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GOVERNMENT RELATIONS
ISSUE BRIEF

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NAIC
National Association of Insurance Commissioners
The Center for Insurance Policy and Research

Annuities

- *An annuity is an insurance contract typically used in retirement planning and designed to protect an individual from outliving his or her assets. An individual, or annuitant, pays premiums into the annuity and the insurer promises to pay out money from the annuity to the annuitant or a beneficiary in a series of payments.*
- *An annuity is not a savings account. An annuity should be purchased to reach long-term financial goals. Most annuities have surrender or withdrawal charges to discourage people from taking money from an annuity or ending (surrendering) the contract prior to retirement.*
- *State insurance regulators have strict rules to monitor the solvency and conduct of insurance companies offering annuities and the suitability of products for consumers. The NAIC encourages states to adopt model laws and regulations (some of which are referenced in federal law) designed to inform and protect annuity consumers.*

Background

Annuity contracts take a number of forms: immediate, deferred, fixed, and variable. Immediate annuities are retirement income vehicles that provide income payments for the life of the annuitant or for a specified period of time, with income payments beginning within a year of paying the premium(s). Deferred annuities provide income for the life of the annuitant or for a specified period of time, with the first payment made a year or more after paying premiums. For a fixed deferred annuity, the company guarantees the contract will earn no less than a minimum rate of interest set in the contract. In a variable deferred annuity, the insurance company puts the premiums into separate accounts and there is no guarantee that the annuitant will earn any return on the investment and there is a risk of losing money. Many variable annuities today offer guaranteed death benefits or guaranteed living benefits for an additional fee. The person selling variable annuities, in most states, must be a licensed life insurance agent, have passed a securities examination to be a Registered Representative, and be affiliated with a broker/dealer that is a Financial Industry Regulatory Authority (FINRA) member. FINRA, the Securities and Exchange Commission (SEC), State Insurance Departments and state securities regulators all have regulatory responsibilities for variable annuity sales. The Department of Labor also has authority over annuity sales to the extent they are conducted by ERISA fiduciaries and in April 2016 finalized a rule expanding the definition of fiduciary to cover a broader group of entities, including a larger set of insurance agents, brokers, and insurers.

The NAIC *Annuity Disclosure Model Regulation* establishes standards for the disclosure of certain information about annuity contracts to protect consumers and foster consumer education. The *Life Insurance and Annuities Replacement Model Regulation* provides regulatory oversight of insurer and producer annuity and life insurance replacement (substitution of a new policy for an existing policy) activities. The *Suitability in Annuity Transactions Model Regulation* sets forth standards and procedures for recommendations to consumers that result in a transaction involving annuity products to ensure the insurance needs and financial objectives of consumers are appropriately met at the time of the transaction. The *Model Regulation on the Use of Senior-Specific Certifications and Professional Designations in the Sale of Life Insurance and Annuities* establishes standards for the use of senior-specific certifications and professional designations by insurance producers in the sale of life insurance and annuities to all consumers regardless of age.

Key Points

- ✓ An annuity may be an investment option to meet retirement and other long-term financial goals.
- ✓ Annuities are insurance products issued by life insurance companies and carefully regulated by state insurance commissioners. Insurance regulators are actively examining and improving annuity regulation.
- ✓ The Department of Labor recently issued its final rule regarding fiduciaries that could have potentially significant implications for the annuity marketplace. The NAIC will be monitoring the implementation of that rule and its impact on annuity consumers, the insurance industry, and the products being offered in the marketplace.

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