Addendum: for use with Connecticut Life online ExamFX course and study guide version 22002en, per exam content outline updates effective 9/1/2021.

Please note that Connecticut is changing testing providers. Effective 9/1/2021, state insurance exams will be administered by Pearson Vue*. For additional information about exam requirements and complete exam content outlines, please review the Insurance Licensing Candidate Handbook at www.pearsonvue.com/ct/insurance.*

Note that the exam format is changing, as well. The new exam will consist of 2 parts: General Knowledge and State Law. However, you will receive one overall score. The new exam breakdown is as follows:

Connecticut Life Insurance Examination
90 Total Questions (75 scored, 15 pretest)
Time Limit: 2 hours; Passing Score: 70%

Chapter	**Percentage of Exam**
GENERAL KNOWLEDGE:	
Completing the Application, Underwriting, and Delivering the Policy	16%
Types of Life Insurance Policies	16%
Life Policy Provisions, Riders and Options	24%
Taxes, Retirement, and Other Insurance Concepts	11%
STATE LAW:	
State Statutes, Rules, and Regulations Common to All Lines	24%
State Statutes, Rules, and Regulations Pertinent to Life Insurance Only	9%

The following are ***content additions*** *to supplement your existing text:*

Insurance Basics

Consequences of Incomplete Applications

Before a policy is issued, all of the questions on the application must be answered. If the insurer receives an incomplete application, the insurer must **return it to the applicant for completion**. If a policy is issued with questions left unanswered, the contract will be interpreted as if the insurer waived its right to have an answer to the question. The insurer will not have the right to deny coverage based on any information that the unanswered question might have contained.

Third-Party Ownership

Most insurance policies are written where the insured and owner of the policy is the same person. However, there are situations in which the contract may be owned by someone other than the insured. These types of contracts are known as **third-party ownership.** *Third-party owner* is a legal term used to identify an individual or entity that is not an insured under the contract, but that has a legally enforceable right under it. Most policies involving third-party ownership are written in business situations or for minors in which the parent owns the policy.

Reciprocal Exchanges

A **reciprocal** is insurance resulting from an interchange of reciprocal agreements of indemnity among persons known as subscribers, collectively known as a Reciprocal Insurance Company or Exchange. The company is put into effect and administered through an attorney-in-fact common to all persons. Subscribers agree to become liable for their share of losses and expenses incurred among all subscribers, and they authorize the attorney-in-fact to manage and operate the exchange.

Viatical Settlements

Viatical settlements allow someone living with a life-threatening condition to sell their existing life insurance policy and use the proceeds when they are most needed, before their death.

While viatical settlements are not policy options, they are **separate contracts** in which the insured sells the death benefit to a **third party** at a discounted rate. There are several important concepts you need to understand about viaticals:

- The insureds are referred to as **viators**;
- Viatical settlement **provider** means a person, other than a viator, that enters into a viatical settlement contract;
- Viatical **producers** represent the providers;
- Viatical **brokers** represent the insureds.

Viators usually receive **a percentage** of the policy's face value from the person who purchases the policy. The new owner continues to maintain premium payments and will eventually collect the entire death benefit.

Social Security Benefits

Social Security, also referred to as **Old Age Survivors Disability Insurance** — OASDI, is a Federal program enacted in 1935, which is designed to provide protection for eligible workers and their dependents against financial loss due to old age, disability, or death. With a few exceptions, almost all individuals are covered by Social Security. In some aspects, Social Security plays a role of federal life and health insurance, which is important to consider when determining an individual's needs for life insurance.

Social Security uses the Quarter of Coverage (QC) system to determine whether or not an individual is qualified for Social Security benefits. The type and amount of benefits are determined by the amount of **credits** or **QCs** a worker has earned. Anyone working in jobs covered by Social Security or operating his/her own business may earn up to a maximum of 4 credits for each year of work.

The term **fully insured** refers to someone who has earned **40 quarters** of coverage (the equivalent of 10 years of work), and is therefore entitled to receive Social Security retirement, premium-free Medicare Part A, and survivor benefits. If an individual is entitled to premium-free Medicare Part A, they are automatically eligible for Medicare Part B, but must pay a monthly premium.

An individual can attain a **currently insured** status (or partially insured), and by that qualify for certain benefits if he or she has earned **6 credits** (or quarters of coverage) during the 13-quarter period *ending with the quarter in which the insured:*

- Dies;
- Becomes entitled to disability insurance benefits; or
- Becomes entitled to old-age insurance benefits.

For younger workers, the number of quarters required to qualify for the benefits differs by age according to a table established by Social Security.

CONDITIONS FOR PAYMENT	PAID TO	TYPE OF PAYMENT
RETIREMENT BENEFIT:		
Fully insured status and age 66* (or reduced benefits at age 62)	Retired individual and eligible dependents	Monthly benefit equal to the primary insurance amount (PIA)
DISABILITY BENEFIT:		
Fully insured status and total and permanent disability prior to the retirement age	Disabled worker and spouse and eligible dependents	Monthly disability benefit after a 5-month waiting period
SURVIVOR BENEFIT:		
Worker's death	Surviving spouse and dependent children	Lump-sum burial benefit if fully or currently insured Monthly income payments if fully insured

**The current full retirement age is 66, and is gradually increasing to age 67.*

Stranger-Originated Life Insurance (STOLI) and Investor-Originated Life Insurance (IOLI)

Stranger-originated life insurance (STOLI) is a life insurance arrangement in which a person with no relationship to the insured (a "stranger") purchases a life policy on the insured's life with the intent of selling the policy to an investor and profiting financially when the insured dies. In other words, STOLIs are financed and purchased solely with the intent of selling them for life settlements.

STOLIs **violate the principle of insurable interest**, which is in place to ensure that a person purchasing a life insurance policy is actually interested in the longevity rather than the death of the insured. Because of this, insurers take an aggressive legal stance against policies they suspect are involved in STOLI transactions.

Note that lawful life settlement contracts do not constitute STOLIs. Life settlement transactions result from existing life insurance policies; STOLIs are initiated for the purpose of obtaining a policy that would benefit a person who has no insurable interest in the life of the insured at the time of policy origination.

Investor-owned life insurance (IOLI) is another name for a STOLI, where a third-party **investor who has no insurable interest in the insured** initiates a transaction designed to transfer the policy ownership rights to someone with no insurable interest in the insured and who hopes to make a profit upon the death of the insured or annuitant.

USA PATRIOT Act and Anti-Money Laundering

The Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act, also known as the **USA PATRIOT Act** was enacted on October 26, 2001. The purpose of the Act is to address social, economic, and global initiatives to fight and prevent terrorist activities. The Act enabled the Financial Crime Enforcement Network (FinCEN) to require banks, broker-dealers, and other financial institutions to establish new **anti-money laundering (AML)** standards. With new rules in place, FinCEN incorporated the insurance industry into this group.

To secure the goals of the Act, FinCEN has implemented an AML Program that requires the monitoring of all financial transactions and reporting of any suspicious activity to the government, along with prohibiting correspondent accounts with foreign shell banks. A comprehensive customer identification and verification procedure is also to be set in place. The AML program consists of the following minimum requirements:

Assimilate policies, procedures and internal controls based on an in-house risk assessment, including:

- Instituting AML programs similar to banks and securities lenders; and
- File suspicious activity reports (SAR) with Federal authorities;
- Appointing a qualified compliance officer responsible for administering the AML program;
- Continual training for applicable employees, producers and other; and
- Allow for independent testing of the program on a regular basis.

Suspicious Activity Reports (SARs) Rules

Any company that is subject to the AML Program is also subject to SAR rules. SAR rules state that procedures and plans must be in place and designed to identify activity that one would deem suspicious of money laundering, terrorist financing and/or other illegal activities. Deposits, withdrawals, transfers or any other business deals involving $5,000 or more are required to be reported if the financial company or insurer “knows, suspects or has reason to suspect” that the transaction:

- Has no business or lawful purpose;
- Is designed to deliberately misstate other reporting constraints;

- Uses the financial institution or insurer to assist in criminal activity;
- Is obtained using fraudulent funds from illegal activities; or
- Is intended to mask funds from other illegal activities.

Some "red flags" to look for in suspicious activity:

- Customer uses fake ID or changes a transaction after learning that he or she must show ID;
- Two or more customers use similar IDs;
- Customer conducts transactions so that they fall just below amounts that require reporting or recordkeeping;
- Two or more customers seem to be working together to break one transaction into two or more (trying to evade the Bank Secrecy Act (BSA) requirements); or
- Customer uses two or more money service business (MSB) locations or cashiers on the same day to break one transaction into smaller transactions (trying to evade BSA requirements).

Relevant SAR reports must be filed with FinCEN within 30 days of initial discovery. Reporting takes place on FinCEN Form 108.

Life Insurance Policies

A. Term Life Insurance

Renewable and Convertible

Most term insurance policies are renewable, convertible, or renewable and convertible (R&C).

The **renewable** provision allows the policyowner the right to renew the coverage at the expiration date *without evidence of insurability*. The premium for the new term policy will be based on the insured's current age. *For example*, a 10-year term policy that is renewable can be renewed at the end of the 10-year period for a subsequent 10-year period without evidence of insurability. However, the insured will have to pay the premium that is based on his or her attained age. If an individual purchases a 10-year term policy at age 35, he or she will pay a premium based on the age of 45 upon renewing the policy.

The **convertible** provision provides the policyowner with the right to convert the policy to a permanent insurance policy *without evidence of insurability*. The premium will be based on the insured's attained age at the time of conversion.

Return of Premium

Return of premium (ROP) life insurance is an increasing term insurance policy that pays an additional death benefit to the beneficiary equal to the amount of the premiums paid. The return of premium is paid if the death occurs within a specified period of time or if the insured outlives the policy term.

ROP policies are structured to consider the low risk factor of a term policy but at a significant increase in premium cost, sometimes as much as 25% to 50% more.

Traditional term policies offer a low-cost, simple-death benefit for a specified term but have no investment component or cash value. When the term is over, the policy expires and the insured is without coverage. An ROP policy offers the pure protection of a term policy, but if the insured remains healthy and is still alive once the term limit expires, the insurance company guarantees a return of premium. However, since the amount returned equals the amount paid in, the returned premiums are not taxable.

D. Variable Life

Variable universal life insurance is a type of insurance that combines many features of the whole life with the flexible premium of universal life and the investment component of variable life, making it a securities version of the universal life insurance. Variable universal life insurance, like universal life itself, has the following features and characteristics:

- A flexible premium that can be increased, decreased or skipped as long as there is enough value in the policy to fund the death benefit;
- Increasing and decreasing the amount of insurance; and
- Cash withdrawals or policy loans.

Unlike universal life, most of the investment vehicles in variable universal life policies do not guarantee return.

F. Group Life

Contributory vs Noncontributory

The employer or other group sponsor may pay all of the premiums or share premiums with the employees. When an employer pays all of the premiums, the plan is referred to as a **noncontributory plan**. Under a noncontributory plan, an insurer will require that 100% of the eligible employees be included in the plan. When the premiums for group insurance are shared between the employer and employees, the plan is referred to as a **contributory plan**. Under a contributory plan, an insurer will require that 75% of eligible employees be included in the plan.

Life Insurance Policy Provisions, Options and Riders

A. Standard Provisions

Insuring Clause

The insuring clause (or insuring agreement) sets forth the basic agreement between the insurer and the insured. It states the insurer's promise to pay the death benefit upon the insured's death. The insuring clause usually is located on the policy face page, and also defines who the parties to the contract are, how long coverage is in force, and the type of loss insured against.

Consideration

Both parties to a contract must provide some value, or **consideration**, in order for the contract to be valid. The consideration provision states that the consideration (value) offered by the insured is the premium and statements made in the application. The consideration given by the insurer is the promise to pay in accordance with the terms of the contract. The consideration clause is not always a separate provision, but is often included in the entire contract provision. A separate provision concerning the payment of policy premiums is usually also found in the policy.

F. Riders Affecting the Death Benefit Amount

Accidental Death and Dismemberment

The **accidental death and dismemberment rider (AD&D)** pays the **principal** (face amount) for accidental death, and pays a percentage of that amount, or a **capital sum**, for accidental dismemberment. The accidental death portion is the same as that already discussed with the accidental death rider. The dismemberment portion of the rider will usually determine the amount of the benefit according to the severity of the injury. The full principal amount will usually be paid for loss of two hands, two arms, two legs or the loss of vision in both eyes. A capital amount is usually limited to half the face value and is payable in the event of the loss of one hand, arm, leg, or eye. The dismemberment can be defined differently by insurance companies, from the actual severance of the limb to the loss of use.

Federal Tax Considerations for Life Insurance & Annuities

Taxation of Group Life and Employer-Sponsored Plans

The **premiums** that an employer pays for life insurance on an employee, whereby the policy is for the employee's benefit, **are tax deductible to the employer** as a business expense. If the group life policy coverage is $50,000 or less, the employee does not have to report the premium paid by the employer as income (not taxable to the employee).

Any time a business is the named beneficiary of a life insurance policy, or has a beneficial interest in the policy, any premiums that the business pays for such insurance are not tax deductible. Therefore, when a business pays the premiums for any of the following arrangements, the premiums are not deductible:

- Key-employee (key-person) insurance;
- Stock redemption or entity purchase agreement;
- Split-dollar insurance.

The **cash value** of a business owned life insurance policy or an employer provided policy accumulates on a tax-deferred basis and is taxed in the same manner as an individually owned policy.

Policy loans are not taxable to a business. Unlike an individual taxpayer, a corporation may deduct interest on a life insurance policy loan for loans up to $50,000.

Policy death benefits paid under a business owned or an employer provided life insurance policy are received income tax free by the beneficiary (in the same manner as in individually owned policies).

If the general requirements for qualified plans are met, the following tax advantages apply:

- Employer contributions are tax deductible to the employer, and are not taxed as income to the employee;
- The earnings in the plan accumulate tax deferred;
- Lump-sum distributions to employees are eligible for favorable tax treatment.

Insurance Regulation

Broker

A **broker** is an insurance producer that is not appointed by an insurance company and is deemed to be representing the client in matters of insurance.

Transacting Insurance

Transacting insurance is the process of conducting insurance business. An insurance transaction includes the following:

- Solicitation of applications for insurance;
- Collecting premiums, fees, and assessments for insurance contracts;
- Issuing and delivering insurance policies; and
- Directly and indirectly acting as an insurance agent.

Filing and Approval of Policy Forms

The written policy forms, including endorsements, that are to be used by an insurance company must be filed and approved by the Insurance Department prior to their use in the state. The filing may be done on paper or in electronic form, but must be in a format prescribed by the Department.

After a form is accepted for review, the Department of Insurance will approve or disapprove the form within **90 days**. If the Department determines that additional information from the insurer is necessary, they will make a request to the insurer. The insurer, then, has 10 days to provide the requested information.

Disclosure

In most cases, if an insurance producer receives compensation directly from a customer at the initial placement, that compensation cannot be accepted unless the producer has **disclosed** to the customer the amount of compensation the producer will receive. If the amount of compensation is not known at the time of disclosure, the producer must explain the method for calculation such compensation and provide a reasonable estimate.

Return of Premium

Each authorized insurance company is required to report to the Commissioner any failure on the part of the producer to remit premiums for policies issued through the producer **within 30 days**, or any instance where a check issued by a producer is returned for insufficient funds.

If the producer is found guilty of a failure to remit the premiums on issued policies to the insurer, his or her license may be suspended or revoked. The Commissioner will send a notice to the producer to remit the premiums. The following time limits will then apply:

- **15 days** for the producer to pay the funds; otherwise, the producer's license will be automatically suspended;
- **60 days** for the producer to request a hearing – if no hearing is requested and no premiums are remitted, the license will be revoked;
- A hearing must take place **30 days** from the receipt of the written request.

Brokered Transactions Guarantee Fund

The Insurance Department must establish and maintain a **Brokered Transactions Guaranty Fund.** Any resident aggrieved by a business action of a licensed surplus lines broker or an unlicensed person acting as a producer who embezzled money or property, or illegally obtained money or property by reason of fraud, misrepresentation or deceit, may recover, with the Department's approval, compensation in an amount not exceeding a total of $10,000. This excludes failure in the performance of contractual obligations due to the impairment of an insurer.

Unfair and Prohibited Practices

Illegal Inducement

It is unlawful to pay, offer or accept any of the following as an **inducement** to buy insurance:

- Any special favor or advantage in dividends or benefits;
- Any stocks, bonds, securities, or accrued dividends or profits; or
- Anything of value not specified in the insurance contract.

Coercion of Borrower

It is illegal for an insurer or an insurance producer to engage in any activity that will either create for itself a monopoly or will in any way force a person to believe he or she must buy insurance from a particular producer or insurer to comply with a creditor's or lender's insurance requirement.

<u>State Statutes Rules, and Regulations Pertinent to Life Insurance Only</u>

A. Individual Life

Policy Loan Interest Rate

Policies issued on or after October 1, 1981, must provide for loan interest rates as follows:

- A provision permitting a maximum interest rate of **8% annually**; or
- A provision permitting an adjustable maximum interest rate established from time to time by the insurance company as permitted by the Insurance Code.

The rate of interest charged on a policy loan when the rates are established by the company, as permitted, shall not exceed the higher of

- The published monthly average for the calendar month ending two months before the date on which the rate is determined; or
- The rate used to compute the cash surrender values under the policy during the applicable period plus 1% per annum.

The maximum rate for each policy must be determined at regular intervals at least once every 12 months, but not more frequently than once every 3 months.

It is the life insurer's responsibility to notify the policyholder at the time a cash loan is issued or as soon as reasonably possible of the initial rate of interest on the loan, and to provide the policyholder with a reasonably advance notice of any increase in the loan interest rate. Policies cannot terminate in a policy year due to a change in the interest rate only.

Return of Policy and Refund of Premium

All individual life insurance policies must give new owners a minimum of **10 days**, beginning when the policy is delivered to the policyowner, to consider whether to keep the policy. Owners who decide not to keep a policy are entitled to a return of all premiums and fees. Note that Long-term care and Medicare Supplement policies must provide a minimum of **30 days**. This provision must be printed on the cover of the policy.

Designation of Beneficiary

The policyowner may name the beneficiary to a life insurance policy. The policyowner may change the beneficiary designation, unless the beneficiary named is irrevocable.

Unless prohibited by the policy there may be designated, as beneficiary of any policy issued by any life insurance company, the trustee of a trust to be created in and by the last will of the insured or in and by an inter vivos trust. Such designation may direct payment to such trustee as may qualify and be appointed for such trust.

Protection of Beneficiaries from Creditors

The beneficiary of any life insurance policy (whether named as beneficiary in the original policy or subsequently named beneficiary according to the policy terms) must be entitled to the proceeds of the policy as against the representative or creditors of the insured, unless the policy was procured or the designation of a beneficiary was made with intent, express or implied, to defraud creditors.

B. Group Life

Dependent Coverage

Group life insurance policies that insure the lives of eligible members may also provide life insurance coverage for the spouses and dependents of the eligible members.

Upon the death or other life changing events of the member (such as divorce), the covered spouse and covered dependent will have the right to convert their coverage to an individual policy without providing evidence of insurability, subject to the terms of the policy.

Assignment of Proceeds

Persons who are insured under a group life insurance policy may assign whatever rights they have under the contract, including conversion privileges, right to designate the beneficiary, and the right to pay the group premium.