

2010 Suitability in Annuity Transactions Model Regulation

In March 2010, the National Association of Insurance Commissioners (NAIC) adopted the Suitability in Annuity Transactions Model Regulation (formerly the *Consumer Protection in Annuity Transactions Model Regulation* or the *Senior Protection in Annuity Transactions Model Regulation*). The amended model regulation updates and revises previously established standards and procedures for suitable individual annuity recommendations to help ensure that consumers' insurance needs and financial objectives are appropriately considered and protected. Additionally, the amendments require insurers to update and, where appropriate, modify previously established methods to supervise recommendations.

The most notable amendments include:

- ❖ An expanded definition of "Suitability Information" to include:
 - age;
 - annual income;
 - financial situation and needs (including source of funding);
 - financial experience;
 - financial objectives;
 - intended use of the annuity;
 - financial time horizon;
 - existing assets, including investment and life insurance holdings;
 - liquidity needs;
 - liquid net worth;
 - risk tolerance; and
 - tax status
- ❖ An insurance producer must have a reasonable basis to determine that the recommendation to purchase, exchange or replace an annuity is suitable, and that the following conditions have been met:
 - The consumer has been informed of all of the material features of the annuity, which may include the potential surrender period and surrender charge, potential tax penalty if the consumer sells, exchanges, surrenders or annuitizes the annuity, mortality and expense fees, investment advisory fees, potential charges for and features of riders, limitations on interest returns, insurance and investment components and market risk;
 - The consumer would benefit from certain features of the annuity;
 - The annuity as a whole, including underlying subaccounts (if applicable), riders and other product enhancements, is suitable for the consumer; and
 - In the case of an exchange or replacement of an annuity, that the exchange or replacement is suitable while taking into consideration:
 - potential surrender charges, new surrender period, loss of existing benefits, increased fees or charges; and
 - whether or not the consumer has had an annuity exchange or replacement in the preceding thirty-six (36) months.
- ❖ Training and education requirements for the sale of annuities:
 - One time, four (4) hour annuity training/certification course; and
 - Product-specific training which explains all material features of an insurers' annuity products.
- ❖ An insurer must establish a system of supervision that includes:
 - A "secondary review" of all recommendations prior to issuance of an annuity;
 - A procedure to detect recommendations that are not suitable; and
 - An annual audit process and report to senior management regarding the effectiveness of the supervision system.

Several states have adopted or proposed language from 2010 Suitability in Annuity Transactions Model Regulation. It is anticipated that additional states will propose and adopt the Model in 2011. The following table summarizes state actions through October 2010:

2010 Suitability in Annuity Transactions Model Regulation: State Actions

STATE	ACTION	TRAINING EFFECTIVE DATE	COMMENTS
Iowa	Adopted	-Product specific training: 01/01/11 -Iowa Annuity certification: 05/01/11	Iowa Administrative Rule 191-15.72 is effective on January 1, 2011. The Iowa Insurance Division has published two advisory bulletins, Bulletin 10-2 and Bulletin 10-5, regarding the regulation.
Wisconsin	Adopted	05/01/11	Wisconsin Statute 628.347 is effective on May 1, 2011.
Oklahoma	Adopted (training requirements)	-If licensed AFTER July 14, 2010: Prior to solicitation. -If licensed BEFORE July 14, 2010: 07/14/11	Oklahoma Rule 365:25-3-21 adopted the training and education requirements of the 2010 model. Producers who hold a Life Line of Authority prior to July 14, 2010, must complete the training requirements by July 14, 2011. Producers who obtain a Life Line of Authority after July 14, 2010, must complete the training requirements prior to solicitation.

Existing State Annuity Training/Certification Requirements

STATE	TRAINING EFFECTIVE DATE	COMMENTS
California	01/01/05	California Insurance Code § 1749.8. An eight (8) hour, California-specific, annuity training course must be completed prior to soliciting the sale of any annuity products. After the initial 8-hour training, an agent must complete a four (4) hour continuing education course in the subsequent license term (every 2 years). The annuity training course and continuing education courses must be completed by both resident and non-resident agents.
Florida	01/01/09	Any person (resident or non-resident) who holds a license to solicit or sell life insurance in Florida must complete a minimum of three (3) hours continuing education on the subject of suitability in annuity and life insurance transactions every two (2) years.
Texas	04/01/10	28 TAC §§19.1001+. A resident agent licensed to sell annuities must complete an initial four (4) hour annuity education course. After the initial 4 hours, an agent must annually complete 4 hours of continuing education that relates to annuities. The annual period is based on the agent's license expiration date.

Iowa Producers/ONEAMERICA Companies' Actions

The companies of OneAmerica are actively working on implementation of the regulations' requirements. **For Iowa producers, there will be product specific training for OneAmerica annuity products available in December 2010. State Life will send you an e-mail which will provide you with the opportunity to register for the product specific training element.**

By year-end, producers will see revisions in applicable suitability forms to capture the additional "suitability information" and in the *Suitability Policies and Procedures*, which include the OneAmerica companies' Suitability Standards.