

Virginia Life and Annuities Insurance Examination
Series 11-05
90 scored (15 pre-test) questions – Two-hour time limit

1.0 Insurance Regulation

17% (15 items)

1.1 Licensing

General Provisions and Definitions (38.2-1800)

Process (38.2-1819)

Types of licensees

Agents (38.2-1800.1(A), 1801, 1814–1815.1, 1817–1820, 1822(A), (B), 1824)

Consultants (38.2-1837–1839)

Nonresidents (38.2-1836, 1845)

Business entities (38.2-1800.1(B), 1820, 1822(C), (D))

Viatical Settlements (38.2-1865.1; 6000; 14VAC5-71-20)

Exceptions (38.2-1821.1, 1822 (G))

Maintenance

Duration and termination (38.2-1825, 1826)

Address and/or name changes (38.2-1826(A))

Assumed names (38.2-1822(E), (F))

Requirement to report felony convictions (38.2-1826(B))

Requirement to report other states actions (38.2-1826(C))

Continuing education (38.2-1866, 1868.1–1871)

Appointment procedures (38.2-1825, 1833–1834.1)

Agent's contract with insurer versus agent's appointment with insurer

Agent's appointment versus agency's appointment

Solicitation prior to appointment

Appointment requirement after becoming licensed

Acknowledgment of appointment/notice to agent

Requirement to cease solicitation

Termination of appointment/notice to agent

Termination of license without active appointment

Disciplinary actions

Probation, suspension, revocation or refusal to issue or renew (38.2-1821, 1831, 1832)

Cease and desist order (38.2-219)

Penalties (38.2-218, 219, 1823, 1831)

1.2 State regulation

State Corporation Commission's general duties and powers (38.2-200)

Agent regulation

Acting for an unlicensed insurer (38.2-1802)

Record retention (38.2-1809(B))

Activities of unlicensed individuals (38.2-1821.1(B), 1822(G); AL 2002-9)

Payment and sharing of commissions (38.2-1812)

Charging of fees (38.2-310)

Illegal compensation; exceptions (38.2-1812.2)

Fiduciary capacity (38.2-1813)

Responsibility of trust accounts (38.2-1813)

Unfair trade practices

Misrepresentation (38.2-502, 512)

False advertising (38.2-503)

Defamation (38.2-504)

Boycott, coercion and intimidation (38.2-505)

Rebating (38.2-509)

Twisting (38.2-1831(5))

Referrals (38.2-1821.1 (B) 8)

Insurance information and privacy protection (38.2-604, 613.2)

2.0 General Insurance

10% (9 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 assessment insurers
- Fraternal benefit societies

Private versus government insurers

Admitted versus nonadmitted insurers

Domestic, foreign and alien insurers

Financial status (independent rating services) and operating results

Marketing (distribution) systems

2.3 Agents and general rules of agency

Types

- Captive
- Independent

Insurer as principal

Agent of insurer

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

- 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% (14 items)

3.1 Insurable interest (38.2-301, 302, 3105)

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

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 (FINRA and Virginia) (38.2-3113; 14 VAC 5-20-30, 80)
 - Types of variable products

3.6 Premiums

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

3.7 Agent responsibilities

- Rules Governing Advertisement of Life Insurance and Annuities (14VAC 5-41)
- Solicitation and sales presentations (14 VAC 5-41)
 - Virginia Life, Accident and Sickness Insurance Guaranty Association (38.2-1700, 1715)
 - Policy summary
 - Buyer's guide
- Replacement (14 VAC 5-30-40)
- Use and disclosure of insurance information (38.2-613)
- Field underwriting
 - Notice of information practices (38.2-604)
 - Adverse underwriting decisions (38.2-610 – 612)
 - Application procedures
 - Required signatures
 - Changes in the application
 - Consequences of incomplete applications

- Warranties and representations
- Collecting the initial premium and issuing the receipt
- Disclosures at point of sale (e.g., HIPAA, HIV consent)
- USA PATRIOT Act/anti-money laundering

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 (38.2-613.01; 14 VAC 5-180-50)

Selection criteria and unfair discrimination (38.2-508(1))

Discrimination against victims of domestic violence (38.2-508(7))

Classification of risks

- Preferred
- Standard
- Substandard
- Declined

4.0 Life Insurance Policies

20% (18 items)

4.1 Term life insurance

- Level term
 - Annual renewable term
 - Level premium term
- Decreasing term
- Increasing term
- Return of premium

4.2 Whole life insurance

- Ordinary whole life
- Continuous premium (straight life)
- Limited payment
- Interest sensitive/current assumption
- Indexed life
- Equity indexed life
- Single premium
- Variable whole life
- Variable universal life

4.3 Flexible premium policies

- Adjustable life
- Universal life

4.4 Specialized policies

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

4.5 Group life insurance

- Characteristics of group plans
- Types of eligible groups (38.2-3318.1)
 - Employer/employee
 - Debtor groups
 - Labor union groups

- Trust
- Associations
- Group underwriting requirements
- Benefit payments (38.2-3330)
- Covered dependents (38.2-3323)
- Lives covered (38.2-3322.2)
- Conversion to individual policy (38.2-3332–3334)
- Contributory vs. noncontributory

4.6 Credit life insurance (individual versus group)

5.0 Life Insurance Policy Provisions, Options and Riders

18% (16 items)

5.1 Standard provisions

- Ownership
- Assignment (38.2-3111)
- Entire contract (38.2-3304)
- Right to examine (free look) (38.2-3301)
- Payment of premiums (38.2-3302)
- Grace period (38.2-3303)
- Reinstatement (38.2-3311)
- Incontestability (38.2-3107, 3305)
- Misstatement of age and misstatement of gender (38.2-3108, 3306)
- Exclusions
- Suicide (38.2-3106)
- War clause
- Interest on proceeds (38.2-3115)
- Prohibited provisions including backdating (38.2-3104, 3316)

5.2 Beneficiaries

- Designation options
 - Individuals
 - Classes
 - Estates
 - Minors
 - Trusts
- Succession
- Revocable versus irrevocable
- Annulment or divorce (38.2-305(C))
- 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 (38.2-3308)

- Cash loans
- Automatic premium loans
- Withdrawals or partial surrenders
- Educational loans (38.2-3113.3)

5.6 Dividend options (38.2-3307)

- 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 benefit provision/rider

- Conditions for payment (38.2-3115.1; 14 VAC 5-70-40)
 - Diagnosis of terminal illness
 - Diagnosis of catastrophic illness
 - Permanent confinement
 - Inability to perform ADLs
- Disclosure (14 VAC 5-70-80)
 - Written disclosure required
 - Effect on death benefit
 - Cash value
 - Loans and loan interest
 - Tax consequences
 - Premium

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

12% (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 charges
 - Bail-out provisions
 - 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
- Variable Annuities
- Equity indexed annuities
- Market value adjusted annuities (modified guaranteed annuities) (38.2-107.1, 3113.1)

6.5 Uses of annuities

- Lump-sum settlements
- Qualified retirement plans including group versus individual
- Personal uses
 - Tax-deferred growth
 - Retirement income
 - Education funds
 - Charitable gift annuity (38.2-106.1, 3113.2)
- Suitability in Annuity Transactions (14VAC5-45)

7.0 Federal Tax Considerations for Life Insurance and Annuities

4% (4 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

4% (4 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)

Profit-sharing and 401(k) plans
SIMPLE plans
403(b) tax-sheltered annuities (TSAs)