

D. Discuss, in general terms, some of the typical riders that are available for annuities (5 mins)

1. Life insurance riders

2. Long-term care benefit riders
   a. Differentiate between a nursing home waiver of withdrawal charge provision and a long-term care benefit rider

3. Guaranteed minimum withdrawal benefit riders

4. Guaranteed minimum death benefit riders

IV. Application of Income Taxation (5 mins)

A. Non-qualified annuities

B. Qualified annuities

V. Primary Uses of Annuities (20 mins)

A. Tax-deferred growth

1. Discuss the difference between taxable vs. tax-deferred vs. tax-free returns
2. Discuss the long term effect of tax-deferred compounding vs. taxable growth

B. Income distributions
1. Introduce the various settlement options
   a. Life
   b. Life with period certain
   c. Joint survivor
   d. Period certain

2. Discuss the advantages and disadvantages of annuitization options

C. Retirement savings

D. Potential to avoid probate

VI. Appropriate Sales Practices, Replacement and Disclosure Requirements (75 mins)

A. NAIC Suitability in Annuity Transactions Model Act (15 mins)

B. Determining when an annuity is suitable for a consumer’s needs. (60 mins)

1. Discuss what information to obtain from the consumer prior to making a recommendation that can assist in determining whether an annuity is suitable for the consumer’s financial situation and needs.

   a. The consumer's financial status
      i. Annual Income
      ii. Existing assets, investment and life insurance holdings
      iii. Liquid Net Worth
      iv. Liquidity Needs
   b. The consumer's tax status
   c. The consumer's financial objectives, risk tolerance and time horizon
   d. The consumer’s intended use of the annuity
   e. Financial resources used for the funding of the annuity
   f. Consumer’s Age (pre-retirement or post-retirement)
   g. Consumer’s financial experience
   h. Financial concerns
      i. Social security
      ii. Retirement plan distributions
      iii. Investing retirement assets
   i. Other information to be used or considered relevant
      i. Health
      ii. Access to account value
         (1) Required minimum distributions
         (2) Free withdrawals, withdrawal in excess of the free amount and full surrender
         (3) Annuitization

2. Discuss the importance for full disclosure of various features of the annuity being recommended.

   a. Surrender period and surrender charges
   b. Tax penalty if the consumer sells, replaces, surrenders, or annuitizes the annuity
   c. Mortality and expense fees
   d. Investment advisory fees
   e. Rider features
   f. Limitations on interest returns
   g. Insurance and investment components

h. Market risk

3. Discuss the suitability of replacing existing policies.

a. Will consumer incur surrender charge or be subject to a new surrender charge period
b. Loss of existing policy benefits such as death, living or other contractual benefits
c. Will consumer incur increased fees or charges for riders and similar product enhancements
d. Will consumer benefit from enhancements in new policy
e. Has consumer had another annuity replacement within 3 years

4. Special issues for sales to senior consumers

a. Product complexity
b. Buyer competence: indicators that the consumer may lack the short-term memory or judgment to knowingly purchase an insurance product
c. Unique ethics and compliance issues

5. Discuss the need for complete record keeping