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**Pre-licensing and Ethics Classes and CE Self-Study**

## FOR ALL ILLINOIS INSURANCE LICENSE EXAMS ON OR AFTER 1/116

# LIFE INSURANCE PRE-LICENSING

## PEARSON VUE 2016 CONTENT OUTLINE CHANGES

## PART ONE – GENERAL – 50 TOTAL QUESTION

**NOTE THE FOLLOWING 2016 CHANGES TO THE MATERIALS IN YOUR LIFE BOOK FROM CLASS IN 2015:**

**PAGE 6:**

**I. TYPES OF POLICIES**

**A. Traditional whole life products**

**ELIMINATE:**

3) Adjustable life

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NOTE THE **NUMBER OF QUESTIONS** FROM THE SECTION

**II. POLICY RIDERS, PROVISIONS, OPTIONS, AND EXCLUSIONS**

**DECREASES** BY ONE QUESTION **TO A TOTAL OF 18 QUESTIONS,**

**PAGE 33**

NOTE THE **NUMBER OF QUESTIONS** FROM THE SECTION

**III. COMPLETING THE APPLICATION, UNDERWRITING, AND DELIVERING THE POLICY**

**INCREASES** BY ONE QUESTION **TO A TOTAL OF 12 QUESTIONS,**

**PAGE 39**

5) Stranger Originated Life Insurance (STOLI) and

6) Investor Originated Life Insurance (IOLI)

Have been CONDENSED into one concept on the content outline, as follows:

**5.) Stranger/Investor originated Life Insurance (STOLI/IOLI)** – a **FRAUDULENT practice** in which an insurance producer or investor approaches a potential insured (who is often a wealthy person) and induces the person to apply for large amounts of insurance by telling the insurer that they are purchasing the life insurance for a legitimate purpose when, in fact, they are lying to get the policy issued so that they can later sell it for a profit to the producer or investor who originally approached them to buy the policy.

Often the investor involved pays for the premiums for the first two years with a loan which is forgiven as long as the insured sells the policy back to the investor after two years from the issue date. The main reason why STOLI/IOLI is a **banned, illegal practice** is because it **violates the legal requirement of insurable interest**. The investor (stranger) never had insurable interest when the policy was applied for and incepted. It is a felony in some states.

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The following **NEW SECTION,** "**D) Contract Law**" was **ADDED** to

**III. COMPLETING THE APPLICATION, UNDERWRITING, AND DELIVERING THE POLICY**

## D) Contract Law

**1.) Elements of a Contract –** a contract is a legal agreement and is only enforceable in the legal system by the courts if the following required **FOUR elements** exist:

- **Offer and Acceptance** – An **offer** for a policy is when an insured applies for coverage. **Acceptance** takes place when underwriting has approved and issued the policy, without any changes, and payment has been made by the insured. A **counteroffer** is when a policy has come back from underwriting other than applied for and must be accepted by the applicant.
- **Consideration**- The contractual exchange of value between the parties. Consideration on part of the **insured** is to 1) be truthful in the application process and 2) make complete, timely premium payments if the policy is issued. The **insurer's consideration** is to provide coverage when loss occurs in a prompt fashion and in accordance with the contract.
- **Competent Parties** – To enter into a legal agreement all parties **must be** of legal age, of sound mind, and not be under the influence of drugs and/or alcohol.
- **Legal Purpose** - A contract must have a legal purpose and be in full accordance with any applicable statutes and with **public policy doctrine**. Illegal intentions or purposes cannot be legal, valid contractual agreements (i.e. murder for hire) and are not enforceable.

**4.) Unique Aspects of the Insurance Contract**

**a.) CONDITIONAL** – ***BOTH PARTIES*** must **perform** in the policy. Performance by one party is predicated upon the satisfaction of certain conditions first being met by the other party. **e.g. The insurance company will perform only if the insured has met the condition of premium payment.**

**b.) UNILATERAL** – **ONLY ONE** of the parties to the contract is bound to perform and that party is the insurance company as long as the life contract owner pays the timely premium.

**c.) ADHESION** - The **applicant cannot negotiate** cost or terms (and the agent of the company Is not authorized to make any changes to the written contract whatsoever) but instead is bound to the contract language as written by the carrier. In this **"take it or leave it"** concept of an insurance contract, there is no give and take, therefore any contractual ambiguities (unclear language) are resolved in favor of the insured in a court of law.

**d.) ALEATORY** - means **unequal consideration** through an element of chance that one party may receive more in value than given. **i.e., the premium is much less than the company agrees to pay in the event of loss.**

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**THE FOLLOWING TWO NEW SECTIONS:**

- **B) VIATICAL SETTLEMENTS AND**
- **C) LIFE SETTLEMENTS**

**WERE ADDED TO THE TOPIC OF IV. TAXES, RETIREMENT, AND OTHER INSURANCE CONCEPTS**

## B. Viatical Settlements

A Viatical Settlement is the process of a terminally ill and/or injured insured (known as a **viator**) selling ownership of their life policy to a licensed third party, known as a **Viatical Settlement Provider**. In general, **the viator has less than two years to live** and sells the entire policy or a share of ownership, at a discount to the face amount, in exchange for immediate cash payment to use while they are alive.

**Individual states regulate viatical settlements** as to how agreements are made, what information must be disclosed to the viator, and the licensing requirements for Viatical Settlement Providers. In general, Viatical **Settlements are not considered taxable as benefits,** but it is always best to check with a tax advisor as to the current tax regulations.

## C. Life Settlements

Life Settlements are transactions when an individual, **who is not terminally ill**, sells their policy to a third party. Life insurance is a freely transferable asset under the assignment clause in a life insurance contract and **since the policy was not purchased originally only with intent to sell, is not considered STOLI or IOLI.**

Many life policy owners may initially purchase their policy to protect their lives while raising children and/or paying off their mortgage, however, at some future point, it may not be of benefit for the policyholder to keep their life policy. Common life settlements scenarios include: retirement, sale and/or termination of a business, death of a spouse, loss of a job or divorce. It is common for sellers to be seventy or more years of age.

Upon these types of significant life changes, the policyholder will sell a portion or all of their death benefit for less than the face amount, but receive more than the cash surrender value (CSV). **The purchaser continues to pay the premiums until the insured dies and then collects the proceeds which are taxable.** The sooner the insured dies the more profitable the transaction is to the buyer.

Currently according to IRS Revenue Ruling 2009-13, additional profit up to the cash value amount is considered ordinary income whereas payment that exceeds the cash value is subject to capital gains taxation. **There are still tax issues being discussed by the IRS regarding life settlements** and it is of best interest for the client to seek tax advice from a trusted advisor.

# LIFE INSURANCE PRE-LICENSING

## PEARSON VUE 2016 CONTENT OUTLINE CHANGES

## PART TWO – ILLINOIS LAW – 31 TOTAL QUESTION

**PAGES 59-60**

### 4) License Suspension, Revocation or Denial (Ref. 5/500-70)

**AN ADDITIONAL CAUSE FOR REVOCATION, SUSPENSION OR DENIAL F LICENSE HAS BEEN ADDED TO THE 15 EXISTING CAUSES, AS FOLLOWS:**

**16) Failing to comply with any provision of the Viatical Settlements Act of 2009.**

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## II. ILLINOIS STATUTES AND REQUIREMENTS PERTINENT TO LIFE INSURANCE ONLY: ADDED C. 7) POLICY PROVISIONS

### 7) Policy Provisions (Ref. 215 ILCS 5/224)

This part of the Illinois Code sets forth the requirement of the language and structure of a life contract offered for sale in Illinois. The provisions covered in part one of this book are based on this law which covers the following contract concepts:

▪ Premium payments are payable in advance of coverage,
▪ Grace period (in law note language of **"30 days or one month"** and the **optional charge by the company of 6% interest**),
▪ The entire contract provision, ▪ incontestable clause of 2 years,
▪ War exclusion, misstatement of age,
▪ participating policies must begin to pay surplus out **by the end of the third policy year** offering the various optional ways the owner can choose the method of taking the mutual dividend,
▪ A provision for nonforfeiture benefits and cash surrender values
▪ At least a 20 year table showing all contract values of permanent insurance
▪ a **three year reinstatement clause at 6% interest,** ▪ upon proof and submission of a death claim the **insurer must pay within 60 days** with **interest due from the date of death** at the **rate of 10% per year**
▪ There is a **10 day free look** when an agent was directly involved, there is a **20 day free look when replacement of an existing policy took place** and there is a **30 day free look when the policy was a direct response purchase** (no producer directly involved in the sale).
▪ the **provisions above do not apply to** single premium whole life; dividend requirements do not apply to nonparticipating or term policies; this section does not apply to policies of reinsurance nor to policies issued or granted pursuant to the nonforfeiture provisions.