

Course Information:

Course Title: *Annuities*

#290125

Recommended continuing education credit hours recommended for this course:

In accordance with the standards of the Certified Financial Planner Board of Standards, Inc., the Institute for Divorce Financial Analysts, and the National Registry of CPE Sponsors, CPE credits have been granted based on a 50-minute hour.

CFP® 5 (All states) CFP Board Course ID# 222058; CFP Board sponsor number: 1008.

CDFA® 7 (Registered with the Institute for Divorce Financial Analysts)

CPA 7 (All states)

National Registry of CPE Sponsors ID Number: 107615.

Sponsor numbers for states requiring sponsor registration

Florida Division of Certified Public Accountancy: 0004761 (Ethics #0011467)

Hawaii Board of Public Accountancy: 14003

New York State Board of Accountancy (for ethics): 002146

Ohio State Board of Accountancy: CPE .51PSR

Pennsylvania Board of Accountancy: PX 178025

Texas State Board of Accountancy: 009349

Course Description

This course examines the annuity concept and explains what an annuity is and how it works:

- The mechanics of the accumulation and payout phases of an annuity, including sample calculations
- Settlement options and their appropriate uses
- Annuity taxation: Federal income tax treatment of premature withdrawals; lump-sum distributions; and periodic payments.
- A comparison of the different annuity contracts available with respect to client suitability.

Variable and fixed annuities are discussed in terms of single vs. periodic premium, immediate vs. deferred, qualified vs. non-qualified, and settlement options.

Course Content

Publication/Revision Date: 1/14/2025.

Author: Pau J. Winn, CLU, ChFC

Final exam (online): Forty-five questions (multiple-choice).

Program Delivery Method: Self-Study (NASBA QAS Self-Study/interactive)

Subject Codes/Field of Study

CFP Board of Standards, Inc., IDFA, NAPFA: Investments

NASBA (CPA): Specialized Knowledge and Application

Course Level, Prerequisites, and Advance Preparation Requirements

Program Level: CFP Board, IDFA, NASBA (CPA): Overview.

This program is appropriate for professionals at all organizational levels.

Prerequisites: None

Advance Preparation: None

Instructions for Taking This Course

- **You must complete this course within one year** of purchase (If the course is “Expired,” contact us and we will add the latest edition of the course to your account (no charge).
- **To retain the course-PDF after completion (for future reference) and to enable enhanced navigation:** From “My Account,” Download and save the course-PDF to your computer. This will enable the search function (Menu: Edit>Find) and bookmarks (icon on left side of document window).
- **Complete the course by** following the learning objectives listed for the course, studying the text, and, if included, studying the review questions at the end of each major section (or at the end of the course).
- **Once you have completed studying the course** and you are confident that the learning objectives have been met, answer the final exam questions (online).

Instructions for Taking the Online Exam

- **Go to “My Account” and locate this course in your Active Courses list.**
- Click “View Course,” then “Course Exam,” then “Open Exam.” (You can print the exam questions for reference purposes using the “Print Exam Questions” link.)
- A passing grade of at least **70% is required on the exam** for this course.
- You will have **three attempts to pass the exam** (call or email us after three unsuccessful attempts for instructions).
- The exam is not timed, and it does not need to be completed in one session.
- Once you pass the exam, the results (correct/incorrect answers) and certificate of completion appear in “My Account.” A confirmation email is also sent.
- CFP Board and IRS credit hours, if applicable, are reported on Tuesdays and at the end of the month.

Have a question? Call us at 800-588-7039 or email us at contact@bhfe.com.

Learning Objectives

1. Describe a typical annuity buyer and the principal reasons individuals buy annuity contracts
2. List the characteristics of annuities and the benefits of tax deferral
3. Explain how variable annuities work
4. Identify the cash value management tools available to a variable annuity contract owner
5. List the factors to be considered in determining variable annuity suitability
6. Calculate interest to be credited under various fixed annuity contracts
7. Explain the operation of indexed annuities
8. Describe how annuities are taxed
9. Recognize the requirements imposed on the sale of variable annuities under Regulation Best Interest

Copyright © 2005, 2010, 2014-2025 by Paul J. Winn CLU ChFC

ALL RIGHTS RESERVED. THIS BOOK OR ANY PART THEREOF MAY NOT BE REPRODUCED IN ANY FORM OR BY ANY MEANS WITHOUT THE WRITTEN PERMISSION OF THE AUTHOR.

All course materials relating to this course are copyrighted by Paul J. Winn CLU ChFC. Purchase of a course includes a license for one person to use the course materials. Absent specific written permission from the copyright holder, it is not permissible to distribute files containing course materials or printed versions of course materials to individuals who have not purchased the course. It is also not permissible to make the course materials available to others over a computer network, Intranet, Internet, or any other storage, transmittal, or retrieval system.

This document is designed to provide general information about the subject. It is not a substitute for professional advice in specific situations. This publication is not intended to be, and should not be construed as, legal or accounting advice which should be provided only by professional advisers.

Paul J. Winn CLU ChFC

101 Justice Grice

Williamsburg, VA 23185

(757) 253-8075

Fax (757) 253-8079

pjwinn@verizon.net

www.insurancefinancialwriter.com

Table of Contents

Course Information:	ii
Learning Objectives	iv
Table of Contents	v
About This Course	1
How You Will Learn	1
Why This Information is Important and How You Can Use It.....	1
Chapter 1 - Introduction to Annuities and Annuity Buyers	2
Important Lesson Points	2
Chapter Learning Objectives	2
Introduction.....	2
Demographics of Non-Qualified Annuity Purchasers	3
Annuity Demographic Changes	4
Why Buyers Purchase Non-Qualified Annuities	4
Guaranteed Lifetime Income Study	5
Anticipated Annuity Market	6
The Annuity Concept.....	6
Annuities in Operation.....	7
Summary.....	8
Test Your Comprehension.....	9
Chapter 2 - Characteristics of Annuities	10
Important Lesson Points	10
Chapter Learning Objectives	10
Introduction.....	10
Premiums	11
Single Premium Annuities	11
Level Premium Annuities	11
Flexible Premium Annuities	11
Annuity Expenses	12
Surrender Charges.....	12
M&E Charges and Investment Advisory Fees.....	13
Lives Covered by the Annuity	13
Multiple Life Annuities.....	13
When Payout Begins.....	14
Deferred Annuity	15
Immediate Annuity	15
Cash Value Accumulation	15
Fixed Annuities	16
Variable Annuities	16
Death Benefits	18
Annuitization Methods	18
Temporary Annuity.....	18
Life Annuity.....	19
Annuities and the SECURE Act 2.0.....	21
Qualifying Longevity Annuity Contracts	21
Divorce After QLAC Purchase	21
Penalty on Partial Annuitization	22
Summary.....	22
Test Your Comprehension.....	23

Chapter 3 - Variable Annuities	25
Important Lesson Points	25
Chapter Learning Objectives	25
Introduction.....	25
Separate Account and Structured Investment Option	26
Insurer’s General Account Supports Variable Annuity’s Fixed Account.....	26
Deferred Annuity Accumulation	27
Variable Subaccounts Comprise Insurer’s Separate Account.....	27
Variable Subaccount Value may Fluctuate Daily	28
VA Accumulation Units.....	28
Structured Investment Option	29
Managing Separate Account Volatility.....	30
Separate Account Management Tools	30
Diversification.....	31
Asset Allocation.....	31
Automatic Subaccount Re-balancing.....	31
Fund Transfer.....	32
Dollar Cost Averaging	32
Interest Sweep.....	32
Variable Annuity Death Benefits.....	33
Traditional Variable Annuity Death Benefit Guarantee	33
Variable Annuity Rollup Death Benefit Guarantee	34
Variable Annuity Step-Up Death Benefit Guarantee.....	34
Living Benefit Guarantees	34
Guaranteed Minimum Income Benefit	34
Guaranteed Minimum Accumulation Benefit.....	35
Guaranteed Withdrawal Benefit.....	35
Variable Annuity Payout (Annuitization) Phase.....	35
Mechanics of Variable Annuitization	36
Features and Benefits.....	37
Suitability.....	38
Compliance Requirements.....	38
Combining Fixed and Variable Annuities	39
Summary.....	40
Test Your Comprehension.....	41
Chapter 4 - Types of Fixed Annuity Contracts.....	42
Important Lesson Points	42
Chapter Learning Objectives	42
Introduction.....	42
Traditional Declared-Rate Annuities	43
Bonus Annuities.....	44
Multi-Year Guarantee Annuities	45
Indexed Annuities	46
Current Interest Rates base on an Interest Index.....	46
Current Interest Rates base on an Equity Index	47
Determining Indexed Annuity Cash Value.....	47
Index Call Options	48
Interest Crediting Methods.....	49
Spread	53
Cap Rate.....	53
Annuitization in Indexed Annuity Contracts	53
Guaranteed Lifetime Withdrawal Benefits	54
Summary.....	56

Test Your Comprehension.....	57
Chapter 5 - Annuity Taxation	58
Important Lesson Points	58
Chapter Learning Objectives	58
Introduction.....	58
Income Tax Treatment.....	59
Premiums	59
Cash Values	59
Surrenders and Withdrawals	62
Annuity Payments During Lifetime.....	64
Thumbnail Summary of Nonqualified Annuity Taxation.....	66
Annuitant’s Death After Annuity Starting Date.....	67
Contract Owner’s Death Before Annuity Starting Date	67
Estate Tax Treatment.....	68
Summary.....	68
Test Your Comprehension.....	69
Chapter 6 Annuity Sales Practices, Replacement and Disclosure Requirements.....	71
Important Lesson Points	71
Chapter Learning Objectives	71
Introduction.....	72
Suitability.....	72
Securities Exchange Commission Rules.....	72
Regulation Best Interest.....	73
Effect of Regulation Best Interest.....	74
Suitability Defined.....	76
Suitability Requirements.....	76
Buyer Competence.....	77
Replacement and Exchange	85
Mitigation of Suitability Requirement	86
Obtaining and Maintaining Records	87
Disclosure	87
Potential Surrender Period and Surrender Charge	87
Potential Tax Penalties.....	88
Mortality and Expense Risk Charges and Investment Advisory Fees	88
Rider Charges and Features	89
Limitations on Interest Crediting	89
Insurance and Investment Components	89
Market Risk.....	90
Annuity Sales & Best Interest Obligation.....	90
Nature of a “Recommendation”.....	91
The Care Obligation.....	91
The Disclosure Obligation	92
The Conflict of Interest Obligation.....	94
The Documentation Obligation.....	94
Transactions not Based on a Producer Recommendation.....	94
Summary.....	94
Test Your Comprehension.....	95
Glossary.....	97
Appendix A - Bond Ratings.....	103
Appendix B - Basic Characteristics Of Securities	104
Appendix C - Decisional Factors in Variable Annuity Suitability	105

Appendix D - Variable Annuity Buyer Profile	106
Appendix E - Annuity 1035 Exchange Considerations	108
Appendix F – Annuity, 401(k) & IRAs.....	110
Appendix G – Formulas & Examples.....	111
Appendix H – Agent Disclosure	114
Appendix I – Refusal to Provide Information.....	116
Appendix J – Non-Recommended Purchase.....	117
Answers to Chapter Quizzes.....	118
Chapter 1.....	118
Chapter 2.....	119
Chapter 3.....	121
Chapter 4.....	123
Chapter 5.....	124
Chapter 6.....	126
Index	129