Required Annuity Training Is A Good Thing

BY DANNY FISHER

A LOT OF LAWS HAVE BEEN PASSED RECENTLY that place more responsibility on agents who sell annuities. Agents are now required to complete suitability, replacement, and disclosure forms that were unheard of just a short while ago. In many states, agents who sell annuities are required to complete Annuity Specific Continuing Education.

At first blush, I was upset about having to complete annuity training – this, after having over 34 years of experience selling annuities and being "grandfathered" from state-required CE.

But the more I think about it, the more I believe the additional training is sorely needed and a good thing. Some agents who have been in business 20+ years have compounded their knowledge to match their tenure. But many more agents only have one years worth of experience 20 times over – i.e., they're still at rookie agent level after 20 years.

Most agents will benefit from training in the annuity basics such as living benefits, beneficiary death benefits, taxation, protection under guaranty fund and bankruptcy laws, comparison of different types of deferred contracts and annuitization options, etc.

Agents call me everyday with annuity questions, and I try to answer as simply and briefly as possible. Surprisingly, one of the most common topics concerns death proceeds. Here are typical examples.

"**Some agents who have been in the business** 20+ years…have one year's worth of experience 20 times over – i.e., they're still at rookie level after 20 years."

Question: "One of my deferred annuity clients just died and his wife is the beneficiary. What options does she have?"

Answer: She has 3 basic options: 1) ***cash out***; 2) elect to have the funds ***paid out*** over a period of time; or 3) ***switch out***, take his name off the contract, put her name on and pick up the contract where he left off. (The last option is technically called "spousal continuation.") Additionally, she can select a combination of the above options.

Question: "If a person, other than the spouse is the beneficiary, what options does this person have?"

Answer: They also have 3 basic options: 1) ***cash out***; 2) elect to have the funds ***paid out*** over a period of time (but this option must be selected within 60 days of death); or 3) ***deferred cash out***, where the beneficiary may defer payment for up to 5 years from date of death.

Question: "What options are available if an estate or a trust is the beneficiary?"

Answer: There is only one "viable" option; ***cash out***.

As stated above, those are just quick, simple answers to questions. There is a lot more information that needs to be learned before beneficiaries can make wise decisions. For example:

- Does the beneficiary understand that he or she is responsible for income tax on the gain in the contract as funds are paid out, either in lump-sum or periodic payments?
- Are surrender penalties waived at death of the annuitant and/or owner?
- If there are multiple beneficiaries, can each one select a different option?
- Does the annuity pay interest from date of death until date of disbursement? If so, at what rate?
- If the client elects deferred cash-out, does the company allow partial withdrawals during the 5 year deferral period?
- If a child is the beneficiary of a traditional individual retirement account, will the company allow the beneficiary to make a trustee-to-trustee transfer as long as the IRA, into which amounts are being moved, is set up and maintained in the name of the deceased IRA owner for the benefit of the beneficiary?
- Will the insurer allow a beneficiary to assign his/her rights to another person, trust, charitable organization, etc.?

Be advised: Answers can vary between different contracts issued by the same company. Also, home office personnel often give erroneous information to agents, policy owners, and beneficiaries on these points.

Answers to questions like those can found in a textbook and the class room. But agents need answers that come from "real life," too. Knowing these can help agents prepare for offering advice to beneficiaries.

For example, it has been my experience that if a widow is the only spouse the owner/annuitant has ever had, the widow almost always elects spousal continuation. On the other hand, if the widow is the 2nd or greater spouse of the owner/annuitant, the widow always takes the Cash Out option as quickly after death as possible.

If a child beneficiary is over age of 60, the child often wants to know what his or her options are upon the death of Mom or Dad. But if the child beneficiary is under age 60, the only question such individuals ever asked me is "How fast can I get a check?"

Yes, Annuity Specific Continuing Education is a good thing for agents and it will benefit policy owners and beneficiaries alike. But the CE requirement falls short in not requiring home office personnel to receive the same type of training. NU

Danny Fisher, CLU, ChFC, is founder and principal of The Fisher Agency, Dallas, and publisher of Fisher Annuity Index. His e-mail address is Danny@MrAnnuity.com.