

# 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.

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

**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

## **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)

## **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  
Retained asset accounts

### **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)  
Suitability of annuities (Act 14 of 2010)

### **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