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CFP®, CLU®, ChFC®, is the owner of CG Financial Group, one of the fastest growing annuity, life, and long term care IMOs in the industry. Gipple's passion is to fill the educational void left by the reduction of available training and prospecting programs that exist for agents today. Gipple is personally involved with guiding and mentoring CG Financial Group agents in areas such as conducting seminars, advanced sales concepts, case design, or even joint sales meetings. Gipple believes that agents don't need "product pitching," they need mentorship, technology, and somebody to pick up the phone…

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Annuity Suitability: The Method To The Madness

In this same *Broker World* edition, you will see another article entitled, *"Options For Being A Registered Rep And Also Selling Indexed Annuities."* In this article I reference NASD 05-50 that happened in 2005, and also SEC 151A that was vacated in 2009. These proposed rules sought to effectively put indexed annuities in the same category as securities when it comes to how indexed annuities are regulated and sold.

As a result of these previous attempts to categorize **fixed indexed annuities** as securities, there have been "regulatory concessions" made—if you call it that—by the insurance regulators that included additional annuity suitability training for agents and also **more forms** when it comes to writing fixed annuities. These new requirements came largely in the form of the "2010 Suitability in Annuity Transactions Model Regulation." This regulation did three things that I list verbatim from the regulation.

Specifically, this Model Regulation was adopted to:

1. Establish a regulatory framework that holds insurers responsible for ensuring that annuity transactions are suitable (based on the criteria in Sec. 5I), whether or not the insurer contracts with a third party to supervise or

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monitor the recommendations made in the marketing and sale of annuities;
2. Require that producers be trained on the provisions of annuities in general, and the specific products they are selling; and,
3. Where feasible and rational, to make these suitability standards consistent with the suitability standards imposed by the Financial Industry Regulatory Authority (FINRA).

Because of #1, we now have the "Suitability Form" that many agents dread. Not because these agents are writing unsuitable sales, but because the forms can be a disaster and an algebra equation. One math mistake or one field left blank that shouldn't have been and you are getting a NIGO (Not In Good Order) notification from the carrier on that submitted app. This is why if you do business with an IMO that just sends in the case and doesn't see it through the ultimate process, your life will be miserable while writing annuities. I would guess that 70 percent+ of the time if the carrier kicks back a case as NIGO, it is because of this form. This is also why I am a fan of E-Apps, which almost guarantee that the suitability form (and other forms) is perfect. E-Apps are a conversation for another day.

"One math mistake or one field left blank and you are getting a NIGO notification."

I have had many financial professionals that went to write their first annuity application and get frustrated with the suitability form and the process around it. Afterall, this form does not exist with other fixed insurance products that these agents have been exposed to, like life insurance for example. However, this form and process should not be scoffed at a whole lot because that is the carriers doing with fixed annuities what that the broker-dealers do when it comes to securities. Hence, the "regulatory concessions" that I referred to earlier. This form and suitability process is better than the alternative—indexed annuities being classified as securities.

With that, I want to list a few points on the "typical" suitability rules that carriers have. Some carriers have very stringent and defined suitability guidelines, and some carriers are more lenient and undefined. The carriers that have a fairly defined suitability process are usually the major players that do a ton of annuity business. With these carriers' guidelines in mind, I want to give you a kind of a composite view of their suitability requirements so you can have an idea of if your next case is doable or not. Also, I will discuss rules that are universal with all carriers (like training requirements). This is not an all-encompassing list of suitability issues, but certainly what I see the most:

- Suitability Training! Based on the 2010 Model Regulation #2, there is generally a four-hour annuity suitability course that is required. This course has recently had additions, in the form of "Best Interest" regulations that have taken place over the last few years. If you submit a case without having completed this first, the entire case is NIGO.
- Product Specific Training: Again, as #2 in our Model Regulation refers to, you **must** complete product specific training prior to writing that particular fixed annuity product. If you submit a case without having completed this first, the entire case is NIGO.
- Now, for the suitability form, which is a part of #1 of our regulations. If the suitability form shows liquid assets that are less than six to 12 months (depending on carrier and depending on client's age usually) of monthly expenses, the carrier will scrutinize the app and possibly **decline**.
- If the suitability form shows that the dollar amount of annuities that the consumer owns is more than 50 percent of their net worth (excluding primary residence), there will likely be additional questions asked. Usually with good rationale, carriers will allow as much as 70 to 75 percent of the client's net worth in annuities. *(Note: I have many agents that also write variable annuities where the broker-dealer "governs" the suitability. These maximum percentages are consistent with what many broker-dealers enforce when it comes to VAs, as our #3 in the 2010 Model Regulation suggests.*
- Replacements of other annuities where the surrender charge and MVA total more than two to five percent of the accumulation value (as indicated on the Replacement Comparison Form). These percentages vary by carrier but if the client has a surrender charge (plus MVA) of more than the carrier's percentage guideline, it will likely be ***declined. Important point: Carriers generally allow for their premium bonus (if applicable) to offset the surrender charge when it comes to this guideline.***
- Funds coming from reverse mortgages will usually lead to a ***decline***.
- If the client is replacing an annuity where they will lose a large GLWB benefit base (as indicated on the Replacement Comparison Form), the company will likely ask for rationale and if the client is able to get more income with the new product even after losing the old benefit base.
- If you are replacing an annuity where they will lose a large death benefit (as indicated on the Replacement Comparison Form), the case will be scrutinized and can be **declined**. *(Note: If one passes away prematurely after losing a large death benefit, the beneficiaries can very easily sue the agent and the company.)*

Again, the above list is not all encompassing, but should be a good guide that can save you time. Usually each carrier has their own suitability guide that you can reference.