

# Your Exam Content Outline

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

## Vermont Producer's Examination for Life Insurance Series 14-25

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

All citations are Vermont Insurance Statutes Title 8, unless otherwise noted. When preceded by "Reg" refer to Vermont Department Regulations, when preceded by "Bul" refer to Vermont Department Bulletins.

### 1.0 Insurance Regulation 14%

#### 1.1 Licensing

- Process (4800; 4813f)
- Types of licensees (4791)
  - Resident (4800(3)(A))
  - Nonresident (4800(3)(B); 4813h)
  - Temporary (4800(3)(D)(ii); 4813k)
- Maintenance and duration
  - Renewal and expiration (4798)
  - Address change (4800(3)(F))
  - Assumed business name (4813j)
  - Reporting of actions (4813o)
  - Continuing education requirements (4800a; Reg 2000-2 Sec 4)
- Disciplinary actions
  - Denial of license (4800(3)(E))
  - Cease and desist order (3661)
  - Suspension, revocation or nonrenewal (4804; 4806)
  - Penalties (3661(a)(2); 4804(d))

#### 1.2 State regulation

- Commissioner's general duties and powers (4726; 4804)
- Company regulation
  - Certificate of authority (3368)
  - Unfair claim settlement practices (4724(9); Reg 79-2 Sec 1-7)
  - Policy forms (3541)
  - Examination of records (3565)
  - Producer appointment (4798(c); 4813l)
  - Termination of appointment (4798(d); 4813m)
- Producer regulation
  - Acting without a license (4793; 4813c)
  - Shared commissions (4796)
  - Trust accounts — anti-commingling (Reg 95-1; 4724(12))
  - Controlled business (4795)

- Duties (4813c)
- Unfair trade practices (4724)
- Misrepresentation (4724(1, 11, 13))
- False advertising (4724(2))
- Defamation (4724(3))
- Boycott, coercion and intimidation (4724(4))
- False financial statements and entries (4724(5))
- Illegal inducement (4724(6))
- Unfair discrimination (4724(7))
- Rebating (4724(8))
- Failure to maintain complaint record (4724(10))
- Failure to act as fiduciary (4724(12); Reg 95-1)
- Unsuitability (4724(16))
- Nondisclosure of fees or charges (4724(14))
- Consumer privacy regulation (IH-2001-01)

#### 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
  - Lloyd's associations
  - Risk retention groups
- 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  
Authority and powers of producers  
Express  
Implied  
Apparent

### **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  
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 17%**

### **3.1 Insurable interest (3710)**

Power to contract

### **3.2 Personal uses of life insurance**

Survivor protection  
Estate creation  
Cash accumulation  
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  
Deferred compensation funding

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

Group versus individual  
Ordinary versus industrial (home service)  
Permanent versus term

Participating versus nonparticipating  
Fixed versus variable life insurance and annuities  
Regulation of variable products (SEC, FINRA and Vermont) (3855; Reg 88-3 Art VI, XI, 2001-03; Bul 121, 129)

### **3.6 Premiums**

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

### **3.7 Producer responsibilities**

Solicitation and sales presentations (Reg 77-2)  
Advertising  
Life and Health Insurance Guaranty Association (4151-4185)  
Illustrations (Reg 98-1)  
Policy summary (Reg 77-2 Sec 5(A, B), Appendix B)  
General Rules (Reg 77-2 Sec 6 (B, C, K, L, N, O, P))  
Buyer's guide (Reg 77-2 Sec 5(A, B), Appendix A)  
Life insurance policy cost comparison methods  
Replacement (Reg 2001-3 Sec 1-10)  
Suitability  
Use and disclosure of insurance information  
Field underwriting  
Notice of information practices  
Application procedures  
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 (4724(20); Bul 138)  
Selection criteria and unfair discrimination (3701)  
Classification of risks  
Preferred  
Standard  
Substandard

## **4.0 Life Insurance Policies 16%**

### **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
- Modified life

## 4.3 Flexible premium policies

- Universal life
- Indexed universal life

## 4.4 SEC regulated policies

- Variable life insurance
- Variable universal life

## 4.5 Specialized policies

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

## 4.6 Group life insurance

- Characteristics of group plans
- Types of plan sponsors (3803–3810a)
- Group underwriting requirements (3816)
- Assignability (3713(a, b))
- Conversion to individual policy (3820–3823)

## 4.7 Credit life insurance (individual versus group)

## 5.0 Life Insurance Policy Provisions, Options and Riders 13%

### 5.1 Required provisions (3731)

- Entire contract (3731(3))
- Payment of premiums (3731(1))
- Grace period (3731(2))
- Reinstatement (3731(9))
- Incontestability (3731(4))
- Misstatement of age (3731(5))
- Payment of claims (3731(10))

### 5.2 Other provisions

- Ownership (3710)
- Assignment (3713(a, b))
- Modifications
- Right to examine (free look)
- Exclusions
- Representations in applications (3736)

### 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

- Retained asset accounts

### 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
- Payor benefit life/disability (juvenile insurance)

### 5.9 Accelerated (living) benefit provision/rider

- Conditions for payment
- Effect on death benefit

### 5.10 Life settlements (3835–3849; Reg 95-4 Sec 1–15)

- Life settlement providers
- Life settlement brokers
- Life insurance providers
- Life settlement contract provisions
- Disclosure provisions
- Rules of conduct

### 5.11 Riders covering additional insureds

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

### 5.12 Riders affecting the death benefit amount

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

## 6.0 Annuities 20%

### 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

- Equity indexed annuities

- Definition

- Suitability

- Market value adjusted annuities

- Variable annuity contracts

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

- Lump-sum settlements

- Qualified retirement plans

- Group versus individual annuities

- Personal uses

- Individual retirement annuities (IRAs)

- Tax-deferred growth

- Retirement income

- Education funds

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

#### **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 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%**

#### **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)

- Profit-sharing and 401(k) plans

- SIMPLE plans

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