

# ANNUITIES 101 COURSE OBJECTIVES

---

## **Annuity Definitions**

- Define the term annuity.
- Identify the parties associated with an annuity.

## **How Annuities Work**

- Define annuity-related terms.
- Explain how an annuity works.

## **More Annuity Information**

- Define the terms assignable, revocable and partial surrender as they relate to an annuity.
- Differentiate an annuity-funded burial agreement from a typical annuity.
- List the healthcare program that requires an annuity transaction to be identified.

## **Identifying Annuities**

- Explain why it is important to identify the type of retirement product you are evaluating.
- Identify the correct health care policy to apply to different types of retirement funds and plans.
- List the two forms an Individual Retirement Arrangement (IRA) may take.
- List three ways to determine if a retirement fund is an annuity.
- Explain how to evaluate a charitable gift annuity.

## **Eligibility Requirements**

- Identify when an annuity is an income source and/or an asset.
- Apply annuity verification requirements.
- Define what makes an annuity available.
- Apply health care annuity policy to a case scenario.

## ANNUITY PARTIES

Term	HCPM Definition	Use
Beneficiary	The person, trust or entity named by the annuity owner to receive death benefits from the annuity.	
Annuity Issuer	A person or entity (an insurance company) that manages an annuity. The annuity issuer accepts funds from the owner(s) during the accumulation phase and issues payments after the funds have been annuitized. Banks and financial planners often sell annuity arrangements; however, insurance companies issue annuity-based financial arrangements.	
Annuity Owner	Person(s) who may exercise rights provided in the annuity contract. For example, the owner(s) names the payee(s) who can be an owner or other parties, chooses the settlement option, and names the beneficiaries.	
Payee	Someone to whom a benefit is paid. An annuity payee is the person(s) who receives periodic payments made during the payout phase of the annuity.	
Purchaser	The person(s) who puts money into the contract.	

## ANNUITY DEFINITIONS

---

Term	Definition
Accumulation Phase	The first phase of a deferred annuity during which the contract accumulates funds from the payments made into the annuity and accrues interest and earnings on investments.
Annuitization	The point in time when an annuity's settlement option is chosen.
Annuity	A purchased contract in which one party (annuity issuer) agrees to pay the purchaser, or the person(s) the purchaser designates (the payee or payees), a return on money deposited with the annuity issuer (either in the form of a single lump sum or several payments deposited over several months or years) according to the terms of the annuity contract.
Annuity-Funded Burial	An annuity contract with an irrevocable designation of the cash surrender value (CSV) to a funeral provider as the primary beneficiary. The value of the contract is to be paid to a funeral provider in exchange for agreed-upon goods and services.
Assignable	A provision in an annuity contract permitting the contract ownership or payments to be transferred. <u>Non-assignable</u> An annuity is non-assignable if there is a provision in the annuity that prohibits the disbursement, transfer or sale of income or principal in any manner contrary to the terms of the annuity contract.
Balloon Payment	A lump-sum payment scheduled at the end of a series of smaller periodic payments that is selected as part of a payment agreement.
Commuted Cash Value	A provision in an annuity contract that allows the owner of the annuity to cash the contract for the present value of all future payments.
Deferred Annuity	An annuity contract under which periodic payments will begin sometime in the future. A deferred annuity contract provides the purchaser with the opportunity to accumulate savings over an extended period before the contract enters its payout phase. A deferred annuity has two phases: 1) the accumulation phase; and 2) the annuitization phase (also called the payout phase).
Deferred Payment	Payments that do not start within one payment interval of the annuitization date.

## ANNUITY DEFINITIONS

---

Term	Definition
Free Look Period	Under Minnesota law, the purchaser of an annuity has the right to cancel an annuity contract within ten days following the date of receiving a copy of the annuity contract.
Immediate Annuity	An annuity contract under which the periodic payments will begin within one payment interval following the payment of the annuity premium. A payment interval is the period that will elapse between payments (a month, a calendar quarter, a year).
Partial Surrender	A withdrawal of some amount less than the entire cash value of the annuity.
Payment Interval	The amount of time between periodic payments. The period may be, but is not limited to, weekly, monthly, or yearly. The payment interval is selected when the settlement option is chosen.
Periodic Payments	Payments received at a regular interval, such as monthly, to which the client is entitled under an agreement through a retirement fund, annuity, etc. For annuities, a periodic payment is an annuity payment disbursed to the payee(s) based on a payment interval (i.e., a month, calendar quarter or year) chosen by the annuity owner(s).
Premium (Annuity)	A payment or payments made to fund an annuity.
Revocable	A provision in the annuity contract allows for the contract terms to be modified and/or the contract to be terminated at any time by the annuity owner.
Settlement Option	The arrangement the owner chooses for the payee(s) to receive payment. This includes the amount of each payment, how often payments are made and the length of time over which the payments are to be made.
Term Certain Annuity	An annuity under which payments are scheduled to continue for a specified period of time, such as for 10 years, irrespective of the annuitant's lifetime.
Variable Annuity	A type of annuity in which periodic payments vary according to income generated by assets in an underlying investment portfolio. Payment amounts may fluctuate because the annuity payments vary based upon the performance of the market.

## RETIREMENT FUNDS AND PLANS

Type	Definition	Policy Used in Evaluation
Retirement Fund	Cash or other assets held by a person for use during retirement.	Retirement Fund (when not held in a specific retirement plan)
Defined Benefit Pension Plan	A retirement plan (also referred to as a pension plan) that promises a specified monthly benefit at retirement. The plan may state the promised benefit as an exact dollar amount. More commonly, however, the plan sponsor calculates a benefit through a plan formula that considers certain factors such as salary and years of service. There are three types of defined benefit plans: Traditional Plans, Cash Balance Plans and Defined-Benefit Keogh Plan.	Retirement Fund
Defined Contribution Plan	A retirement plan that does not promise a specific amount of benefits at retirement. In these plans, the employee or the employer (or both) contribute to the employee's individual account under the plan. These contributions generally are invested on the employee's behalf. The employee will ultimately receive the balance in the account, which is based on contributions, plus or minus investment gains or losses. The value of the account will fluctuate due to the changes in the value of the investments purchased with the contributions added to the employee's individual account.	Retirement Fund  (unless funds rolled over into an annuity at retirement – then use annuity policy)
Employer-Sponsored IRA	A type of Individual Retirement Arrangement in which the employer establishes the IRA for the employee.	Retirement Fund (IRA account)  Annuity (IRA annuity)
IRA Account	An Individual Retirement Arrangement (IRA) held in the form of a trust or account is commonly referred to as a Traditional IRA.	Retirement Fund
IRA Annuity	An Individual Retirement Arrangement (IRA) held in the form of an annuity.	Annuity

## TYPES OF ANNUITIES

---

<b>Type of Annuity</b>	<b>Definition</b>
Charitable Gift Annuity	An annuity purchased through a charitable organization that lists the charity as the beneficiary and the donor as the payee.
Deemed IRA Annuity	A qualified employer plan that maintains a separate annuity to receive voluntary employee contributions to facilitate employee retirement savings planning.
Payroll Deduction IRA Annuity	A IRA annuity in which an employer sets up a payroll deduction to fund an individual retirement account program with a financial institution, such as a bank, mutual fund or insurance company. The employer establishes either a traditional or Roth IRA (based on the employee's eligibility and personal choice) with the financial institution. The employer withholds the payroll deduction amounts that the employee has authorized and transmits the funds to the financial institution. The employee and the financial institution are responsible for the amounts contributed.
Roth IRA Annuity	An IRA annuity is designated as a Roth IRA (annuity) when it is set up. It allows a person to make contributions after age 70.5 in certain circumstances.
Savings Incentive Match Plan for Employees IRA Annuity (SIMPLE IRA)	A Savings Incentive Match Plan for Employers (SIMPLE) IRA annuity is an IRA-based retirement savings plan designed specifically to make it easier for small employers to establish a retirement plan for enrollees. It is a salary-reduction plan that allows employees to divert some of their compensation into retirement savings. Each employee has a separate IRA annuity.
Simplified Employee Pension IRA Annuity (SEP IRA)	A Simplified Employee Pension (SEP) IRA annuity can be established by an employer or by a self-employed person. Designed for small businesses, SEP IRAs have many of the characteristics of qualified pension plans, but are much simpler to set up and administer. Under an SEP IRA, each participant has his or her own Traditional IRA to which the employer contributes. The contributions are excluded from the employee's pay and are not taxable until distributed from the plan.
Spousal IRA Annuity	An IRA annuity set up by an employed spouse to make contributions for a non-working spouse or for a spouse who has little or no income.
Traditional Annuity	An IRA annuity purchased as a personal savings plan which does not fall under any other IRA definitions listed on this handout.

# ANNUITY IDENTIFICATION REVIEW

---

1. Why is it important to identify the type of retirement plan you are evaluating?
2. Which health care asset policy do you apply to a defined benefit pension plan?
3. In what two forms does an Individual Retirement Arrangement (IRA) come and which health care asset policy do you apply to each?
  - \_\_\_\_\_
  - \_\_\_\_\_
4. What are three ways to determine if a retirement plan is an annuity?
  - \_\_\_\_\_
  - \_\_\_\_\_
  - \_\_\_\_\_
5. How do you evaluate a charitable gift annuity?

# ANNUITY VERIFICATION POLICY

---

## **Medical Assistance (MA)**

The following information must be verified when verification of an annuity is required:

- Type of annuity.
  - Cash value – current and at annuitization.
  - Commuted cash value.
  - Name of annuitant(s), beneficiaries, payees and owners.
  - The settlement option details, if the annuity is annuitized.
  - Free look period.
  - Conditions under which the annuity can be sold, cashed in or assigned to someone else.
  - Type of annuity issuer (commercial or private).
- 
- Method FCA  
Verify an annuity if it is a counted or unavailable asset when a client has an asset test.
  
  - Method ABD  
Annuities must always be verified, regardless of whether they are counted, excluded or are unavailable.
  
  - Payment of Long-Term Care (LTC)  
Annuities must always be verified. In addition to MA verifications, verify the following information, as needed, regarding an annuity:
    - How the annuity was funded. (Client statement only using DHS-5143).
    - Whether an annuity transaction has occurred. (Client statement only using DHS-5143).
    - Date of purchase.
    - Date of annuitization.
    - Cash value on date of annuitization.
    - Current cash value, if revocable.
    - Current market value, if assignable.