

# Your Exam Content Outline

The following outline describes the content of one of the Texas insurance examinations. The outlines are the basis of the examinations. The examination will contain questions on the subjects contained in the outline. The percentages indicate the relative weights assigned to each part 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 14-78

### Texas Examination for Life Agent

100 questions – Two-hour time limit

## 1.0 Insurance Regulation 12%

### 1.1 Licensing requirements

#### General provisions

Who are agents (Ins. 4001.003(1), .051)

Process (Ins. 4001.006, .102, .103, .105;  
Ins. 4002.001)

Types of licensees (Ins. 4001.003)

Individuals (Ins. 4001.105)

Partnerships (Ins. 4001.106)

Corporations (Ins. 4001.106)

Banks (Ins. 4001.107)

Nonresident agents (Ins. 4056.001–.004)

Life agent (Ins. 4054.301–.304)

Life and health insurance counselor  
(Ins. 4052.001)

#### Maintenance and duration

Expiration and renewal (Ins. 4003.001, .004,  
.006, .007)

Temporary license (Ins. 4001.151–.156)

#### Continuing education requirements

(Ins. 4004.051–.054; TAC 19.1001–19.1021)

#### Disciplinary actions

Denial of license (Ins. 4005.101, .102)

Cease and desist order (Ins. 83.001–.153;  
Ins. 541.108; TAC 1.901–.911)

Surrender of license (Ins. 4005.107;  
TAC 19.2)

Suspension, revocation or refusal to renew  
(Ins. 4001.254; Ins. 4005.101, .102, .105)

Penalties (Ins. 82.001–.056;  
Ins. 84.001–.051; Ins. 4005.102)

### 1.2 State regulation

Commissioner's general duties and powers (Art.  
31.001, .002, .021; Ins. 201.004; Ins. 404.051–  
.053; Ins. 481.001–.009; Ins. 491.051–.052;  
Ins. 521.003–.004; Ins. 4001.005)

#### Company regulation

Certificate of authority (Ins. 801.051–.053)

Financial requirements (Ins. 401.001–.021)

Examination of records (Ins. 38.001;  
Ins. 86.001–.002; Ins. 401.051–.062)

#### Unfair claims settlement practices

(Ins. 541.060; Ins. 542.001–.014;  
TAC 21.201–.205)

#### Agent regulation

One agent, one license (TAC 19.902)

Acting without a license (Ins. 4001.101)

Unfair trade practices (TAC 21.3)

Misrepresentations (Ins. 541.051, .061;  
TAC 21.4)

False advertising (Ins. 541.052;  
TAC 21.115)

Defamation of insurer (Ins. 541.053)

Boycott, coercion and intimidation  
(Ins. 541.054)

False financial statements (Ins. 541.055)

Unfair discrimination (Ins. 541.057)

Rebates (Ins. 541.056; Ins.  
4005.053(c)(1), .101(b)(9))

Testimonials (TAC 21.107)

False use of statistics (TAC 21.108)

Unlawful inducement (TAC 21.109)

Disparagements (TAC 21.110)

Unfair comparisons (TAC 21.111)

Commissions and fees (Ins. 4001.157;  
Ins. 4005.053, .054)

Controlled business (Ins. 4001.104)

Joint advertising by similarly licensed agents  
(TAC 19.904)

Referral business and insurance company  
appointments (Ins. 4001.051(d), 4005.053;  
TAC 19.905)

Reporting change of address (Ins. 4001.252,  
4003.009; TAC 19.906)

Reporting of actions (Ins. 4001.252)

Records maintenance (Ins. 4001.255)

Illegal conversion of funds  
(Ins. 4005.101(b)(4))

Probation due to disability  
(Ins. 4006.001–.056; TAC 1.1501–1506)

Agent appointment (Ins. 4001.201)

Termination of appointment (Ins. 4001.206)

#### Life, Accident, Health and Hospital Service

Insurance Guaranty Association  
(Ins. 463.001–.451; TAC 21.6)

Insurance fraud regulation (Ins. 701.001–.154)

Consumer privacy regulation (TAC 22.1–.26)

### 1.3 Federal regulation

Fair Credit Reporting Act (15 USC 1681–1681d)

Fraud and false statements (18 USC 1033(e))

## **2.0 General Insurance 12%**

### **2.1 Concepts**

- Risk management key terms
  - Risk
  - Exposure
  - Peril
  - Loss
- Elements of insurable risks
- Adverse selection
- Law of large numbers
- Reinsurance

### **2.2 Insurers**

- Types of insurers
  - Stock companies
  - Mutual companies
  - Fraternal associations
  - Reciprocal exchanges
  - Lloyd's associations
- Private versus government insurers
- Authorized versus unauthorized insurers
- Domestic, foreign and alien insurers
- Financial status (independent rating services)
- Marketing (distribution) systems

### **2.3 Agents and general rules of agency**

- Insurer as principal
- Agent/insurer relationship
- Authority and powers of agents
  - 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
  - Aleatory contract
  - Personal contract
  - Unilateral contract
  - Conditional contract
- Legal interpretations affecting contracts
  - Reasonable expectations
  - Indemnity
  - Utmost good faith
  - Representations/misrepresentations
  - Warranties
  - Concealment
  - Fraud
  - Waiver and estoppel

## **3.0 Life Insurance Basics 18%**

### **3.1 Insurable interest (Art. 3.49-3; Ins. 1103.053)**

### **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

### **3.4 Business uses of life insurance**

- Buy-sell funding
- Key person
- Executive bonuses

### **3.5 Classes of life insurance policies**

- Group versus individual
- Permanent versus term
- Participating versus nonparticipating
- Fixed versus variable life insurance and annuities
  - Regulation of variable products (SEC, FINRA and Texas) (TAC 3.704, 3.806)

### **3.6 Premiums**

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

### **3.7 Agent responsibilities**

- Solicitation and sales presentations (TAC 21.104)
- Advertising (TAC 3.303; TAC 21.111, .114, .122)
- Policy summary
- Illustrations (TAC 21.2201-.2214)
- Life insurance policy cost comparison methods
- Use and disclosure of insurance information
- Field underwriting
  - Notice of information practices
  - Application procedures including backdating (TAC 3.120)
- 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
  - Agent report

- Attending physician statement
- Investigative consumer (inspection) report
- Medical Information Bureau (MIB)
- Medical examinations and lab tests including HIV (TAC 21.704(b)(8–10), 21.705)
- Selection criteria and unfair discrimination (TAC 21.702–.704)
- Classification of risks
  - Preferred
  - Standard
  - Substandard

- Medical examination
- Exclusions

### **5.3 Beneficiaries**

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

### **5.4 Settlement options**

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

### **5.5 Nonforfeiture options**

- Cash surrender value
- Extended term
- Reduced paid-up insurance

### **5.6 Policy loan and withdrawal options**

- Cash loans
- Automatic premium loans
- Withdrawals or partial surrenders

### **5.7 Dividend options**

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

### **5.8 Disability riders**

- Waiver of premium
- Waiver of cost of insurance
- Disability income benefit

### **5.9 Accelerated (living) benefit provision/rider (Ins. 1111.052, 1551.254; TAC 3.1708, 3.4301–.4317)**

- Conditions for payment
- Effect on death benefit

### **5.10 Riders covering additional insureds**

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

### **5.11 Riders affecting the death benefit amount**

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

## **4.0 Life Insurance Policies 15%**

### **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
- Indeterminate premium (TAC 3.301–.305)

### **4.3 Flexible premium policies**

- Adjustable life
- Universal life

### **4.4 Group life insurance**

- Characteristics of group plans
- Eligible groups (Ins. 1131.002)
- Group underwriting requirements
- Conversion to individual policy (Ins. 1131.110–.112)

### **4.5 Credit life insurance**

(individual versus group)

### **4.6 Nature of variable life insurance**

- Variable life versus variable universal life
- Fixed premium payment versus flexible payment
- Face value versus death benefit
- Contract charges and fees

## **5.0 Life Insurance Policy Provisions, Options and Riders 16%**

### **5.1 Required provisions (Ins. 1101.002)**

- Entire contract (Ins. 1101.003; TAC 3.103)
- Payment of premiums (Ins. 1101.004; TAC 3.101)
- Grace period (Ins. 1101.005; TAC 3.102)
- Reinstatement (TAC 3.111)
- Incontestable clause (Ins. 1101.006; TAC 3.104)
- Misstatement of age (Ins. 1101.008; TAC 3.106)
- Statements of the insured (Ins. 1101.007; TAC 3.105)
- Legal action (TAC 3.119)
- Payment of claims (Ins. 1101.011; TAC 3.112)

### **5.2 Other provisions**

- Ownership
- Assignment (TAC 3.123)
- Modifications
- Right to examine (free look)

## **6.0 Annuities 10%**

### **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 (types)

### **6.4 Annuity products**

- Fixed annuities
  - General account assets
  - Interest rate guarantees (minimum versus current)
  - Level benefit payment amount

### **6.5 Uses of annuities**

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

## **7.0 Federal Tax Considerations for Life Insurance and Annuities 10%**

### **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 annuities (IRAs)**

- Traditional IRAs
  - Contributions and deductible amounts
  - Premature distributions (including taxation issues)
  - Annuity phase benefit payments
  - Values included in 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 7%**

### **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
- 403(b) tax-sheltered annuities (TSAs)