

# NAIC Annuity Suitability FAQs

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On February 13, 2020, the NAIC adopted revisions to its Suitability in Annuity Transactions Model Regulation that impose a higher best interest standard of care for annuity sales. Similar to the SEC's Regulation Best Interest ("Reg BI"), it requires producers to act in the best interest of the consumer without putting the producer's or insurer's financial interest ahead of the consumer's interest. To date, Iowa, Arizona and Rhode Island have adopted the model regulation.

## What types of activities fall under the best interest standard of conduct?

All recommendations made by a producer or insurer to purchase, exchange or replace an annuity product must comply with the best interest standard of conduct. Under the model regulation, a "recommendation" is guidance provided by a producer to an individual consumer that was intended to result or does result in a purchase, an exchange or a replacement of an annuity in accordance with that advice. A recommendation does not include general communication to the public, generalized customer service assistance or administrative support, general educational information and tools, prospectuses, or other product and sales material.

Moreover, a producer who has exercised material control or influence in the making of a recommendation and has received direct compensation as a result of the recommendation or sale would be covered under the best interest standard of conduct, regardless of whether they had any direct contact with the consumer.

## What are the core obligations under the model regulation?

A producer must meet four core obligations under the model regulation:

- Care
- Disclosure
- Conflict of interest
- Documentation

## What are producers required to do under the care obligation?

In order to satisfy the care obligation under the model regulation, producers must gather and consider additional categories of consumer information and consider available options the producer is licensed to sell. A producer must consider the annuity as a whole, including underlying subaccounts and benefits, confirm a replacement substantially benefits the consumer if recommended, and consider whether they've had one within the previous 60 months.

Insurance products issued by:  
The Lincoln National Life Insurance Company  
Lincoln Life & Annuity Company of New York

## What are producers required to do under the disclosure obligation?

Producers are required to provide consumers with a disclosure, including:

- Scope and terms of relationship with consumer
- Whether the producer is authorized to sell certain types of products (including fixed annuities, fixed indexed annuities, variable annuities, life insurance, mutual funds, stocks and bonds) and products of multiple insurers, or only one
- Sources and types of cash and noncash compensation received by the producer

Upon request, consumers can obtain an estimate of the amount of cash compensation received by the producer, and whether it's a one-time or a multiple occurrence amount.

## What are producers required to do under the conflict of interest obligation?

Producers are obligated to identify and avoid or reasonably manage and disclose material conflicts of interest.

## What are producers required to do under the documentation obligation?

Producers must make a written record of any recommendation and the basis for it. Producers must keep record of the written recommendation for the years determined by the state. They are required to obtain the consumer's signature on a new disclosure form relating to, among other things, what types of products the producer is authorized to recommend, what insurers' products they are authorized to sell, and how they are compensated.

## What training is required under the model regulation?

Producers seeking appointment with an insurer to sell annuities are required to complete a new four-credit training course that covers the new requirements. Producers already appointed and who have previously completed a four-credit training are required to complete a new one-credit training course.

Completion of these training courses is required within six months after the effective date of the revised Model Regulation in each state provided by third-party vendors. The revised Model also requires product-specific training as required by the previous model.

## How do producers access the training?

In order to take the training, please click on the link below. If a state-approved course has already been taken through another provider, the certificate of completion can be uploaded on the site below:

- <http://naic.pinpointglobal.com/LincolnFinancial/Apps/default.aspx>
- LIMRA and RegEd are Lincoln's main vendors; however, other vendors may be available to complete this training. Please check with your licensing Back Office or LFD wholesaler to see if your broker-dealer or firm uses another vendor.

## Are sales contests or other incentives impacted by the model regulation?

Insurers must identify and eliminate any sales contests, sales quotas, bonuses, and noncash compensation based on sales of specific annuities within a limited period of time.

## What changes has Lincoln made due to the model regulation?

Disclosure form additions: Appendix A or Acord 660.

Suitability form modifications: Replacement question changed to 60 months, risk tolerance for nonguaranteed elements, additional producer questions.

## What is Appendix A?

Appendix A is a template disclosure form in the Model Regulation to capture what types of products the producer is authorized to recommend, how many insurers' products they are authorized to sell, and how they are compensated. Lincoln is utilizing the Acord 660 form for the template Appendix A.

## Will business be considered “Not In Good Order” if Appendix A or the Acord 660 form is not received?

Yes, where Lincoln is responsible for supervision (conducting suitability review), the completed and signed Acord 660 form will be required.

## Will business be considered “Not In Good Order” if the training requirement is not satisfied?

Yes.

## Will Lincoln accept comparable standards to meet standard of conduct obligations?

Yes. Broker-dealers will collect the FORM CRS required under SEC Regulation Best Interest instead of Appendix A.

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| Not a deposit                                     |
| Not FDIC-insured                                  |
| Not insured by any federal government agency      |
| Not guaranteed by any bank or savings association |
| May go down in value                              |

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