

Your Exam Content Outline

The following outline describes the content of one of the Pennsylvania insurance examinations. The examination will contain questions on the subjects contained in the outline. The percentages indicate the relative weight assigned to each section of the examination. For example, 10 percent means that 6 questions will be drawn from the section on a 60-question exam, 10 will be drawn on a 100-question exam and 15 will be drawn on a 150-question exam.

Series 16-01 Pennsylvania Producer's Examination for Life Insurance

100 questions – Two-hour time limit

1.0 Insurance Regulation 12%

1.1 Licenses

- Process (40 P.S. §§ 310.3–310.14)
- Types of licensees (40 P.S. § 310.1)
 - Producer (40 P.S. §§ 310.3-310.5)
 - Nonresident (40 P.S. § 310.10)
 - Temporary (40 P.S. § 310.9)
 - Managers and exclusive general agents (40 P.S. § 310.31)
- Maintenance and duration
 - Renewal (40 P.S. § 310.8)
 - Reporting of actions (40 P.S. § 310.78)
 - Assumed names (40 P.S. § 310.7)
 - Address change (40 P.S. § 310.11(19))
 - Continuing education (40 P.S. § 310.8(b))
- Disciplinary actions
 - Cease and desist order (40 P.S. §§ 310.91, 1171.9)
 - Revocation, suspension, nonrenewal or denial of license (40 P.S. § 310.91)
 - Fines (40 P.S. §§ 310.12, 310.91, 1171.11)

1.2 State regulation

- Commissioner's general duties and powers (40 P.S. §§ 310.2, 1171.7)
- Company regulation
 - Solvency (40 P.S. §§ 72, 112)
 - Rates (40 P.S. §§ 1181–1199, 1221–1238)
 - Policy forms (40 P.S. §§ 477b, 510, 776.1–776.7)
 - Unfair claims settlement practices (40 P.S. § 1171.5(a)(10); 31 Pa. Code Ch. 146)
- Producer regulation
 - Fiduciary responsibility (40 P.S. § 310.96)
 - Examination of books and records (40 P.S. § 323.3)
 - Commissions and fees (40 P.S. §§ 310.72–310.74)
 - Prohibited acts (40 P.S. § 310.11)
- Appointment of producers (40 P.S. § 310.71)
 - Producer as representative of insurer
 - Producer as representative of consumer — disclosure requirements

Unfair insurance practices

- (40 P.S. §§ 1171.4-1171.5)
 - Rebating (40 P.S. §§ 310.45, 1171.5(a)(8))
 - Misrepresentation (40 P.S. §§ 310.47–.48, 1171.5(a)(1),(2))
 - Twisting (40 P.S. §§ 310.47, 473)
 - False advertising (40 P.S. § 1171.5; 31 Pa. Code Ch. 51)
 - Defamation (40 P.S. § 1171.5(a)(3); 31 Pa. Code Ch. 51)
 - Boycott, coercion or intimidation (40 P.S. § 1171.5(a)(4))
 - Misappropriation of funds (40 P.S. §§ 310.11(4), 310.42)
 - Unfair discrimination (40 P.S. § 1171.5; 31 Pa. Code § 145.4)
 - Illegal inducement (40 P.S. §§ 310.46, 1171.5(a)(8))
- Privacy of consumer financial information (40 P.S. § 310.77(a); 31 Pa. Code §§ 146a.1–.44)
- Insurance fraud regulation (40 P.S. §§ 325.1–325.62; 18 Pa. C.S. § 4117)

1.3 Federal regulation

- Fair Credit Reporting Act (15 USC §§ 1681–1681d)
- Fraud and false statements (18 USC §§ 1033, 1034)

2.0 General Insurance 11%

2.1 Concepts

- Risk management key terms
 - Risk
 - Exposure
 - Hazard
 - Peril
 - Loss
- Methods of handling risk
 - Avoidance
 - Retention
 - Sharing
 - Reduction
 - Transfer
- Elements of insurable risks
 - Adverse selection
 - Law of large numbers
 - Reinsurance

2.2 Insurers

- Types of insurers
 - Stock companies

- Mutual companies
- Fraternal benefit societies
- Reciprocals
- Lloyd's associations
- Private versus government insurers
- Admitted versus nonadmitted insurers
- Domestic, foreign and alien insurers
- Financial status (independent rating services)
- Marketing (distribution) systems

2.3 Producers and general rules of agency

- Insurer as principal
- Producer/insurer relationship
- Powers and authority of producers
 - Express
 - Implied
 - Apparent
- Responsibilities to the applicant/insured

2.4 Contracts

- Elements of a legal contract
 - Offer and acceptance
 - Consideration
 - Competent parties
 - Legal purpose
- Distinct characteristics of an insurance contract
 - Contract of adhesion
 - Aleatory contract
 - Personal contract
 - Unilateral contract
 - Conditional contract
- Legal interpretations affecting contracts
 - Ambiguities in a contract of adhesion
 - Reasonable expectations
 - Indemnity
 - Utmost good faith
 - Representations/misrepresentations
 - Warranties
 - Concealment
 - Fraud
 - Waiver and estoppel

3.0 Life Insurance Basics 15%

3.1 Insurable interest (40 P.S. § 512)

3.2 Personal uses of life insurance

- Survivor protection
- Estate creation
- Cash accumulation
- Liquidity
- Estate conservation
- Viatical settlements

3.3 Determining amount of personal life insurance

- Human life value approach
- Needs approach
 - Types of information gathered
 - Determining lump-sum needs
 - Planning for income needs
 - Coordination with Social Security, employee benefit plans, and other assets

3.4 Business uses of life insurance

- Buy-sell funding
- Key person
- Executive bonuses
- Deferred compensation funding
- Change of insured provision

3.5 Viatical and life settlements

- Viatical settlement broker authority and licensing
 - 40 P.S. § 626.3
 - Disclosure to consumers 40 P.S. §§ 626.7, 626.206
 - General rules 40 P.S. § 626.8
 - Definitions 40 P.S. § 626.2
 - Chronically ill
 - Fraudulent Viatical Settlement Act
 - Terminally ill
 - Viatical Settlement broker
 - Viatical Settlement provider
 - Viatical settlement purchaser
 - Viator

3.6 Classes of life insurance policies

- Group versus individual
- Ordinary versus industrial (home service)
- Permanent versus term
- Participating versus nonparticipating
- Fixed versus variable life insurance
 - General account versus separate account (40 P.S. § 506.2; 31 Pa. Code Ch. 82.41-.51)
 - Regulation of variable life insurance (31 Pa. Code Ch. 82.1, .14, .81)

3.7 Premiums

- Factors in premium determination
 - Mortality
 - Interest
 - Expense
- Premium concepts
 - Net single premium
 - Gross annual premium
- Premium payment mode

3.8 Producer responsibilities

- Solicitation and sales presentations
 - Advertising (31 Pa. Code Ch. 51.1-.36)
 - Life and Health Insurance Guaranty Association (40 P.S. § 991.1717)
 - Life insurance disclosure statement (31 Pa. Code Ch. 83)
 - Illustrations (40 P.S. § 625.7-625.8)
 - Life insurance surrender comparison index disclosure (31 Pa. Code Ch. 83.51-.57)
 - Replacement (31 Pa. Code Ch. 81.1-.8)
 - Use and disclosure of insurance information
- Field underwriting
 - Notice of information practices
 - Application
- Delivery
 - Policy review
 - Effective date of coverage
 - Premium collection

Statement of good health
Delivery receipt requirement (40 P.S. § 625.4)

3.9 Individual underwriting by the insurer

Information sources and regulation
Application
Producer report
Attending physician statement
Investigative consumer (inspection) report
Medical Information Bureau (MIB)
Medical examinations and lab tests including HIV (35 P.S. § 7605, 31 Pa. Code Ch. 90c)
Selection criteria and unfair discrimination (40 P.S. § 477a)
Classification of risks
Preferred
Standard
Substandard
Declined

4.0 Life Insurance Policies 12%

4.1 Term life insurance

Level term
Annual renewable term
Level premium term
Life expectancy contract
Term-to-65 contract
Decreasing term

4.2 Whole life insurance

Continuous premium (straight life)
Limited payment
Single premium
Graded premium
Modified life
Current assumption

4.3 Flexible premium policies

Adjustable life
Universal life
Equity indexed universal life
Variable universal life

4.4 Specialized policies

Joint life (first-to-die)
Survivorship life (second-to-die)
Juvenile life

4.5 Group life insurance

Characteristics of group plans
Types of plan sponsors
Group underwriting requirements
Conversion to individual policy (40 P.S. § 532.7)

4.6 Credit life insurance (individual versus group)

5.0 Life Insurance Policy Provisions, Options and Riders 20%

5.1 Standard provisions (40 P.S. § 510)

Ownership
Assignment
Entire contract (d)
Modifications

Right to examine (free look) (40 P.S. § 510c(a))
Payment of premiums (a)
Grace period (b)
Reinstatement (k)
Incontestability (c)
Misstatement of age (e)
Exclusions
Payment of claims (l)
Prohibited provisions including backdating (40 P.S. § 511)

5.2 Beneficiaries

Designation options
Individuals
Classes
Estates
Minors
Trusts
Succession
Revocable versus irrevocable
Common disaster clause
Spendthrift clause

5.3 Settlement options

Cash payment
Interest only
Fixed-period installments
Fixed-amount installments
Life income
Single life
Joint and survivor

5.4 Nonforfeiture options

Cash surrender value
Extended term
Reduced paid-up insurance

5.5 Policy loans and withdrawal options

Cash loans
Automatic premium loans
Withdrawals or partial surrenders

5.6 Dividend options

Cash payment
Reduction of premium payments
Accumulation at interest
One-year term option
Paid-up additions
Paid-up insurance

5.7 Disability riders

Waiver of premium
Waiver of cost of insurance
Disability income benefit
Payor benefit life/disability (juvenile insurance)

5.8 Accelerated (living) benefit provision/rider

Conditions for payment (31 Pa. Code Ch. 90f.3)
Effect on death benefit (31 Pa. Code Ch. 90f.3)
Exclusions and restrictions (31 Pa. Code Ch. 90f.4)

5.9 Riders covering additional insureds

Spouse/other-insured term rider
Children's term rider
Family term rider

5.10 Riders affecting the death benefit amount

- Accidental death
- Guaranteed insurability
- Cost of living
- Return of premium

6.0 Annuities 19%

6.1 Annuity principles and concepts

- Accumulation period versus annuity period
- Owner, annuitant and beneficiary
- Insurance aspects of annuities

6.2 Immediate versus deferred annuities

- Single premium immediate annuities (SPIAs)
- Deferred annuities
 - Premium payment options
 - Nonforfeiture
 - Surrender charges
 - Death benefits

6.3 Annuity (benefit) payment options

- Life contingency options
 - Pure life versus life with guaranteed minimum
 - Single life versus multiple life
- Annuities certain
 - Installments for a fixed period
 - Installments for a fixed amount

6.4 Annuity products

- Fixed annuities
 - General account assets
 - Interest rate guarantees (minimum versus current)
 - Level benefit payment amount
- Equity indexed annuities
- Market value adjusted annuities (modified guaranteed annuities)
(40 P.S. § 71, 510a–510d)
- Variable annuities
 - Assets in a separate account
(31 Pa. Code Ch. 85.21–.27)
 - Regulation of variable annuities
(SEC, FINRA and Pennsylvania)
(31 Pa. Code Ch. 85.1–.4)

6.5 Uses of annuities

- Lump-sum settlements
- Qualified retirement plans
 - Group versus individual annuities
- Personal uses
 - Individual retirement plans
 - Tax-deferred growth
 - Retirement income
 - Education funds

7.0 Federal Tax Considerations for Life Insurance and Annuities 7%

7.1 Taxation of personal life insurance

- Amounts available to policyowner
 - Cash value increases
 - Dividends
 - Policy loans

- Surrenders
- Accelerated benefits
- Viatical settlements
- Amounts received by beneficiary
 - General rule and exceptions
 - Settlement options
- Values included in insured's estate

7.2 Modified endowment contracts (MECs)

- Modified endowment versus life insurance
- Seven-pay test
- Distributions

7.3 Taxation of non-qualified annuities

- Individually-owned
 - Accumulation phase (tax issues related to withdrawals)
 - Annuity phase and the exclusion ratio
 - Distributions at death
- Corporate-owned

7.4 Taxation of individual retirement plans

- Traditional IRAs
 - Contributions, limits and deductible amounts
 - Premature distributions (including taxation issues)
 - Annuity phase benefit payments
 - Values included in the annuitant's estate
 - Amounts received by beneficiary
- Roth IRAs
 - Contributions and limits
 - Qualified distributions

7.5 Rollovers and transfers (IRAs and qualified plans)

7.6 Section 1035 exchanges

8.0 Qualified Plans 4%

8.1 General requirements

8.2 Federal tax considerations

- Tax advantages for employers and employees
- Taxation of distributions (age-related)

8.3 Plan types, characteristics and purchasers

- Simplified employee pensions (SEPs)
- Profit-sharing and 401(k) plans
- SIMPLE plans
- Pension plans
- 403(b) tax-sheltered annuities (TSAs)

8.4 Special rules for life insurance

- Taxation of economic benefit
- Taxation of life insurance distributions