



NAIC Model Suitability Act

What You Need to Know to Avoid Returned Applications

The NAIC Model Act is gaining wide adoption and is changing the way all annuities are designed and distributed. When adopted in its model form, the Act places new obligations on the insurance company issuing the contract to implement new procedures surrounding annuity sales and replacements. It also requires producers to be trained on each Carrier's specific product line, including specific features and benefits of each product.

The Act has also introduced new concepts in its language: First, training should address how the specific product and features of an annuity will benefit the client, and second, that the transaction "as a whole", including a replacement, is suitable for the consumer. These new concepts make a case for training producers not just on when and where a product might be suitable, but also when they might *not* be suitable.

Expanded Suitability Obligations

The 2010 Model Regulation requires that producers have "reasonable grounds" to believe that the annuity recommendation is suitable for the consumer. This suitability determination is to be made from information disclosed by the client about his or her financial situation and needs. Such suitability information consists of 12 different factors, including the client's intended use of the annuity, financial time horizon, existing assets, liquidity needs, net worth, and risk tolerance.

Also, producers must have a "reasonable basis" to believe that the annuity as a whole, its unique features, and the transaction itself are in the best interest of the client. Specifically, producers must reasonably believe that:

1. The consumer is reasonably informed of the annuity's features,
2. The consumer will benefit from certain features of the annuity, such as tax-deferred growth, annuitization options, living benefits, or income guarantees,
3. The transaction and annuity as a whole are suitable for the client, and
4. The exchange or replacement is suitable, considering surrender charges, fees, benefits from product enhancements, and other exchanges or replacements within the past 36 months.

Training Requirements for Producers

In addition to suitability requirements, the 2010 Model Regulation also sets forth two important training requirements for the producer. In states that have adopted the Model Regulation, the two training requirements detailed below must be completed before any application is taken:

1. A **4-hour general training course** on Annuity Suitability by a state-approved vendor.
2. A **product-specific training course** for the applicable Carrier.

As of today, if you write business in any of the states which have approved the NAIC Model Regulation (shown below), you must complete both training requirements before submitting an application to the carrier. **Applications received prior to completing both training requirements will be returned by the Carrier.** In this climate of rate reductions, a returned application may mean a lost rate for your client. Please plan ahead and get your training done now!

State Approval Updates (As of 1/15/12)

Many states have already adopted the NAIC model regulation, details are below.

NAIC Model Adopted and Approved:

AK, CA, CO, DC, HI, IA, IL, IN, KY, MD, ND, OH, OK, OR, RI, SC, TX, WI, and WV.

CT - Effective Date 2/18/2012

Questions?
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