### Types of Policies

<table>
<thead>
<tr>
<th>Term Life</th>
<th>Lasts for specific term, most insurance for least premium</th>
</tr>
</thead>
<tbody>
<tr>
<td>Level</td>
<td>Coverage stays the same for the specified period</td>
</tr>
<tr>
<td>ART</td>
<td>Level benefit but premiums increase each year with the age of the insured (attained age)</td>
</tr>
<tr>
<td>Increasing</td>
<td>Coverage increases at predetermined times</td>
</tr>
<tr>
<td>Decreasing</td>
<td>Coverage decreases at predetermined times</td>
</tr>
<tr>
<td><strong>Traditional Whole Life</strong></td>
<td>Death protection to age 100, level premium for life, cash value</td>
</tr>
<tr>
<td>Ordinary (Straight)</td>
<td>Basic policy, level death benefit, Pay premiums for life</td>
</tr>
<tr>
<td>Limited-pay</td>
<td>Pay until a certain age or time (20 pay life, Life paid up at age 65) (Working years policy)</td>
</tr>
<tr>
<td>Single Premium</td>
<td>One lump sum premium, coverage to age 100, Immediate Cash value</td>
</tr>
<tr>
<td>Adjustable</td>
<td>Coverage, premiums, and plan is adjustable, Insurer chooses two and insured one</td>
</tr>
</tbody>
</table>

**Interest Sensitive**

<table>
<thead>
<tr>
<th>Universal Life</th>
<th>ART is death protection &amp; cash value is not guaranteed. Can increase and decrease coverage &amp; skip premiums. Two Death benefit options, A &amp; B</th>
</tr>
</thead>
<tbody>
<tr>
<td>Variable Whole Life</td>
<td>Can control where cash value is invested in common stock, cash value not guaranteed, minimum death benefit guaranteed, hedge against inflation</td>
</tr>
<tr>
<td>Variable Universal Life</td>
<td>Same as Universal Life plus owner can control where cash is invested, no guarantee for cash value, hedge against inflation</td>
</tr>
<tr>
<td>Interest Sensitive Whole Life</td>
<td>Same benefits as traditional whole life. Tied to bond index or Treasury bill rates, minimum cash value guarantee but can grow</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Combination Plans</th>
<th>Combines different types of policies to meet needs of a family</th>
</tr>
</thead>
<tbody>
<tr>
<td>Joint Life</td>
<td>2 or more insureds- Pays death benefit when the <strong>FIRST</strong> one dies</td>
</tr>
<tr>
<td>Survivorship</td>
<td>2 or more insureds. Pays death benefit when the <strong>LAST</strong> one dies</td>
</tr>
</tbody>
</table>

### Term Insurance - Review #1

1. **Which of the following is NOT one of the characteristics of a renewable term insurance policy?**
   - A. The insured can demand renewal at the end of the original term
   - B. Premiums for a renewal policy cannot be increased
   - C. Evidence of insurability cannot be required at renewal
   - D. Limits may be placed on the number of permitted renewals

2. **Which type of term policy would be most appropriate for protecting the unpaid balance of a home mortgage?**
   - A. level term
   - B. increasing term
   - C. decreasing term
   - D. convertible term
3. One major advantage of convertible term policies is that they allow the insured
   A. to pay premiums until the conversion date
   B. a chance to purchase additional insurance at the time of conversion
   C. to keep a temporary policy until the original policy is issued
   D. to change to a form of permanent protection without evidence of insurability

4. All of the following are true about term life insurance EXCEPT
   A. term insurance is temporary insurance
   B. there is no cash value when a term policy expires
   C. term insurance is one of the least expensive forms of protection
   D. term insurance has a higher premium per $1,000 when compared to whole life insurance

5. A renewable term policy guarantees the insured which of the following?
   A. The right to renew regardless of health up to a stated date or age
   B. That the premium will not increase upon renewal
   C. The right to convert to permanent insurance up to a stated date or age
   D. None of the above

6. All of the following are true concerning convertible term EXCEPT
   A. the premium will increase when you convert to whole life because whole life costs more than term
   B. the premium will increase when you convert because you are older than when the policy was issued
   C. health problems are not a factor in any premium increases
   D. the premium will not increase at all when you convert

7. The level in level term refers to
   A. premium
   B. face amount
   C. cash value
   D. none of the above

8. In which of the following policies does the premium increase each year?
   A. annual renewable term
   B. increasing term
   C. level term
   D. decreasing term

9. Term insurance is often referred to as
   A. permanent protection
   B. temporary protection
   C. ordinary protection
   D. income protection

10. Renewable and convertible features
    A. are automatically included in the policy
    B. require evidence of insurability
    C. decrease the premium
    D. increase the premium
Whole Life - Review #2

1. When the cash value accumulation of a policy equals the face amount, the policy
   A. expires
   B. endows
   C. lapses
   D. is a limited pay life policy

2. A whole life policy
   A. requires a single payment after which coverage is afforded for the whole life of the insured
   B. requires the insured to pay the premium for life and endows at age 100
   C. is paid up at some specific time and endows at age 65
   D. is paid up at some specific time and endows at age 100

3. An insured has purchased a $100,000 whole life insurance policy. After a period of years, the cash value of the policy has grown to $42,000. If the insured dies at this time, the beneficiary will receive
   A. $142,000
   B. $42,000
   C. $58,000
   D. $100,000

4. Which of the following statements is true about the premium payment schedule for a whole life policy?
   A. Premiums are payable throughout the insured's lifetime, and coverage continues until the insured's death
   B. Premiums are payable for a designated period of time only, after which coverage is no longer provided
   C. Premiums are payable until the insured's retirement only, after which coverage is no longer provided
   D. One premium, in the amount of the insured's choice, is payable at the time of application, and the balance of the premium is deducted from the face amount of the policy at the time of the insured's death

5. John is trying to accumulate funds for John Jr.'s education. Which of the following policies is generally used to accumulate funds for education?
   A. term
   B. whole life
   C. life paid up at 18
   D. endowment

6. Mr. Valuable Churchmember has pledged $10,000 to his church for a new roof to be replaced in 10 years. Mr. Churchmember wants to make sure that the $10,000 will be available when the roof will be replaced. What type of insurance would be purchased?
   A. $10,000 level term
   B. $10,000 endowment
   C. $10,000 decreasing term
   D. $10,000 increasing term
7. **Endowments will pay their face amount at**
   A. the attainment of a specified age
   B. the death of the insured
   C. the completion of a specified number of years
   D. All of the above

8. **Cash value would grow faster in which of the following life insurance products?**
   A. level term
   B. straight life
   C. continuous premium whole life
   D. 20-pay life

9. **Which of the following describes a 20-Pay Life policy?**
   A. It is paid up in 20 years
   B. It provides 20 years of protection
   C. It is sold to 20-year olds
   D. It matures in 20 years

10. **Which of the following offers both a death benefit and cash value?**
    A. increasing term
    B. variable annuity
    C. whole life
    D. renewable term

**Combination Plans and Variations - Review #3**

1. **Which of the following statements best describes the combination of insurance which is available to a family in a family plan?**
   A. Whole life on head of household, decreasing term on spouse & children
   B. Level term on head of household, decreasing term on spouse & children
   C. Decreasing term on head of household, level term on spouse & children
   D. Whole life on head of household, level term on spouse & children

2. **With a family income policy, the monthly income period**
   A. Ends after a stipulated time beginning with the date of the policy's purchase
   B. Ends after a stipulated time beginning with the death of the insured
   C. Ends only after there are no more minor children at home
   D. Does not end if the insured dies before a specific date

3. **A policy's death benefit drops from $100,000 to $50,000 at age 65. This policy is a**
   A. Retirement Income
   B. Multiple Protection
   C. Limited Benefit
   D. Limited Protection

4. **A policy written to insure two or more individuals with the face amount paid upon the death of the first to die is a**
   A. Modified life policy
   B. Joint survivor policy
   C. Joint life policy
   D. Group life policy
5. If an insured purchased a 20-year family income policy at age 25 and then dies at age 37, how long would monthly benefits be paid to his beneficiaries?
   A. 20 years
   B. 12 years
   C. 8 years
   D. 5 years

6. In 1995, Paula Planner purchased a limited benefit life insurance policy which paid $50,000 if she died from cancer. Paula died in 1997 as the result of a car accident. How much would her beneficiary receive from this policy?
   A. Only $20,000 because the policy was only 2 years old
   B. $100,000 because she died as the result of an accident
   C. $0.
   D. $50,000, the face amount

7. Ima Policyholder purchased a life insurance policy which has a $100 in premium in year 1. In year 2, her premium is $200; in year 3, $300; in year 4, $400; and in year 5 and each succeeding year $500. What type of policy did Ima purchased?
   A. Ordinary life
   B. Limited-pay life
   C. Modified whole life
   D. Graded premium whole life

8. What type of policy is typically a whole life product purchased at a very low premium for a short period of time (usually 3-5 years) followed by a higher premium for the remainder of the term?
   A. Ordinary life
   B. Limited-pay life
   C. Modified whole life
   D. Graded premium whole life

9. John purchased a 20-year Family Maintenance Policy at age 28 that had a face amount of $50,000 and a level term rider that provided a monthly income to his family of $3,000. John died at age 41. For how many years would his family receive the monthly income?
   A. 0
   B. 7
   C. 20
   D. Until the last child reaches age 18

10. A life insurance policy covering the lives of two or more people designed to pay proceeds only after the last person dies is called a
    A. joint life
    B. joint survivor (survivorship life)
    C. dual plan
    D. family plan
Non-Traditional Policies - Review #4

1. A current assumption whole life policy has
   A. premiums which may vary according to interest rate fluctuations
   B. premiums which the policyowner may change based on certain assumptions
   C. a higher guaranteed cash value interest rate than traditional whole life policies
   D. interest rate assumptions that allow the policyowner to change the policy every 5 years

2. Successful Susie is insured in a universal life policy that has Option 1. The policy currently has a face amount of $150,000, a target premium of $400 annually, and a cash account of $3,722. If Susie were to die today, how much would the beneficiary receive?
   A. $ 153,722
   B. $ 150,000 less the $400 target premium
   C. $ 150,000
   D. $ 153,722 plus the $400 target premium

3. A universal life contract expires when
   A. the outstanding loan equals the death benefit
   B. the cash value equals the death benefit
   C. the cash value account becomes too small to pay the cost of insurance
   D. a regularly scheduled premium payment is missed

4. Flexibility, high current interest crediting rates, and "unbundling" are characteristics of which one of these life insurance products?
   A. whole life
   B. endowment
   C. term
   D. universal life

Policy Riders
(Attachments to a policy that add or modify coverage)

Accidental Death and Dismemberment
- AD&D – Benefit is 2x or 3x (double indemnity or triple indemnity) face amount
- Only pays if SOLE cause of Death is ACCIDENT, and occurs within 90 days
- AD&D has a Principle Sum (face amount for accidental death) and Capital Sum (loss of limb or sight)
- Usually limited to age 65

Guaranteed Insurability
Policy owner can increase Face Amount (as stated in Policy) at specified ages or events (Birth of a child, Marriage, etc)
- Premium Increases at attained age
- Usually expires at age 40

Waiver of Premium
- Company Waives Premium if Policy Owner is PERMANENTLY AND TOTALLY disabled
- Policy Owner pays Premium for 6 months, if still disabled, company refunds premium and continues to Waive Premium until Policy Owner is no longer disabled
- Usually limited to age 65
**Term Rider**

Increases coverage on the insured for a limited amount of time/amount

**Payor Benefit**

- Juvenile Policies
- Company waives Premium until Insured is age 21
- Policy Owner and Insured MUST show Proof of Insurability

**Other Insureds (Spouse, Children, Nonfamily)**

- Temporary Insurance (term insurance)
- Spouse term rider expires at age 65
- Children’s term rider expires at age 18/ can covert policy without evidence of insurability
- Newborn children are automatically covered after the specified number of days in the policy, usually 10 to 21 days.

**Accelerated Death Benefit (Living Benefit)**

Allows Policyowner to take a maximum of 50% of Face Amount or a specified dollar amount if the need meets a qualifying illness or is confined to a long term care facility.

Face amount and premiums are reduced after the benefit payment.

May require that terminal illness result in death within 2 years.

**Policy Riders – Review #5**

1. **The equivalent of a Waiver of Premium provision that is found on most children’s policies is known as the**
   
   A. children’s (Waiver of Premium) provision
   B. payor ( Applicant Waiver) provision
   C. Juvenile Insurance waiver
   D. Automatic Premium Loan rider

2. **A Double Indemnity rider, designed to pay double the policy face amount as a result of accidental death, is normally restricted by all of the following EXCEPT**
   
   A. the cause of death must be accidental and not contributed to by any other cause
   B. the coverage is typically limited to age 60 or 65
   C. the coverage is unavailable on juvenile policies
   D. death must occur within 90 days of an accident to be considered an accidental death

3. **All of the following are characteristics of the Guaranteed Insurability rider EXCEPT that this option**
   
   A. cannot usually be added to existing policies
   B. is normally available only to new insureds below a maximum age such as 40
   C. guarantees the right to purchase additional insurance without requiring proof of insurability
   D. allows additional insurance to be purchased in the future at the same rate charged in the original contract

4. **In order to qualify for the benefits of a Waiver of Premium rider, the disability must be all of the following EXCEPT**
   
   A. permanent
   B. total
   C. the result of unemployment
   D. continue for at least 6 months
5. A young mother has purchased juvenile life insurance policies on each of her two children. What optional policy provision might you recommend that would waive premiums if she dies or becomes disabled before the children reach adulthood?
A. Waiver of Premium provision
B. Payor Benefit provision
C. Accidental Death and Dismemberment provision
D. Minimum Deposit provision

6. A $10,000 life insurance policy with a triple indemnity clause has been in force for 4 years. The insured is injured in a car accident and dies in a hospital 5 months later. The death proceeds payable would be
A. $30,000
B. $20,000
C. $10,000
D. $0

7. In an AD&D policy rider, the benefit paid for the loss of one eye is called the
A. principal sum
B. capital sum
C. policy payout
D. face amount

Policy Provisions

| Entire Contract Clause | Entire Contract = Policy + Copy of Application
|                        | Statements are REPRESENTATIONS (Statement of the Insured Provision)
|                        | ONLY Executive Officer can change POLICY
| Insuring Clause        | Heart of the Policy
|                        | Companies Promise to pay death benefit (within 30 days)
| Free Look              | 10 days new policy
|                        | 20 days replacement policy
|                        | Full Refund of Policy
| Consideration          | Insured = App. + premium
|                        | Insurer= pays according to the terms of the policy
| Owner’s Rights         | Owner has all rights to the Policy
|Beneficiary designations| Primary
|                        | First Beneficiary Listed
|                        | Secondary (Contingent Beneficiaries Listed after Primary)
|                        | Second Beneficiary Listed
|                        | Revocable
|                        | Policyowner can change beneficiary whenever they choose
|                        | Irrevocable
|                        | Policyowner can’t change beneficiary without written consent
|                        | Uniform Simultaneous Death Act
|                        | If Insured and Sole Beneficiary should die at the same time, Death Benefit paid to Estate of the Insured
| Premium payment        | Due Date and how often (mode)
| Grace Period           | 1. 30/31 days
|                        | 2. Still covered when premium not paid
| Automatic Premium Loan | Premium payment comes from cash value the after grace period
| **Reinstatement** | 3 years to do 3 things:  
- Pay all back premium with interest  
- Pay back any loans (if cash value policy)  
- Proof of insurability |
| **Incontestability** | 2 years for insurer to contest death benefit |
| **Misstatement of Age** | Make it Right; adjust face amount |
| **Policy Loans** | Policyowner can borrow up to amount of cash value  
Outstanding Loan will be deducted from the death benefit |
| **Assignment** | Owner can assign ownership either  
Permanently = Absolute  
Temporarily = Collateral |
| **Exclusions** | **Aviation Clause** 
Exclude Payment if Private Pilot  
**Suicide** 
First two years; refund premiums  
After two year; full benefit paid  
**War**  
**Status type** – excludes all causes of death while on active duty  
**Results type** – excludes death as a result of an act of war |

**Provisions - Review #6**

1. **The grace period of mist life policies is**  
A. 2 months  
B. 90 days  
C. 7 days  
D. 31 days

2. **Which life insurance policy provision states that in consideration of payment of premiums, the company agrees to pay a stipulated specific amount to the named beneficiary upon due proof of death of the insured?**  
A. entire contract  
B. insuring clause  
C. incontestability  
D. grace period

3. **If the insured should die during the grace period, the beneficiary would receive**  
A. the face amount  
B. the cash value  
C. the face amount less any overdue premium  
D. nothing

4. **Most life insurance policies become incontestable after the policy has been in effect for a period of at least**  
A. one year  
B. two years  
C. five years  
D. seven years
5. **All of the following are true about reinstatement of a life insurance policy EXCEPT**
   A. evidence of insurability is usually required
   B. all overdue premiums, plus interest, must be paid
   C. the policy will be rated at the insured's current age
   D. reinstatement must be made within a specified period of time

6. **The owner of a life insurance policy has all the following rights EXCEPT**
   A. the owner may designate or change a beneficiary
   B. the owner may change the person who is insured
   C. the owner may select settlement options
   D. the owner may assign or transfer the policy to a new owner

7. **The form of assignment used when a policyowner assigns a portion of life insurance proceeds to a lending institution to secure a debt is**
   A. decreasing term
   B. collateral
   C. temporary
   D. absolute

8. **Under the provisions of the Uniform Simultaneous Death Act, how would the proceeds of an insurance policy be settled if the insured and the only primary beneficiary were killed in the same accident, with no evidence as to which died first?**
   A. The proceeds would be shared equally by the insured's estate and the beneficiary's estate
   B. The proceeds would be distributed as though the insured survived the beneficiary
   C. The proceeds would be distributed as though the beneficiary survived the insured
   D. The heirs of each would have to fight over the proceeds in court

9. **If Mary has been named as the irrevocable beneficiary of a life insurance policy**
   A. she cannot be removed as beneficiary without her consent
   B. she may be removed as beneficiary at any time
   C. she may be replaced only by another irrevocable beneficiary
   D. she is responsible for the premiums

10. **Allgood Life Insurance Company allows its policyowners to make beneficiary changes by sending them in writing to its home office. This method is called**
    A. filing
    B. per capita
    C. endorsement
    D. secondary recording

11. **The Entire Contract Clause does all of the following EXCEPT**
    A. makes the application part of the contract
    B. specifies that statements on the application are representations
    C. informs the policyowner of the company's promise to pay benefits
    D. details who can modify the contract

12. **If an insured lies about his/her age on an application for a life policy it means**
    A. the death benefit will not be paid
    B. the death benefit will only be paid if the insured dies two years or more after the policy is issued
    C. the death benefit will be adjusted to reflect the true age of the insured
    D. extra premium will be charged retroactively
13. A Common Disaster provision accomplishes which of the following?
   A. It insures the death benefit of a life policy always ends up in the beneficiary’s estate
   B. It requires that when the insured and primary beneficiary die in a common disaster that the
      death benefit be paid to the contingent beneficiary
   C. It insures that the death benefit will end up in the estate of the insured, if the insured dies
      and when the beneficiary dies shortly thereafter
   D. It states double benefits will be paid if the insured dies as a result of an accident

14. All of the following are true concerning policy loans EXCEPT
   A. they are prohibited during the first 3 years of the policy
   B. they can be for any amount up to the policy’s cash value
   C. interest charged on the loan can be adjustable or fixed
   D. unpaid loans will be subtracted from the death benefit if the insured dies

15. If an individual commits suicide within six months after purchasing an insurance
    policy, the company will normally
   A. pay nothing
   B. return the premiums paid
   C. pay the face value less the suicide deduction
   D. pay the face value

16. The beneficiary that would receive benefits if the primary beneficiary predeceased
    the insured is the
   A. primary beneficiary
   B. revocable beneficiary
   C. contingent beneficiary
   D. tertiary beneficiary

17. The beneficiary designation which preserves the owner’s rights is
   A. primary beneficiary
   B. revocable beneficiary
   C. contingent beneficiary
   D. tertiary beneficiary

18. To reinstate the full death benefit of a life policy that has been kept in force by the
    Automatic Premium Loan provision, the policyowner must
   A. repay the loan plus interest
   B. show proof of insurability
   C. make another application
   D. gain company approval of her reinstatement application

19. If an U.S. soldier on active duty is killed while driving back to the base from a movie and
    his policy does not pay a death benefit to his beneficiary, his policy most likely had a
   A. Accidental Death and Dismemberment rider
   B. Status war exclusion
   C. Results war exclusion
   D. Hazardous occupation exclusion
Policy Options

<table>
<thead>
<tr>
<th>Settlement Options (CLIFF) (LIFE and ANNUITY)</th>
<th>Dividend Options (CRAPPO)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cash Payment (Lump Sum)</strong> Not taxable to beneficiary</td>
<td><strong>Mutual companies (Participating Policies)</strong></td>
</tr>
<tr>
<td><strong>Life Income</strong> Pays guaranteed installments as long as the recipient lives Principle is forfeited upon death Payment is made up of principal and interest. Interest is taxable</td>
<td><strong>Return of excess premiums</strong> Not taxable/Not guaranteed</td>
</tr>
<tr>
<td><strong>Interest Only</strong> Temporary option Until proceeds are paid Interest is taxable</td>
<td><strong>Cash</strong></td>
</tr>
<tr>
<td><strong>Fixed-period Installments</strong> Deplete funds over a fixed period</td>
<td><strong>Reduction of Premium</strong></td>
</tr>
<tr>
<td><strong>Fixed-amount Installments</strong> Pays fixed amount until proceeds are exhausted</td>
<td><strong>Accumulation at interest (interest taxable)</strong></td>
</tr>
<tr>
<td>Joint and Survivor Life - guarantees income for two or more for as long as they live. Income reduces to $½ or 2/3 after death of one</td>
<td><strong>Paid-Up Additions</strong></td>
</tr>
<tr>
<td>Joint Life - Payment stops at death of first</td>
<td><strong>Paid-up Insurance</strong></td>
</tr>
</tbody>
</table>

Options - Review #7

1. The term NONFORFEITURE in life insurance is associated with
   A. cash values
   B. dividend accumulations
   C. paid-up additions
   D. the grace period

Use the following information to answer questions 2 through 4
Ed Bender has a $50,000 policy with a cash value of $10,000. A $2,000 loan is outstanding, as well as a past due premium of $1,000. Ed decides he can no longer make premium payments on this policy.

2. If Ed chooses the cash surrender value option, he will receive
   A. $10,000
   B. $7,000
   C. $8,000
   D. $0 because Ed can't get cash while he's alive
3. If Ed chooses the reduced paid-up insurance option and later dies, his beneficiary will receive
   A. the amount of the reduced paid-up coverage
   B. the amount of the reduced paid-up coverage less $3,000
   C. the amount of the reduced paid-up coverage less $1,000
   D. $10,000 plus the cash value accumulated between the time Ed exercised his option and the time he died

4. If Ed chooses the extended term option, what will the insurance company do about the $2,000 outstanding policy loan?
   A. Deduct $2,000 from the cash value that is used to purchase the term policy
   B. Deduct $2,000 from the face value of the term policy purchased
   C. Deduct $2,000 from both the cash value used to purchase the term policy and the face value of the term policy
   D. Require that the $2,000 policy loan be repaid before the option may be taken

5. Idabelle Insured owns a $10,000 whole life policy. Last month, she took out a loan of $3,200. If Idabelle dies today, how much will her beneficiary receive?
   A. $6,800, plus any unearned interest
   B. $10,000
   C. $6,800
   D. Nothing until the loan is paid back

6. All of the following statements are true regarding dividend options in participating policies EXCEPT
   A. the dividend can be taken in the form of cash
   B. the dividend may pay part of the premium due
   C. the dividend may be used to buy term insurance
   D. the dividend is guaranteed to be paid on the policy anniversary

7. Bruce has need for more coverage than his current whole life policy provides. Which of the following dividend options would help to meet Bruce’s need?
   A. applying dividends to his premiums
   B. buying paid-up additions
   C. leaving dividends to accumulate at interest
   D. taking dividends in cash

(Use the information below to answer questions 8-10)
Arthur Goodfather purchased a $100,000 policy naming his wife Louise as primary beneficiary and his only child Michael to receive any proceeds if Louise dies before Arthur, or if she dies after Arthur but before receiving all the policy proceeds. Arthur elected the interest settlement option for Louise, with the right of withdrawal. No settlement option was stipulated for Michael. Arthur died on May 6, 1988.

8. Arthur’s insurance company will make settlement by paying
   A. lump-sum payments of $50,000 each to Louise and Michael
   B. the interest on the $100,000 in periodic payments of equal amounts to Louise and Michael
   C. a lump sum of $100,000 to Louise
   D. interest in periodic payments to Louise
9. Louise’s vintage automobile gasps its last breath on July 4, 1993, and Louise decides $15,000 will be adequate to purchase a newer model. Louise
   A. may withdraw the $15,000
   B. can withdraw the money only with Michael’s permission
   C. probably should ask her bank for a loan
   D. cannot withdraw the $15,000 or any part of it

10. Soon after purchasing her new car, Louise is involved in a fatal accident. The remaining proceeds of the insurance policy will be paid to
   A. Louise’s estate
   B. Michael, in one lump sum
   C. Michael, under the interest option
   D. Michael, in any manner he chooses

11. Super Man was insured under a $200,000 insurance policy issued by Spaceman Life. When Super died, his beneficiary, Lois Lane, asked the company to give her the proceeds of the policy in quarterly installments over an 8-year period. The option that Lois chose was
   A. interest
   B. fixed period
   C. fixed amount
   D. life income with period certain

12. Mickey Mouse’s beneficiary, Minnie, has decided that she would like to receive the proceeds of Mickey’s policy as follows: $5,000 a month for as long as the proceeds last. This option is
   A. interest
   B. fixed period
   C. fixed amount
   D. life income with period certain

13. Which installment settlement option guarantees the greatest amount of periodic payments to an individual while living but provides no guarantees and exposes the proceeds to forfeiture in the event of early death?
   A. life income with period certain
   B. life income only
   C. fixed-period installments
   D. fixed-amount installments

14. Peter McGoo, the beneficiary of his wife Molly’s policy, is receiving quarterly payments of $7,358 under the life with 10-year period certain option. Under the option, if Peter died before the period certain was paid, any remaining proceeds would go to Molly and Peter’s son Martin. Molly died in March 1982. Peter died in May 1995. How many remaining quarterly payments would go to Martin?
   A. 0
   B. 40
   C. 4
   D. Not enough information given
# Annuities

## Accumulation Period vs. Annuitization Period
- Accumulation period - pay-in period
- Building your estate
- Money belongs to the annuitant
- Annuitization, annuitization period or liquidation period - payout period
- Money controlled by insurance company

## How can premiums be paid?
- Single Premium - one lump sum
- Level premium - same payment frequency - accumulate funds for retirement
- Flexible – Pay what I want when I want/periodic payments

## When do benefits begin?
### Immediate versus deferred annuities
- Single premium immediate annuities (SPIAs)
  - Single premium payment only
  - Immediate Annuity - payment begins within 12 months

- Deferred annuities
  - Single, Level or flexible payments
  - Deferred Annuities- after 12 months
  - SPDAs

## How are premiums invested?
### Fixed Annuities
- Interest rates guaranteed (minimum vs. current)
- General Account
- Level Benefit Payout
- Risk (insurance company assumes)

### Variable Annuities
- Premiums invested in a separate account.
- Interest rate is tied to ups-and-downs of stock market.
- There are no guarantees/hope to keep pace with inflation
- Two licenses (insurance & securities)
- Regulated by NASD/SEC

## During Accumulation Phase
### Surrender or Withdrawals
- Nonforfeiture
  - "does not forfeit" money paid into the annuity

- Event-surrendering the Annuity
  - One-lump sum cash surrender- immediate taxation on earned interest. Under age 59 ½, 10% tax penalty.

  - Surrender Charge (from the company)
  - Surrender charges is a percentage which reduces over time.

### Event - Policy Loans/Withdrawals
- Taxable dollars out first (LIFO). Then premiums paid come out without tax

### Interest earned are the taxable dollars
- 10% Penalty tax before age 59 1/2

## How long are benefits paid?
### Annuity (benefit) payment options
- Cash (one time payment)
- Before age 59 1/2 -10% penalty

### Annuities certain (temporary)
- Guaranteed for fixed period or fixed amount

### Guaranteed Payment for Life -Your entire life- (three choices)
- Life contingency options
  - Straight Life/Pure Life
    - Provide the largest monthly income.
    - Die & insurance company keeps the money
  - Life with period certain - Guaranteed Minimum benefit for life plus a guaranteed amount of time
  - Refund life - benefits paid for life, at death refund of principal is given to the beneficiary- installments or cash refunds

### Single life versus multiple life
- Joint and Survivor - guaranteed income for two that cannot be outlived
- Survivor receives ½ or 2/3 of previous amount

### Joint life - Payment stops at the death of first annuitant
Annuities – Review #8

1. If an annuitant chooses an annuity payout of life with 10 years certain it means that
   A. the annuitant must make payments for 10 years
   B. the annuitant will be paid for 10 years only
   C. the annuitant or his survivor is guaranteed 10 years of payments
   D. the annuitant is guaranteed payments for life, but if the annuitant dies before payments
      have been made 10 years, the beneficiary will receive payments until the end of the 10-year term

2. Sam Smith, age 50, has inherited a sizable amount of money and has used that money
   to purchase an annuity. He will make no further premium payments on the annuity, and
   he will not receive income payments from it for at least 10 years. The type of annuity is
   a
   A. single premium immediate annuity
   B. single premium deferred annuity
   C. periodic level premium immediate annuity
   D. periodic level premium deferred annuity

3. Which of the following annuity payouts would provide the annuitant with the highest
   monthly income?
   A. life income 10 year certain
   B. life income 20 year certain
   C. life income 30 year certain
   D. life income only

4. "Annuity period" refers to which of the following?
   A. The time during which payments are made to the annuitant
   B. The time during which premiums are paid to fund the annuity
   C. The process of determining the amount of the annuity payment
   D. The principal factor in determining the annuity premium

5. Which of the following annuity settlement or benefit options might be most appropriate
   for providing retirement income to a married couple?
   A. straight life annuity
   B. joint and survivor
   C. cash refund annuity
   D. annuity certain

6. Each of the following is a characteristic of a fixed annuity contract EXCEPT
   A. it is backed by funds held in a separate account
   B. it may include two levels of guaranteed interest rates (excess and minimum)
   C. it is a fully guaranteed contract
   D. it may be sold as an immediate annuity or a deferred annuity

7. Ashley purchased a $90,000 annuity with a single premium and began taking payments
   immediately. What type of annuity does Ashley have?
   A. SPDA
   B. FPDA
   C. SPIA
   D. EIA
8. Nathan bought an annuity with a flexible premium on July 1, 1990, and started receiving fixed benefit payments on July 1, 2003. What kind of annuity did Nathan purchase?
   A. SPDA
   B. variable
   C. FPDA
   D. SPIA

9. If an annuitant selects the pure life annuity settlement option, in order to receive all of the money out of the contract, it would be necessary to
   A. name a beneficiary
   B. do nothing, the money is guaranteed
   C. live at least to his life expectancy
   D. die before his life expectancy

10. When Phil retired from his career as a schoolteacher, he had accumulated $100,000 in a retirement annuity. He decided to take his savings out in the form of a Life Annuity. When Phil's health changed, and he needed extra money to live on, he discovered
   A. he could change his option by notifying the company on the anniversary date
   B. once he began receiving payments, he couldn't change his option
   C. in order to change the income option, there must be a significant change in his health
   D. the only change option available is to take a lump sum

11. In a deferred annuity, the annual growth is
   A. not taxed since it grew tax-free
   B. not taxed since it grows tax deferred
   C. taxed as a capital gain, annually
   D. taxed as ordinary income, annually

12. The annuity income amount is based on whose life in an immediate annuity?
   A. owner
   B. insured
   C. annuitant
   D. beneficiary

13. An Equity Indexed Annuity would have a minimum guaranteed interest rate, but may have a higher rate of return based upon the
   A. Consumer Price Index (CPI)
   B. insurer’s loss ratio
   C. insurance company’s investment portfolio
   D. Standard & Poor’s 500 stock index

14. An annuity whose values is based on the performance of mutual funds is called a/an
   A. Equity Index annuity
   B. Market Value Adjusted annuity
   C. Fixed annuity
   D. Variable annuity
1. Which of the following is true concerning insurable interest?
   A. A beneficiary must have insurable interest to collect the death benefit from a life insurance policy
   B. If you have an insurable interest in someone’s life, then you never need their consent to buy a life insurance policy on them
   C. A policyowner must continuously have insurable interest in the life of the insured
   D. An applicant must have insurable interest at the time of application to buy life insurance on another person

2. The majority of the information that an underwriter uses to evaluate a proposed insured comes from which document?
   A. APS
   B. MIS
   C. consumer report
   D. application

3. The tendency for people in bad health to want to buy insurance is called
   A. substandard risk
   B. underwriting
   C. adverse selection
   D. rating

4. The MIB would most accurately be described as a
   A. government organization
   B. group of insurance company-appointed medical professionals
   C. consumer advocacy organization ensuring fair access to insurance for all applicants
   D. source of insurability information

5. Which of the following statements concerning risk is true?
   A. A substandard individual is issued a rated policy
   B. Preferred risks pay a higher premium than standard risks
   C. Substandard applicants are never issued policies
   D. Rated policies merit lower premiums

6. All of the following are true concerning underwriting EXCEPT
   A. underwriting can screen out uninsurable risks
   B. underwriting is only important in health insurance
   C. underwriting can help determine an appropriate premium
   D. underwriting selects and classifies risks

7. The federal law that permits an applicant for insurance to question the validity and source of any credit information is called
   A. Medical Information Bureau Disclosure Act
   B. Medicare Act
   C. Equal Opportunity Finance Act
   D. Fair Credit Reporting Act
8. Applicants whose health, habits, or occupations make them higher than normal risks are referred to as
   A. preferred risks
   B. poor risks
   C. substandard risks
   D. standard risks

9. All of the following statements about sources of underwriting are true EXCEPT
   A. a medical examination is typically used when benefits are large
   B. the contents of an inspection report cannot be disclosed to the applicant
   C. an attending physician’s statement is a good source of information
   D. the application is typically the principal source of information

10. When completing an application for life insurance, an agent should do which of the following?
    A. Review the applicant’s health statement and bind the coverage
    B. Complete the Medical Information Bureau report
    C. Witness the applicant’s signature
    D. Sign the applicant’s name if the applicant lives out of state

11. If an agent collects the initial premium with an application and issues a conditional receipt, the coverage will become effective on the date of application
    A. if the applicant is later found to be insurable
    B. only if the applicant is still healthy upon policy delivery
    C. as long as the applicant does not die prior to policy delivery
    D. in all cases

12. B submits an application for a life insurance policy with Audubon Insurance Co. on June 1. A conditional receipt is issued. On June 6, B takes the required medical exam. On June 20, the company issues the policy as applied for and on June 25, the Agent, when delivering the policy, discovered that B died on June 18. The Agent should do which of the following?
    A. Refuse to complete manual delivery
    B. Return the premium paid to the widow
    C. Tell the widow that B was covered
    D. Return the policy to the insurer

13. Which of the following individuals would not sign a life insurance application?
    A. agent
    B. policyowner
    C. proposed insured
    D. beneficiary

14. All of these can be considered in the underwriting of a life insurance policy EXCEPT
    A. age
    B. ethnic background
    C. occupation
    D. health
15. **Insurance may be considered to be in force when the**
   A. proposed insured signs the application and a medical examiner of the insurance company completes an examination of the proposed insured
   B. applicant completes the application and the proposed insured signs it
   C. insurance company mails a policy to the agent and the agent delivers it to the proposed insured and collects the first premium
   D. agency manager deposits the first premium check into an escrow account

16. **20. When delivering a non-prepaid policy, some insurers require agents to collect the first premium and to have the insureds sign a document indicating that their physical condition has not changed since the policy application was taken. This document is called a(n)**
   A. Guaranty Association Disclaimer
   B. Attending Physician’s Statement
   C. Statement of Good Health
   D. Errors and Omissions Statement

### Taxes and Life Insurance

<table>
<thead>
<tr>
<th>Life Insurance</th>
<th>Taxes</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Premiums</td>
<td>• Not tax deductible- considered a personal expense</td>
</tr>
<tr>
<td>• Cash Value</td>
<td>• Accrues tax deferred and is only taxable when withdrawn if the amount exceeds premiums paid</td>
</tr>
<tr>
<td>• Policy Loans</td>
<td>• Not taxable &amp; Interest; not deductible</td>
</tr>
<tr>
<td>• Policy Dividends</td>
<td>• Not taxable as it is a return of premiums—any interest earned on dividends is taxable</td>
</tr>
<tr>
<td>• Death Benefits</td>
<td>• Lump Sum not taxable-any interest earned on benefit is taxable</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Endowments</th>
<th>Taxes</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Withdrawals</td>
<td>• Taxable on a last in first out basis (LIFO)</td>
</tr>
<tr>
<td>• Penalties</td>
<td>• If withdrawn prior to age 59½ a 10% penalty is charged</td>
</tr>
<tr>
<td>• Death Benefit</td>
<td>• No for lump sum- interest is taxable for other settlement options</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Group Life</th>
<th>Taxes</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Premiums paid by employer</td>
<td>• Not taxable to employees up to $50,000 life insurance, but tax deductible to the employer if insurance is for employee’s benefit.</td>
</tr>
<tr>
<td>• Premiums paid by business for</td>
<td>• Not tax deductible to the business because the benefit is for the business.</td>
</tr>
<tr>
<td>• Key Employees</td>
<td></td>
</tr>
<tr>
<td>• Split Dollar</td>
<td></td>
</tr>
<tr>
<td>• Stock Redemption</td>
<td></td>
</tr>
<tr>
<td>• Policy Loans</td>
<td>• Not taxable to business and can deduct interest</td>
</tr>
<tr>
<td>• Death Benefit &amp; Cash Value</td>
<td>• Same as Individual life policies</td>
</tr>
</tbody>
</table>
Taxes - Review #10

1. Which of the following insurance benefits could NOT be subject to federal income taxes in whole or in part?
   A. cash value in excess of premium
   B. installment payments of a death benefit
   C. lump sum settlement of a death benefit
   D. all of the above

2. Dividends paid by a participating life insurance policy are
   A. taxed as long term capital gains
   B. received tax-free
   C. taxed as ordinary income
   D. taxed as capital gains distributions

3. Mary receives monthly payments from her deceased husband’s life insurance policy where he chose the fixed amount installment option. Each payment consists of principal and interest. How is this income taxed?
   A. The whole payment is taxed
   B. The whole payment is received tax free
   C. The interest portion of the payment is taxed; the principal is not
   D. The principal portion of the payment is taxed; the interest is not

4. What would be included in the taxable income of a policyowner with a $50,000 non-participating policy, if they had paid $9,000 in premiums and borrowed $8,000 of its $10,000 cash value?
   A. $0
   B. $1,000
   C. $8,000
   D. $9,000

5. The growth of cash values within an annuity
   A. are taxed each year as ordinary income
   B. are not taxed until they are surrendered for a gain
   C. are tax free during life and death (never taxed)
   D. are only taxed during the accumulation period; not during the annuity period

6. After paying premiums of $4,000 on a nonparticipating whole life policy, a client surrendered it for its cash value of $6,500. The client will be taxed on how much?
   A. none
   B. $2,500
   C. $4,000
   D. $6,500
Business Uses of Life Insurance

<table>
<thead>
<tr>
<th>Buy and Sell Agreement</th>
<th>Key Person Insurance</th>
</tr>
</thead>
<tbody>
<tr>
<td>▪ NOT INSURANCE – A legal document that states WHO may purchase a deceased partners share of the business and for HOW MUCH MONEY</td>
<td>▪ Company is owner and Beneficiary</td>
</tr>
<tr>
<td>▪ Life Insurance can be used to fund a Buy and Sell Agreement</td>
<td>▪ Employee is Insured</td>
</tr>
<tr>
<td>▪ Drawn up by an Attorney</td>
<td>▪ Premium NOT tax deductible to Company</td>
</tr>
<tr>
<td>▪ Third Party Ownership</td>
<td></td>
</tr>
</tbody>
</table>

Qualified Retirement Plans

<table>
<thead>
<tr>
<th>Traditional IRA</th>
<th>Roth IRA</th>
</tr>
</thead>
<tbody>
<tr>
<td>▪ Employer Contributions not taxed as income</td>
<td>▪ Contributions not tax deductible</td>
</tr>
<tr>
<td>▪ Earnings accumulate Tax Deferred</td>
<td>▪ Grows tax free</td>
</tr>
<tr>
<td>▪ Must begin benefits at 70½ or 50% tax penalty of what should have been withdrawn</td>
<td>▪ Qualified distribution is a 5 year old account and 59½ years</td>
</tr>
<tr>
<td>▪ 10% penalty for non qualified W/D</td>
<td>▪ Distributions are not taxed</td>
</tr>
<tr>
<td>▪ 6% tax penalty for excess contributions</td>
<td>▪ 6% tax penalty for excess contributions</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>401K</th>
<th>Profit Sharing</th>
</tr>
</thead>
<tbody>
<tr>
<td>▪ Employer matches contributions</td>
<td>▪ A portion of the company’s profits is shared with employees through a retirement plan</td>
</tr>
<tr>
<td>▪ Contributions are excluded from the gross income up to a ceiling amount, which is adjusted annually</td>
<td>▪ Allows employer to vary contributions</td>
</tr>
<tr>
<td>▪ Employees may “borrow” up to 50% of vested amount</td>
<td>▪ Contributions must be regular &amp; substantial by dollar or percentage</td>
</tr>
<tr>
<td>▪ Tax deductible contributions</td>
<td>▪ Tax deductible contributions</td>
</tr>
<tr>
<td>▪ Tax deferred until withdrawn</td>
<td>▪ Tax deferred until withdrawn</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>403(b) or Tax-sheltered Annuities</th>
<th>KEOGH (HR 10)</th>
</tr>
</thead>
<tbody>
<tr>
<td>▪ Designed for charitable organizations or 501c (3)’s</td>
<td>▪ Self-employed individuals, owners of unincorporated businesses</td>
</tr>
<tr>
<td>▪ Educational, religious, Public Educators, etc</td>
<td>▪ 100% of income up to maximum</td>
</tr>
<tr>
<td>▪ Contributions are excluded from current income but taxable when withdrawn</td>
<td>▪ Funded with pre-tax $</td>
</tr>
<tr>
<td>▪ Must own at least 10% of business</td>
<td>▪ Must own at least 10% of business</td>
</tr>
<tr>
<td>▪ Tax deductible contributions</td>
<td>▪ Tax deductible contributions</td>
</tr>
<tr>
<td>▪ Tax deferred until withdrawn</td>
<td>▪ Tax deferred until withdrawn</td>
</tr>
</tbody>
</table>

Rollovers
▪ Money from transfer paid directly to the participant—20% of distribution withholding tax.
▪ Must be completed in 60 days

Transfers
▪ Money goes directly from old trustee to new trustee-no tax penalty

Business Uses of Life Insurance and Retirement Plans – Review #11

1. All of the following insurance products might be used for key employee life insurance EXCEPT a(n)
   A. straight Life contract
   B. 20-Pay Life contract
   C. term contract
   D. annuity contract
2. A pre-established plan used to outline the terms of purchase of a deceased partner's share in a business is known as a
   A. key employee plan
   B. qualified retirement plan
   C. deferred compensation agreement
   D. buy and sell agreement

3. The penalty for early withdrawals from an IRA or other qualified retirement plan before age 59 ½ is
   A. 20% of the amount withdrawn
   B. 12% of the amount withdrawn
   C. 10% of the amount withdrawn
   D. 6% of the amount withdrawn

4. Fred and Betty are in their late fifties. Fred wants to contribute $2,000 to his Traditional IRA. How much can his non-working spouse Betty contribute to her IRA?
   A. $0
   B. $2,000
   C. current year maximum
   D. current year maximum plus catch-up contributions

5. A rollover from an IRA to another IRA must be done within
   A. 31 days
   B. 45 days
   C. 60 days
   D. 90 days

6. Which of the following requires a minimum required distribution at age 70 ½?
   A. retirement annuities
   B. Roth IRAs
   C. traditional IRAs
   D. fixed annuities

7. Earned income is a requirement for all of the following retirement plans EXCEPT
   A. Roth IRAs
   B. traditional IRAs
   C. variable annuities
   D. 401K plans

8. The IRS 10% early withdrawal penalty for IRAs and annuities may NOT be waived for
   A. annuitization
   B. first time home purchase
   C. death
   D. disability

9. Which of the following does not allow contributions beyond 70 ½?
   A. traditional IRAs
   B. Roth IRAs
   C. fixed annuities
   D. interest sensitive whole life
10. Which of the following is not included in earned income for calculating IRA contribution limits?
   A. wages
   B. salaries
   C. dividends
   D. commissions

11. A higher IRA contribution limit applies to taxpayers at or above age
   A. 50
   B. 55
   C. 59 ½
   D. 65

12. All of the following about tax sheltered annuities are true EXCEPT
   A. they are established for the employees of 501(c) 3 organizations
   B. the employee makes the payments into the plan
   C. earnings to the plan grow tax deferred
   D. all distributions from the plan are taxable

13. A 403(b) would be appropriate for employees of all of the following EXCEPT
   A. churches
   B. grocery stores
   C. schools
   D. libraries

14. Which plan would be appropriate for the employees of a 501(c)(3) organization?
   A. 401(k)
   B. 403(b)
   C. SEP
   D. simple

15. An HR-10 plan would be appropriate for which of the following?
   A. a closely held corporation
   B. a hospital
   C. a school
   D. a self-employed person and his/her employees

Group Life and Social Security #12

1. A contributory group plan has which of the following characteristics?
   A. A minimum percentage of the group, typically 75%, must join the plan
   B. The employer pays the total cost of the insurance
   C. Coverage cannot be extended to dependents
   D. None of the above

2. Mr. Smith has $100,000 of group life insurance. The maximum amount that Mr. Smith will be able to convert is
   A. $50,000
   B. $100,000
   C. $200,000
   D. any amount
3. J was an employee at XYZ Corporation and was covered by a $20,000 group life insurance plan. Seventeen days after J terminated her employment at XYZ, she died in an accident before exercising her conversion privilege. Which of the following is true?
A. Since J never converted to an individual policy, no death benefits will be paid
B. Since J did not exercise her conversion privilege, the death benefit will be paid to a trust
C. A death benefit would be paid to J’s beneficiary
D. No death benefit will be paid because J was not employed by XYZ at the time of her death

4. The period of time between the employment date of a new employee and when he or she is eligible to join the group insurance plan is called the
A. conversion period
B. eligibility period
C. elimination period
D. waiting period

5. The group policyowner is issued a master contract by the insurance company. Each member of the group is issued a(n)
A. individual certificate
B. copy of the master contract
C. individual policy
D. Fair Credit Reporting Act disclosure statement

6. A noncontributory group plan is one in which
A. the employees pay no part of the premium
B. the employer pays no part of the premium
C. a payroll deduction plan is used
D. an elimination period is mandatory

7. Credit Life policies are characterized by all of the following if the insured dies EXCEPT
A. proceeds are paid directly to the debtor
B. proceeds are paid directly to the lender
C. benefits are limited to the exact amount of the loan
D. the policy could be group or individual

8. The primary advantage of group conversion privileges is that
A. they allow employers to exclude certain employees by converting their policies to individual policies
B. they allow the insurance company to increase the number of insureds and protect against adverse selection
C. they allow the insured to continue life coverage without evidence of insurability
D. they allow the insureds to get free life insurance for 1 year after leaving the group

9. The time limit to convert from a group policy to an individual policy is
A. 1 week.
B. 31 days
C. 5 days
D. 3 months
10. Benefits for Social Security are calculated using a worker’s
   A. ADA
   B. COB
   C. MIB
   D. PIA

THE BASICS: LAW

♦ Insurance regulation – purpose of insurance regulation is to promote the public welfare. As a result, the scope of the regulation is very broad.

A. Contract of Insurance
   An agreement by which the insurer is bound to pay money or its equivalent or to do some act of value to the insured upon, and as an indemnity or reimbursement for the destruction, loss, or injury of something in which the other party has an interest.

B. Commissioner of Insurance
   1. The chief officer of the Insurance Department.
      ♦ Elected by the people for a four-year term.
      ♦ If a vacancy occurs, the Governor appoints replacement.
   2. Duties:
      ♦ Uphold insurance laws and adopt rules to carry them out.
      ♦ Prevent practices that might harm the public.
      ♦ Administer all oaths, either personally or through deputies.
      ♦ Examine each insurer’s financial statement.
      ♦ Report to the Attorney General any violations of insurance laws. S/he may institute civil actions or criminal prosecutions for any violation.
      ♦ Compile and make available to the public lists of rates charged and explanations of coverages.
      ♦ Conduct hearings, examinations, or investigations. A 10-day notice is required and may be given personally or by first class mail.
   3. Restraining orders; criminal convictions
      ♦ If it appears that law is being violated, the Commissioner may apply to the superior court of the county in which the violation is/has/or may occur for a restraining order and injunction.
      ♦ An adjudication of guilt, or a plea of guilty, or a plea of nolo contendere of any licensee for any criminal violation automatically suspends the license of that person until reinstated by the Commissioner.
      ♦ Each licensed person must notify the Commissioner within 10 days after the date of conviction.
   4. License Surrenders
      ♦ Someone whose license is surrendered or suspended can’t apply for another license during the period of surrender.
   5. Notification of Criminal Convictions and Changes of Address
      ♦ Licensees must notify the Commissioner of their address and must notify the Commissioner of any change in address within 10 days. The penalty is a $50 fine.
6. **Civil Penalties or Restitution**
   ♦ The Commissioner may suspend or revoke a person’s license and assess a fine from $100 to $1000 per violation.
   ♦ The court may also order monetary restitution to persons harmed by the violation.

7. **False Statement to Procure or Deny Benefit**
   ♦ Anyone who knowingly presents written or oral statements that contain false or misleading information to an insurer or insurance claimant in connection with an insurance claim is guilty of a class H felony. This includes assisting, abetting, soliciting, or conspiring with another person to do this.

8. **Embezzlement**
   ♦ Agents who embezzle or fraudulently convert to their own use money received by them are guilty of a felony.

9. **Report to the Commissioner**
   ♦ Any insurer or agent who knows or reasonably believes that any other licensed person has violated insurance laws, or that any insurer is financially impaired, is required to notify the Commissioner.
   ♦ This report is privileged communication and does not subject the person making the claim to any liability.
   ♦ The Commissioner may suspend, revoke or refuse to renew the license of anyone who willfully fails to comply with this.

10. **Making False Statements**
    ♦ Any person who willfully misstates information in any financial report is guilty of a class I felony. Fine is from $2000 to $10,000.

11. **Record of Business**
    ♦ All companies, agents, or brokers must keep a full record of their business. This includes the number, date, term, amount insured, premiums, and the persons covered on all policies or certificates of renewal.
    ♦ This information must be furnished to the Commissioner on demand. Whenever warranted, the Commissioner may examine these records.
    ♦ Refusing this request is grounds for revocation of license and is a class 1 misdemeanor.

C. **General Regulations**

1. **Discrimination Prohibited**
   ♦ Insurers can’t deny insurance or charge a different rate solely because of blindness or deafness or because of race, color, or ethnic origin.
   ♦ This applies to life, accident, or health insurance.
   ♦ Conversely, insurers may not discriminate in favor of anyone.

2. **Twisting**
   Insurers can’t make written or oral statements that misrepresent or make incomplete comparison of terms, conditions, or benefits of one policy to induce a policy holder to terminate, surrender, exchange, or convert any insurance policy for another one.

3. **Acting without a License**
   Acting as an agent, broker, etc. without a license is a class 1 misdemeanor.
4. **Paying premiums by Credit Card**
   Insurers may accept credit card payments if they make this method of payment available to all insureds and if the insurer pays any fees charged by the credit card company for collecting the premium.

**Law Basics #13**

1. **The Commissioner of Insurance is**
   A. Appointed by the governor for a 4-year term
   B. Elected by the legislature for a 4-year term
   C. Appointed by the legislature for a 4-year term
   D. Elected by the citizens of North Carolina for a 4-year term

2. **The person or agency in North Carolina who is responsible for adopting rules to transact insurance business is**
   A. Insurance Council
   B. Commissioner of Insurance
   C. Attorney General
   D. Guaranty Association

3. **If the position of Insurance Commissioner becomes vacant, a new commissioner is**
   A. Elected by the citizens in a special election called by the governor
   B. Elected by the citizens in a special election called by the legislature
   C. Appointed by the governor
   D. Not selected until the next regularly scheduled election

4. **If a person in North Carolina who holds an insurance license is convicted of any criminal violation of the state statutes, the insurance license**
   A. Is automatically suspended
   B. May be suspended depending on the crime
   C. Is not affected in any way
   D. Is automatically suspended, but for no more than 6 months

5. **An insurance agent who uses a client's money for his own personal use is guilty of**
   A. A misdemeanor
   B. Nothing if he returns the money in a timely manner
   C. Nolo contendere
   D. Embezzlement

6. **A person in North Carolina who acts as an agent but does not have a license is guilty of**
   A. Malfeasance
   B. Nolo contendere
   C. Misdemeanor
   D. Felony

7. **The Commissioner may do all of the following EXCEPT**
   A. Examine the books and records of agents and insurers
   B. Make insurance regulations
   C. Promulgate insurance law
   D. Administer oaths
D. **Licensing**

1. **License Requirements**
   - Agents receive a resident license in the state in which they live.
   - Agents may receive a non-resident license in any other state that the agent does business in (or receives commission for business in) and does not live there.
   - A licensed agent who moves from the state has 30 days to return his resident license to the Commissioner.
   - Agents who lose or have licenses stolen may apply for a duplicate.
   - Brokers must submit a $15,000 surety bond.

2. **Application for License**
   License applicants must
   - Be at least 18 years of age.
   - Be a resident of North Carolina.
   - Have completed a 20-hour approved class for each line of authority.
   - Be trustworthy
   - Have not violated any of the insurance laws of NC or any other state.
   - Pass the state-licensing exam.

3. **Appointment of Agents**
   - Licensed agents must be appointed by an insurer before doing business
   - New appointments must be filed within 30 days and renewal appointments must be made annually by April 1.
   - Insurers must notify DOI of terminated appointments within 30 days.

4. **Suspension, Probation, Revocation, or Nonrenewal**
   The Commissioner may place on probation, suspend, revoke or refuse to renew any license for any of these reasons:
   - Providing materially incorrect information on the license application
   - Intentionally violating an insurance law
   - Intentional misrepresentation
   - Improperly withholding or converting any money or property received in the course of doing insurance business
   - Being convicted of an act of dishonesty or a breach of trust
   - Excessive use of force in selling insurance
   - Intentionally deceiving a proposed insured
   - Cheating on an insurance examination
   - Willfully over insuring property

5. **Temporary Licenses**
   Temporary licenses may be issued to these people for not more than 180 days:
   - Spouse, next of kin, executor or employee of deceased or disabled licensee
   - Employee of a licensed partnership, officer or employee of a corporation at the death or disability of a licensee
   - Designee of a licensee entering active US military
   - Debit or home service agent
   No classroom or exam is required, but licensee must be qualified in all other ways
6. **Commissions**
   ♦ Commissions can only be paid to licensed persons

7. **Agents Personally Liable**
   ♦ Agents representing an unauthorized insurer become personally liable for payment of claims
   ♦ This is a class 1 misdemeanor

8. **Premium obtained by fraud**
   ♦ Any person negotiating a contract of insurance and collecting a premium is an agent for the insurer
   ♦ Agents collecting premiums by fraudulent means are guilty of a class 1 misdemeanor.

9. **False statements in Insurance Applications**
   ♦ Agents, physicians, applicants, or anyone else who knowingly or willfully make false statements in insurance applications or make false statements to obtain a fee are guilty of a class 1 misdemeanor.

10. **Signing Blank Policies**
    ♦ Agents who sign blank contracts are guilty of a class 3 misdemeanor.
    ♦ The fine is from $1000 to $5000.

11. **Ethical Standards**
    When in contact with the public, agents
    ♦ must identify themselves and their occupation
    ♦ must carry their licenses with them while performing duties and display it upon request of any person
    ♦ must conduct themselves in a manner which inspires confidence by fair and honorable dealing.
    ♦ may not accept money or other gifts from a service provider for recommending that provider to clients
    ♦ may not discourage claimants from seeking legal advice by withdrawing or reducing a previously accepted settlement offer

**Licensing #14**

1. **In order to satisfy the prelicensing education requirement for agents, an applicant for a life license must satisfactorily complete at least**
   A. 10 hours of instruction
   B. 20 hours of instruction
   C. 40 hours of instruction
   D. 60 hours of instruction

2. **Each of the following is true about insurance brokers in North Carolina EXCEPT**
   A. The applicant must file a surety bond in the amount of $15,000
   B. A broker's license automatically covers all kinds of insurance
   C. A broker must also be continuously licensed as an agent while the broker's license is in effect
   D. Every broker who negotiates insurance as a broker is deemed to represent the insured and not the insurer
3. If a licensee's appointment or license is canceled, the insurer must notify the Commissioner with
   A. 10 days
   B. 15 days
   C. 20 days
   D. 30 days

4. A license may be revoked for any of the following reasons EXCEPT
   A. Making a false statement on the license application which is not material
   B. Violation of another state's insurance laws
   C. Willfully over insuring property
   D. Conviction of a felony

5. Life insurance commissions can only be paid to
   A. Someone who refers business to an agent
   B. Someone holding a valid life agent's license and holding appropriate company appointments
   C. A company representative
   D. A life insurance agency

6. In order to obtain an insurance license in North Carolina, an applicant must be what age?
   A. 15
   B. 18
   C. 21
   D. There is no minimum age

7. A licensed agent who lives in Virginia and applies for a license in North Carolina would receive what kind of license?
   A. Nonresident
   B. Resident
   C. Reciprocal
   D. Dual

8. In addition to having a valid license, agents who write insurance must also meet what other requirement?
   A. Obtain a limited representative license
   B. Be appointed by a broker
   C. Have an insurable interest in their business
   D. Be appointed by an insurance company authorized to do business in North Carolina

9. An agent who moves to another state has how long to surrender his license?
   A. 15 days
   B. 30 days
   C. 60 days
   D. 90 days
10. Temporary licenses may not be in effect for more than how long during a 12-month period?
   A. 90 days
   B. 120 days
   C. 150 days
   D. 180 days

11. All of the following are requirements of agents EXCEPT
   A. Carry their licenses while conducting business
   B. Display their licenses if requested
   C. Act fairly and honorably in insurance transactions
   D. Accept referral fees from auto repair shops for referring claimants to that business

12. Temporary licenses may be issued to any of the following EXCEPT
   A. The surviving spouse of an agent who dies
   B. The next of kin of an agent who becomes disabled
   C. A good friend of an agent who dies
   D. A debit agent

13. An agent who signs a blank insurance policy is guilty of a misdemeanor and may be fined not less than ________ or more than ________.
   A. $5,000/$10,000
   B. $2,000/$7,500
   C. $1,000/$5,000
   D. $500/$10,000

E. **Insurance Information & Privacy Protection Act**
   This important section deals with consumer rights. These laws protect insurance applicants, policyholders, or anyone else who is the subject of information collected by insurers for an insurance transaction.
   1. **Definitions:**
      a. **Adverse Underwriting Decision** - a decision by the insurer to decline or terminate coverage, or to not insure the applicant as originally requested.
      b. **Consumer Report** - any written or oral communication of information about a person’s credit worthiness, character, general reputation, personal characteristics, or mode of living that is used in connection with an insurance transaction.
      c. **Institutional Source** - a person or agency that provides a consumer report.
      d. **Insurance Support Organization** - any person or agency that regularly provides consumer reports to insurers for original applications or for claims. An example is Equifax.
      e. **Medical Information** - any information collected about a person’s physical and mental condition, past or current medical history, current medical condition, and possible future medical problems.
      f. **Personal Information** - any information gathered to make judgments about a person’s reputation, occupation, credit, hobbies, income, etc.
      g. **Privileged Information** - any information relating to a claim.
   2. **Pretext Interviews**
      ◆ A personal interview by insurance persons misrepresenting themselves or their companies or misrepresenting the purpose of the interview, or refusing to identify themselves.
� pretext interviews are illegal unless there is reasonable basis for suspecting criminal activity, fraud, etc. in connection with a claim.

3. **Notice of Insurance Information Practices**
   ♦ insurers must provide applicants with a notice of the insurer’s information practices
   ♦ the notice may be given at policy delivery if information only came from the application or public records
   ♦ otherwise, it must give the notice at the time the collection of personal information is initiated.

4. **Disclosure Authorization Forms**
   ♦ applicants must give the insurer written authority to obtain information about them (i.e., medical records, driving records, credit reports)
   ♦ the form must:
     a. be dated
     b. specify the types of persons authorized to disclose information
     c. specify the nature of the information authorized to be disclosed
     d. name the insurance institution
     e. specify the purposes for which the information is collected
     f. specify the length of time it is valid - maximum is 30 months (or 2.5 years) for life, health, or disability insurance.
     g. advise applicants that they are entitled to a copy

5. **Access to Recorded Personal Information**
   ♦ applicants have a right to request what information was collected about them.
   ♦ insurers must provide applicants with the sources and explain the nature of the information.
   ♦ an individual has a legal right to make sure that information collected is correct. individuals who believe the information to be wrong must be given procedures to get it corrected
   ♦ insurers have 30 business days after receiving such a request to furnish this information to the requester. for medical information, insurers may supply the information to a medical professional designated by the requester.

6. **Corrections to Recorded Personal Information**
   ♦ within 30 business days of receiving a written request to correct, amend, or delete information, an insurer must either change the information or tell the requester why it’s not changing the information.

7. **Adverse Underwriting Decisions**
   ♦ an individual has 90 business days after receiving notice of being declined, rated, or being terminated to request the reasons for the decision
   ♦ the insurer must furnish this information within 21 business days
   ♦ other insurers may not make adverse underwriting decisions solely on previous adverse underwriting decisions. each company must build its own case.

8. **Disclosure of Information**
   ♦ no insurance institution, agent, or insurance support organization may disclose any consumer information without written authorization of the individual.
9. **Powers of the Commissioner**
   ♦ The commissioner has the authority to examine every insurance institution doing business in NC to insure that all are conducting business lawfully
   ♦ If the commissioner believes that violations have occurred, s/he will send a 10-day written notice for the agent or institution to appear at a hearing
   ♦ After the hearing, if the commissioner determines there were violations of these laws, a cease and desist order will be issued
   ♦ Guilty individuals may be fined up to $10,000 for each violation (or a maximum of $50,000, if the court finds that the violations were general business practices)
   ♦ Additionally, the agent’s or the company’s license may be suspended or revoked.

10. **Individual Remedies**
    ♦ Individuals may also seek monetary reward through the local court system for damages that were incurred because of an insurer’s failure to comply with these laws

11. **Immunity**
    ♦ These laws provide immunity for those acting legally but not those acting illegally

12. **Obtaining Information Under False Pretenses**
    ♦ Any agent or insurer that obtains personal information under false pretenses is guilty of a class 1 misdemeanor.

**Insurance Information and Privacy Protection #15**

1. **All of the following are adverse underwriting decisions EXCEPT**
   A. Declining coverage
   B. Binding coverage
   C. Terminating coverage
   D. An offer to insure at a higher than standard rate

2. **Pretext interviews are illegal unless the company is investigating ________ in connection with a claim.**
   A. Fraud
   B. Financial stability
   C. Character
   D. Moral hazard

3. **A signed disclosure authorization involving life, health, or disability insurance is valid for how long?**
   A. 3 months
   B. 2½ years
   C. 3 years
   D. 60 months

4. **A person who requests access to his/her personal information from an insurance company must receive a reply within how many business days?**
   A. 30
   B. 60
   C. 90
   D. No time limit
5. **How long does an individual have to request information about an adverse underwriting decision?**
   A. 30 days
   B. 60 days
   C. 90 days
   D. 90 business days

6. **At least how many days notice must the Commissioner give before conducting a hearing regarding violations of the Insurance Information and Privacy Act?**
   A. 10 business days
   B. 10 days
   C. 20 days
   D. 30 days

7. **Persons or companies who violate a cease and desist order granted by the Insurance Information and Privacy Act are subject to fines of how much?**
   A. up to $1,000 per violation
   B. up to $5,000 per violation
   C. up to $10,000 per violation
   D. up to $25,000 per violation

**F. Unfair Trade Practices**

These laws pertain to the selling of insurance. They regulate trade practices by defining the practices that constitute unfair methods of competition or unfair or deceptive acts or practices. No person shall engage in any of these acts or practices.

1. **False Information and Advertising**
   ♦ Advertising or making statements that are untrue, deceptive, or misleading regarding a policy, dividend, another individual, or another insurer. This applies both to policy contracts and general advertisements.

2. **Defamation**
   ♦ No one may make written or oral statements that are maliciously critical or false regarding an insurer’s financial condition. Neither may they be designed to injure any person who is engaged in insurance.

3. **Boycott, Coercion, or Intimidation**
   ♦ Directly or indirectly, insurers may not boycott, coerce, or intimidate with intent to monopolize or cause unreasonable restraint of anyone in the insurance business.

4. **False Financial Statements**
   ♦ It is illegal to file or make false statements about the financial condition of an insurer with the intention to deceive.

5. **Unfair Discrimination**
   ♦ Agents or insurers can’t discriminate between persons of the same rating class with regard to premiums, fees, dividends, or any other benefits
6. **Rebating**
   - Agents or insurers can’t give applicants any special favors, paid employment, services, or promise of a return as an inducement to purchase a policy.
   - Agents are allowed to earn commissions and bonuses. Insurers may pay dividends, but agents are not allowed to share these with clients. The law states that the person receiving the rebate is equally guilty.

7. **Unfair Claim Settlement Practices**
   - It is unlawful not to pay claims in a timely manner, to pay less than a reasonable person would have expected, or in any way to require duplicate forms or procedures for the sole purpose of delaying the payment of claims.
   - Insurers must promptly acknowledge pertinent communications about claims and implement reasonable standards for the prompt investigation of claims from insurance policies.
   - Insurers can’t refuse to pay claims without conducting a reasonable investigation based upon all available information.
   - Insurers must either pay or deny claims within a reasonable time after proof of loss has been completed.
   - When making claim payments, insurers must include a statement of the coverage under which the payment is being made.
   - Insurers committing such acts with a frequency that suggests it to be a general business practice are in violation.
   - The Commissioner has the power to investigate and issue cease and desist orders. Any person violating this order may be fined not less than $1000 or more than $5,000 per violation.

G. **False Pretenses and Cheats**
   - It is unlawful to obtain money, property, services, or any other thing of value with the intent to cheat or defraud. The law says that it only has to be proven that a person intended to commit acts of larceny or embezzlement, not that it actually happened. This includes individuals, partnerships, associations, or corporations; and is a felony.

H. **Continuing Education**
   - Life agents must complete 24 hours of approved continuing education every two years.
   - Agents must complete 3 hours of ethics each biennium.
   - The biennium will end in even-numbered year for those born in even-numbered year; odd-numbered years for those born in odd-numbered years. The date will be the last day of the agent’s birth month. An agent born in Oct. 1957 who is licensed in 2008 will have to complete the CE requirement by Oct. 2011.
   - Agents who fail to comply with the CE regulations may be fined $75.
   - Each agent must keep records of having completed the required continuing education for 3 years.
   - Agents may not repeat a course more often than every biannual period.
   - Any excess hours completed in a biennium may be carried over to the next period.
Unfair Trade Practices #16

1. Publishing false and derogatory statements about an insurer's financial condition, with the intent to injure the insurer or its agent, is an act of
   A. Coercion
   B. Unfair discrimination
   C. Intimidation
   D. Defamation

2. All of the following are unfair claims practices EXCEPT
   A. Denying a claim not covered under the policy
   B. Not responding promptly when a claim is submitted
   C. Forcing an insured to sue by offering less than what the claim is worth
   D. Telling the insured that the company appeals arbitration awards

3. If an agent uses illegal tactics to persuade a prospect to drop existing insurance, then he would be guilty of
   A. replacement
   B. twisting
   C. rebating
   D. embezzlement

4. All of the following are considered defamation EXCEPT
   A. Making an oral remark falsely stating the financial condition of an insurance company
   B. Writing a letter to a client and telling the client about some derogatory information you believe to be true about another agent
   C. Distributing a pamphlet which gives the Best ratings of insurance companies
   D. Encouraging your friend Joe to tell another friend John that Joe thinks John's insurance company is having financial difficulties when you know it isn't

5. If an agent tells a client that the policy benefits are guaranteed when they aren't, the agent is guilty of
   A. False information and advertising
   B. Defamation
   C. Coercion
   D. Twisting

6. Violation of a cease and desist order of the Commissioner for an Unfair Trade Practice can result in a fine of not less than _______ nor more than ________.
   A. $1,000/$5,000
   B. $2,500/$5,000
   C. $5,000/$10,000
   D. $10,000/$50,000

7. According to the Unfair Claim Settlement provisions, when an insurer makes a claim payment to a claimant what information must also be included?
   A. The procedure for challenging a claim
   B. A statement indicating that legal action cannot be taken for 60 days
   C. A statement of the coverage under which the payment is being made
   D. A statement that any arbitration awards to an insured will be appealed by the insurer
8. As an inducement to buy insurance, promising to return a portion of the agent's commission to the insurance buyer is an illegal practice known as
   A. Twisting
   B. Rebating
   C. Coercion
   D. Misrepresentation

9. Biennially, an agent with a life license must take how many hours of continuing education?
   A. 12
   B. 15
   C. 18
   D. 24

I. General Regulations of Business
   1. Industrial Life Insurance
      ♦ Face amounts of not more than $1,000
      ♦ Premiums payable monthly or more frequently
      ♦ Words "Industrial Policy" printed on the face page

   2. Credit Life Insurance
      ♦ Life insurance upon the life of the debtor with the creditor as owner and beneficiary of the policy
      ♦ Premiums are included in loan payment
      ♦ Credit life may also include disability benefits.

   3. Sickle Cell or Hemoglobin C Traits
      ♦ Insurers can’t discriminate, fail to cover, or charge a higher premium solely because an applicant possesses either the sickle cell trait or the hemoglobin C trait.

   4. Misrepresentation
      ♦ Insurers can’t mislead or deceive the public while engaged in insurance transactions. Agents cannot make oral or written statements that:
         - Imply that an insurance policy is shares of stock.
         - Misrepresent dividends as guaranteed or overstate past performance.
         - Conceal the name of an insurance company.
         - Mislead about the financial condition of an insurer.
         - Misrepresent the terms of an insurance policy.
         - Misrepresent the name of an insurance policy.
         - Intentionally misrepresent to induce someone to replace a given policy.

   5. Minors Rights to Life Insurance
      ♦ In North Carolina, anyone 15 years old or older may purchase life insurance and have the same rights of those given to someone 18 years old.

   6. Death Benefit Payments; Interest Charge
      ♦ Any insurer failing to pay a death claim within 30 days of receiving satisfactory proof of loss must accrue interest on the unpaid money calculated from the insured’s date of death
      ♦ The interest rate must be equal to the current rate being paid on death claim proceeds being left with the company.
7. **Group Life Insurance**
   ◆ Group life insurance is a policy issued to an employer to insure employees for the employee’s benefit
   ◆ Eligible employees are all employees or all of a class determined by employment
   ◆ Premiums may be paid by the employer, the employees, or both
   ◆ The policy must cover at least 10 employees at date of issue.

8. **Contestability after Reinstatement**
   ◆ A reinstated policy will have a new contestability period, 2 years, beginning with the date of reinstatement.

J. **Regulations of Life Insurance Solicitation**

These regulations require insurers to deliver to purchasers information that will improve the buyer’s ability to select the most appropriate plan and to improve the buyer’s understanding of the basic features of the policy that has been purchased.

1. **Buyer's Guide and Policy Summary**
   ◆ Provides information to a prospective insurance buyer as to how much coverage, what kind of life insurance, and how to compare the cost of similar policies
   ◆ Must be given to applicant prior to accepting first premium payment unless there is a free-look period of at least 10 days. In situations with a free-look period, Buyer’s Guide and Policy Summary must be delivered with policy.
   ◆ If a potential client asks for one in advance, agent must provide it then
   ◆ In policies with a face amount of $5,000 or less, a written statement containing the information in the policy summary is sufficient to satisfy this requirement.

2. **General Rules of Solicitation**
   ◆ Prior to beginning a sales presentation, agents must inform prospective clients that they are life insurance agents and state the name of their company
   ◆ Agents may not use terms such as “financial planner” or “investment advisor” unless they have the proper credentials
   ◆ If dividends are discussed, agents must state that they are not guaranteed.
   ◆ Any comparisons used in the presentation must not compare costs of different policies unless they recognize the time value of money. Comparisons may be used to show the buildup of cash value if they make a statement disclosing that the presentation does not recognize that a dollar in the future is worth less than a dollar today
   ◆ Presentations may not display guaranteed and nonguaranteed benefits as a single sum unless they are also shown separately in close proximity to each other.
   ◆ The annual premium quoted must be the maximum annual premium
   ◆ Failing to provide a Buyer’s Guide and Policy summary is a misrepresentation and receives the same fines as for Unfair Trade Practices.

K. **Replacement Regulations**

This regulation regulates the activities of insurers, agents, and brokers when replacing existing life insurance and annuities. It is specifically designed to protect the public.

1. **Replacement** occurs when a new policy is purchased and an existing policy from a different company is being changed.
   These changes include lapsing
♦ forfeiture
♦ surrendering
♦ converting to reduced paid-up
♦ continued as extended term
♦ reissued with any reduction in cash value
♦ or subjected to borrowing or withdrawal of more that 50% of the loan value or the cash value.
♦ If any of the above happens within 12 months after signing the new application, replacement has occurred.

2. **Conservation** - any attempt by the existing insurer or agent to save the existing policy. Note: Both conservation and replacement are legal as long as misrepresentation and defamation has not occurred.

3. **Exemptions from replacement provisions**
   a. Credit life
   b. Group life or group annuities
   c. Life insurance being replaced within the same company
   d. Life insurance and annuities issued in connection with a pension, profit sharing, or other qualified plan.

4. **Duties of agents and brokers**
   a. Have a statement signed by the applicant as to whether replacement is involved and a signed statement as to whether the agent or broker knows that replacement may be involved. Usually, these are satisfied with suitable questions in the application.
   b. If replacement is (or may) occur the agent or broker will provide the client with a “Notice Regarding Replacement” form. Client and agent or broker must sign it. The form must contain policy numbers, names of insurers, and names of insureds. A copy is left with the client, and a copy is forwarded to the existing insurer. Each agent or broker must leave copies of written or printed marketing communications with the applicant.

5. **Duties of Insurers**
The insurance company is required to inform its agents and brokers of these requirements and insure that they comply with them. Insurers must send a Policy Summary or Contract Summary to the existing insurer within 5 working days of receiving application.

**General Regulations #17**

1. **All of the following must be stated in a life insurance contract in North Carolina EXCEPT**
   A. The amount of benefits payable
   B. The amount of the premium
   C. How the benefits will be paid
   D. The agent’s name and address

2. **The face amount of an industrial life insurance policy cannot exceed what amount?**
   A. $500
   B. $1,000
   C. $1,500
   D. $2,000
3. The legal age for obtaining insurance in North Carolina is
   A. 15
   B. 18
   C. 21
   D. Any age once a person can write and is deemed competent

4. How long after the receipt of proof of loss forms does an insurance company have to pay the claim before it must pay interest on the death proceeds?
   A. 15 days
   B. 30 days
   C. 45 days
   D. 60 days

5. All of the following are characteristics of group insurance EXCEPT
   A. The policy must cover at least 10 employees at date of issue
   B. The employees eligible for insurance under the policy are all the employees of the employer
   C. The premium may be paid wholly by the employer
   D. The premium may be paid by the employees and the employer

6. The document that must be delivered to a policyowner either at time of application or delivery of policy is
   A. NC Life Insurance Statutes
   B. Buyer's Guide and Policy Summary
   C. Best Rating of Insurance Companies
   D. Equivalent Death Benefit Rankings

7. If a policy has reference to dividends, what information must be included?
   A. That dividends are paid annually
   B. That dividends are an additional benefit
   C. That dividends are taxable
   D. That dividends are not guaranteed

8. Which of the following is/are true?
   I. Insurance agents must clearly identify themselves as insurance agents and tell the client the name of the insurance company they are representing.
   II. Insurance agents may not use terms such as "financial planner, investment advisor, financial consultant, etc." unless they have earned these certifications.
   A. I only
   B. II only
   C. Both I and II
   D. Neither I nor II

9. Insurers must maintain on file for inspection a copy of all documents approved for use to satisfy the statutes for a period of how long from their last use?
   A. 1 year
   B. 3 years
   C. 5 years
   D. 7 years
10. Replacement of life insurance or annuities occurs when all of the following take place EXCEPT
   A. Another policy is issued by the same company
   B. An existing policy is lapsed or surrendered
   C. Converted through the use of a nonforfeiture option
   D. Re-issued with reduced values

11. If an agent is replacing a policy, it is the agent’s duty to do all of the following EXCEPT
   A. Submit a signed statement from the insured as to whether replacement of an existing policy is intended
   B. Deliver to the applicant the "Notice Regarding Replacement" no later than when the application is taken
   C. Leave a copy of all sales material including the "Notice" with the applicant
   D. Just not inquire about replacing policies

12. It is the replacing insurer’s responsibility to do all of the following EXCEPT
   A. Require signed statements from both the applicant and the agent as to whether replacement is involved
   B. Send the "Notice" to the existing company within 10 business days
   C. Provide original sales materials to give to the applicant
   D. List the policy number, company name and insured name of all contracts to be replaced on both the application and the "Notice"

13. Any attempt by the existing company or agent to convince the insured not to replace or allow an existing policy to lapse is called
   A. Conservation
   B. Preservation
   C. Restoration
   D. Good business practice

14. Violating the replacement requirements is considered
   A. Misrepresentation
   B. Defamation
   C. Twisting
   D. False advertising

L. Fraternal Benefit Societies
   ◆ A fraternal benefit society is incorporated without capital stock and conducted solely for the benefit of its members and their beneficiaries
   ◆ They are not for profit and operate on a lodge system with a ritualistic form of work and have a representative form of government.
   ◆ Fraternals issue open-end contracts.

1. A fraternal society may offer the following benefits:
   - Death
   - Endowment
   - Annuity
   - Disability
   - Hospital, medical, or nursing benefits
   Note: Fraternals cannot issue property and casualty insurance.
2. Fraternal agents must be licensed the same as other life and health agents.

3. Fraternals must abide by the Unfair Trade Practices laws; however, these laws do not dictate to the fraternal rules for membership or their right to offer benefits to members only.

M. North Carolina Life and Health Insurance Guaranty Association

1. The Guaranty Association was created to provide benefits to insureds, policyholders, annuitants, and beneficiaries when member companies become financially impaired or insolvent. Insurers must agree to be a member and are assessed funds based on their percentage of the business in NC to pay insureds and beneficiaries.

2. Coverage:
   - Life insurance policies
   - Accident and health policies
   - Annuities
   - Variable policies (only the guaranteed benefits)

3. Exclusions:
   - Separate accounts of variable contracts
   - Reinsurance contracts
   - Self-funded plans
   - Dividends
   - Plans with excessive interest rates
   - Fraternal benefit plans

4. Limits:
   $300,000 per individual

5. A summary document of the association’s benefits must be delivered with each policy.

6. Agents or insurers cannot use the existence of the guaranty association in sales presentations as inducements to purchase policies.

N. Viaticals

1. Illness:
   Chronically ill – Unable to perform 2 activities of daily living (eating, toileting, transferring, bathing, dressing, or continence). May see abbreviated ADLs.
   Terminally ill – Having an illness or sickness that can reasonably be expected to result in death in 24 months or less.

2. Viator:
   The owner of an individual insurance policy or group insurance certificate insuring the life of a chronically or terminally ill person who wishes to sell the policy.

3. Viatical Settlement Broker:
   A person who, on behalf of a viator and for a fee, attempts to negotiate a viatical settlement contract between a viator and a viatical settlement provider.
   (Exception: Does not mean an attorney, CPA, or CFP who represents the viator but is paid on an hourly basis – not by commissions)
4. **Viatical Settlement Contract:**
   A written agreement between a viator and a viatical settlement provider in which the viator sells the policy for less than the face amount to the viatical settlement provider who expects to receive the full death benefit at the death of the viator.

5. **Viatical Settlement Provider:**
   A person other than a viator who enters into a viatical settlement contract. This does not include a bank or other financial institution which accepts a life insurance policy as collateral for a loan nor an life insurer which provides benefits under an accelerated death benefit rider.

6. **Viaticated Policy:**
   A policy that has been acquired by a viatical settlement provider under a viatical settlement contract.

**Fraternal Benefit and Guaranty Association #18**

1. **Fraternal benefit societies**
   I. Conduct business solely for the benefit of their members and their beneficiaries.
   II. Are a profit-making organization with a representative form of government
   III. May offer the contractual benefits offered for life, health, and disability insurance as any other insurer.
   A. I and II only
   B. I, II, and III
   C. II and III
   D. I and III

2. **The maximum amount of coverage provided by the N.C. Life and Health Guaranty Association is**
   A. $100,000
   B. $300,000
   C. $500,000
   D. $1,000,000

3. **The N.C. Life and Health Guaranty Association applies to which of the following?**
   A. Variable contracts
   B. Policies issued by fraternal benefit societies
   C. Reinsurance contracts
   D. Deferred annuities

4. **A chronically ill person is a person who**
   A. Cannot perform at least two ADLs
   B. Has had an illness for more than 18 months
   C. Is receiving disability payments
   D. Must visit the doctor or approved medical facility at least twice a month

5. **A terminally ill person who sells a life insurance policy for less than the face amount is a**
   A. Viatical settlement provider
   B. Viatical settlement broker
   C. Investor
   D. Viator
## Answers

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