

# Insurance Exam Content Outline

The following outline describes the content of one of the Michigan 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.

## Michigan Life and Variable Annuities Producer Series 16-84

**100 questions – Two-hour time limit**

### 1.0 Insurance Regulation 24% (24 items)

#### 1.1 Licensing

- Process (500.1201, .1201a, .1204, .1205, .1206, .1206b, .1240)
- Types of licensees (500.1206)
  - Producer (500.240, 500.1201, .1201a, .1204, .1205, .1206, .1206b, .1240)
  - Counselor (500.1232, .1234, .1236)
  - Managing general agent (500.1401(b), .1405 Limited (R501.157)
  - Business entity (500.1201, .1205)
  - Financial institutions (500.1206, .1243)
  - Resident versus nonresident (500.1201, 500.1201a, 500.1204–.1206b, 500.1240; R500.635)
  - Temporary (500.1211b)
- Maintenance and duration
  - Continuation (24.291; 500.1206, .134, .1153)
  - Change of address (500.1206(5), .1238)
  - Reporting of actions (500.1208b, .1239, .1244, .1246, .1247)
  - Assumed names (500.1211a)
  - Continuing education requirements (500.1204, .1204c, .1204d, .1204e, .1204f, .1206)
  - Bond (500.1153, .1407, .1504)
- Disciplinary actions
  - Cease and desist order (500.1244, .2038)
  - Suspension, revocation, refusal to issue or renew (500.1200, .1209, .1239, .1379, .2029, .2043)
  - Penalties and fines (500.1242, .1244, .1379, .2038, .2040, .2064, .2069)

#### 1.2 State regulation

- Commissioner's general duties and powers (500.102, .200, .202, .210)
- Company regulation
  - Certificate of authority (500.108, .402)
  - Solvency (500.408, .410, .436a)
  - Rates (500.1609, .1615, .1904, .2106, .2403, .2411, .2603)
  - Forms and exceptions (500.2236)

- Unfair claims settlement practices (500.2006, .2026)
  - Producer appointment (500.1208a, .1208b, .1209, .1411)
  - Termination of appointment (500.1208b, .1209)
  - Producer regulation
    - Acting without a license (500.251, .1201a, .1202, .1203)
    - Prohibited conduct (500.1207, .1216, .2003, .2059, .2062)
    - Commissions (500.1240, .2011)
    - Fiduciary capacity (500.1207)
    - Types of compensation — disclosures
  - Unfair insurance trade practices (500.1239, .1244, .2003, .2006–.2014, .2016–.2021, .2026, .2029)
    - Misrepresentation (500.2005, .2005a, .2055, .2057, .2064, .2218)
    - False information and advertising (500.2001, .2002, .2005, .2005a, .2007, .2055, .2057, .2064)
    - Twisting (500.2005(f), .2064(2))
    - False financial statements (500.1015, .2014, .2018, .2055, .2062, .2474, .2666)
    - Defamation (500.2007, .2009; 600.2911; 750.389; R500.662, .1377(14))
    - Boycott, coercion and intimidation (500.1242, .2012)
    - Unfair discrimination (500.2019, .2020, .2027, .2082)
    - Rebating (500.1242, .2024, .2069, .2070)
    - Illegal inducement (500.2005a, .2024, .2069, .2070)
  - Examination of books and records (500.249, .222)
  - Insurance fraud regulation (500.2088, .4501, .4503, .4507, .4509, .4511, .8197; 752.1003, .1005)
  - Consumer privacy regulation (500.501, .505, .507, .515, .535, .2005a, .4501, .4507, .4509)
- #### 1.3 Federal regulation
- Fair Credit Reporting Act (15 USC 1681–1681d)
  - Fraud and false statements (18 USC 1033, 1034)
  - Patriot Act
  - Violent Control Act

## 2.0 General Insurance 5% (5 items)

### 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
- Lloyd's associations
- Risk retention groups

Private versus government insurers

Authorized versus unauthorized 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

Authority and powers 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 18% (18 items)

### 3.1 Michigan life insurance laws

Insurable interest (500.2207, .2211)

Viatical settlements (550.521-.528)

Regulation of variable products  
(SEC, FINRA and Michigan) (R500.830-.839,  
.841-.842; Bul 90-4)

Solicitation and sales presentations  
(500.1371-.1383)

Advertising (R500.1371-.1387)

Life and Health Insurance Guaranty Association  
(500.7702)

Illustrations (R500.863)

Policy summary (R500.863)

Buyer's guides for life insurance and annuities

Life insurance policy cost comparison methods  
Replacement (R500.601-.606)

Use and disclosure of insurance information

Selection criteria and unfair discrimination  
(500.2027)

### 3.2 Personal uses of life insurance

Survivor protection

Estate creation

Cash accumulation

Security

Liquidity

Estate conservation

### 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

### 3.4 Business uses of life insurance

Buy-sell funding

Key person

Executive bonuses

Corporate-owned life insurance

### 3.5 Classes of life insurance policies

Group versus individual

Permanent versus term

Participating versus nonparticipating

Fixed versus variable life insurance and annuities

### 3.6 Premiums

Factors in premium determination

- Mortality

- Interest

- Expense

Premium payment mode

### 3.7 Producer responsibilities

Field underwriting

- Notice of information practices

- Application procedures including conditional receipts

- Delivery
  - Policy review
  - Effective date of coverage
  - Premium collection
  - Statement of good health

### **3.8 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
- Classification of risks
  - Preferred
  - Standard
  - Substandard

## **4.0 Life Insurance Policies 15% (15 items)**

### **4.1 Term life insurance**

- Level term
  - Annual renewable term
  - Level premium term
- Decreasing term

### **4.2 Whole life insurance**

- Continuous premium (straight life)
- Limited payment
- Single premium
- Graded premium
- Modified life
- Interest sensitive
- Equity index

### **4.3 Flexible premium policies**

- Adjustable 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

### **4.6 Life insurance policy law**

- Credit life insurance (individual versus group) (550.601-.624; R550.201-.216)
- Group life conversion to individual policy (500.4438)
- Universal life (500.4001, .4037, .4038)

## **5.0 Life Insurance Policy Provisions, Options and Riders 19% (19 items)**

### **5.1 Standard provisions**

- Ownership
- Assignment
- Entire contract (500.4014)
- Modifications
- Right to examine (free look) (500.4015, .4073)

- Payment of premiums (500.4010)
- Grace period (500.4012)
- Reinstatement (500.4028)
- Incontestability (500.4014)
- Misstatement of age or gender (500.4018)
- Exclusions and restrictions (500.4046)
- Interest on insurance proceeds (500.4060)

### **5.2 Beneficiaries**

- Designation options
  - Individuals
  - Classes
  - Estates
  - Minors
  - Trusts
- Succession
- Facility of payment clause
- 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 loan 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

### **5.7 Disability riders**

- Waiver of premium/waiver of stipulated premium (universal life)
- Waiver of cost of insurance
- Disability income benefit
- Payor benefit life/disability (juvenile insurance)

### **5.8 Living benefit provisions/riders (500.3928, .3949)**

- Accelerated
  - Conditions for payment
  - Effect on death benefit
- Long-term care
  - Conditions for payment
  - Effect on death benefit

### **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 10% (10 items)**

#### **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 and withdrawal 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 (types)

#### **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)

#### **6.5 Uses of annuities**

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

### **7.0 Federal Tax Considerations for Life Insurance and Annuities 6% (6 items)**

#### **7.1 Taxation of personal life insurance**

Amounts available to policyowner  
    Cash value increases  
    Dividends  
    Policy loans  
    Surrenders  
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 accounts (IRAs)**

Traditional IRAs  
    Contributions 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  
    Distributions

#### **7.5 Rollovers and transfers (IRAs and qualified plans)**

#### **7.6 Section 1035 exchanges**

### **8.0 Qualified Plans 3% (3 items)**

#### **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)  
Self-employed plans (HR 10 or Keogh plans)  
Money purchase plans  
Profit-sharing and 401(k) plans  
SIMPLE plans  
403(b) tax-sheltered accounts (TSAs)