

2nd Edition

Wisconsin

Life, Accident, and Health

Class Notes



KAPLAN FINANCIAL
EDUCATION

At press time, this edition contains the most complete and accurate information currently available. Owing to the nature of license examinations, however, information may have been added recently to the actual test that does not appear in this edition. Please contact the publisher to verify that you have the most current edition.

This publication is designed to provide accurate and authoritative information in regard to the subject matter covered. It is sold with the understanding that the publisher is not engaged in rendering legal, accounting, or other professional services. If legal advice or other expert assistance is required, the services of a competent professional should be sought.

WISCONSIN LIFE, ACCIDENT, AND HEALTH CLASS NOTES, 2ND
EDITION

©2011 Kaplan, Inc. All rights reserved.

The text of this publication, or any part thereof, may not be reproduced in any manner whatsoever without written permission from the publisher.

If you find imperfections or incorrect information in this product, please visit www.kfeducation.com and submit an errata report.

Published in April 2011 by Kaplan Financial Education.
Printed in the United States of America.

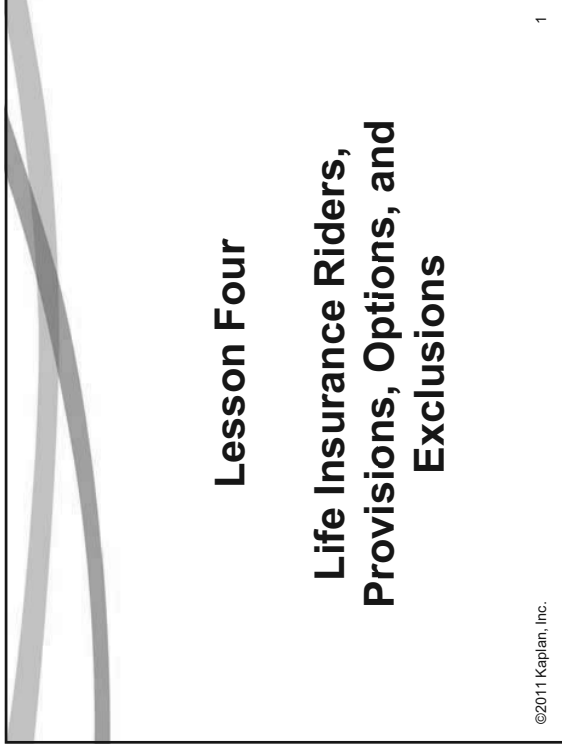
ISBN: 978-1-4277-3400-6 / 1-4277-3400-3

PPN: 3200-1242

Lesson Four

Life Insurance Riders, Provisions, Options, and Exclusions

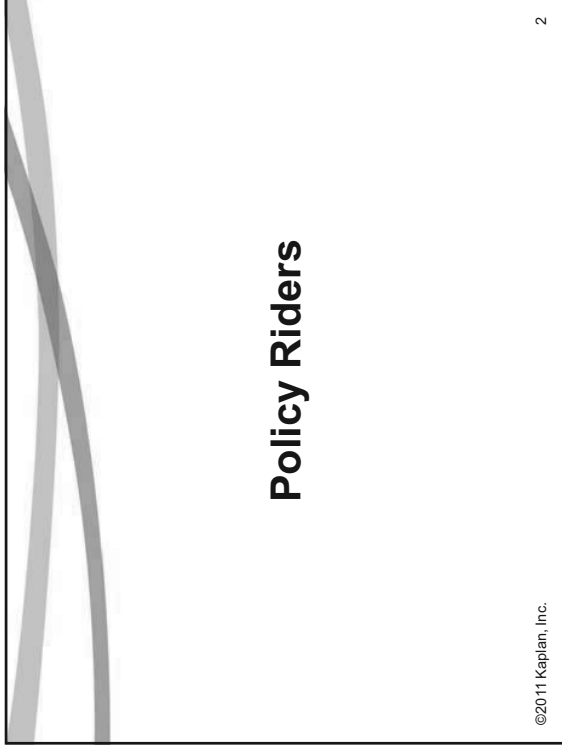




Lesson Four

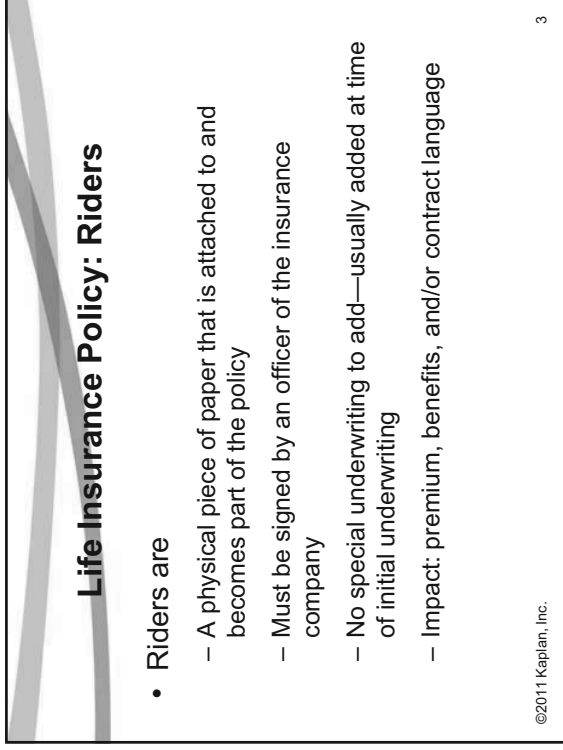
Life Insurance Riders, Provisions, Options, and Exclusions

©2011 Kaplan, Inc. 1



Policy Riders

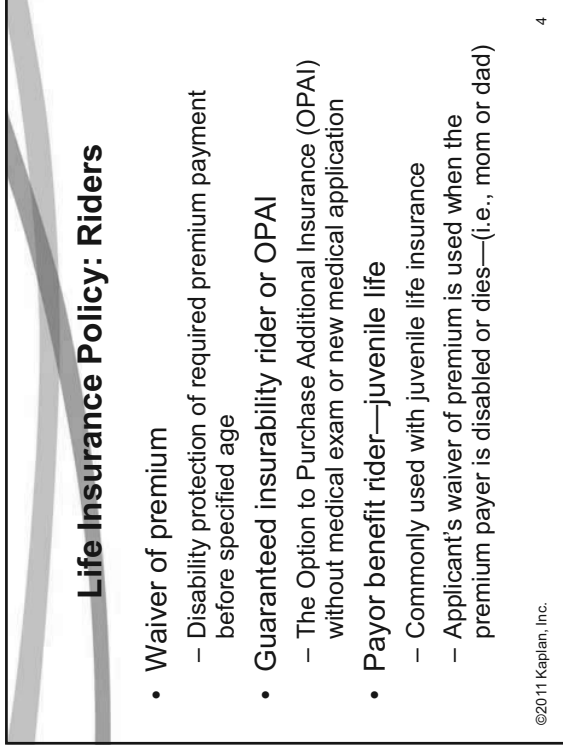
©2011 Kaplan, Inc. 2



Life Insurance Policy: Riders

- Riders are
 - A physical piece of paper that is attached to and becomes part of the policy
 - Must be signed by an officer of the insurance company
 - No special underwriting to add—usually added at time of initial underwriting
 - Impact: premium, benefits, and/or contract language

©2011 Kaplan, Inc. 3



Life Insurance Policy: Riders

- Waiver of premium
 - Disability protection of required premium payment before specified age
- Guaranteed insurability rider or OPAI
 - The Option to Purchase Additional Insurance (OPAI) without medical exam or new medical application
- Payor benefit rider—juvenile life
 - Commonly used with juvenile life insurance
 - Applicant's waiver of premium is used when the premium payer is disabled or dies—(i.e., mom or dad)

©2011 Kaplan, Inc. 4

Life Insurance Policy: Riders

- Accidental death rider/multiple indemnity
 - Double indemnity plan—doubles death benefits
 - The accident must occur before a specified age, usually age 65
 - For the beneficiary to receive this additional benefit, the insured must die within a specified period of time after the accident, usually 90 days

©2011 Kaplan, Inc. 5

Life Insurance Policy: Riders

- Term insurance riders
 - lower cost method of increasing death benefit coverage
 - Insured term riders
- Other-insured
 - Spouse term riders (level or decreasing)
 - Children level term (CLT)

©2011 Kaplan, Inc. 6

Life Insurance Policy: Riders

- Accelerated death benefit—living benefits
 - If the insured is diagnosed with a terminal illness (death is expected to occur within 12 months), the insurer pays a percentage of the death benefit while the insured is still alive
- Return of premium rider
- Cost of living rider—tied to the consumer price index (CPI)

©2011 Kaplan, Inc. 7

Rights to “Ownership” of a Life Insurance Policy

- Name or change the name of the beneficiary
- Cancel the policy
- Take a policy loan
- Decide how dividends are to be received
 - Five options
- Decide how death benefit is paid
- Assignment of the policy
 - Two types

©2011 Kaplan, Inc. 8

Policy Provisions and Options

©2011 Kaplan, Inc. 9

Common/Standard Policy Provisions

- Entire contract
 - “What you see is what you get”
- Insuring provision
 - “Promise to Pay”
- “Free look” provision
 - Begins when policyowner takes possession of the policy, commonly *10 days*

©2011 Kaplan, Inc. 10

Common/Standard Policy Provisions

- Consideration provision
 - “Exchange of value”—must be funded
- Assignment clause
 - Collateral assignment: temporary transfer for loan
 - Absolute assignment: permanent transfer or irrevocable beneficiary

©2011 Kaplan, Inc. 11

Common/Standard Policy Provisions

- Incontestability clause
 - The insurer cannot contest a claim based on misrepresentation or concealment by the policyowner after the policy has been in force for *2 years*
- Misstatement of age or sex provision
 - Not subject to the incontestability provision
 - Overstate age > “Overface”
 - Understate age > “Underface”

©2011 Kaplan, Inc. 12

Common/Standard Policy Provisions

- Grace period
 - Period of time after premium due date that the policyowner has to pay the premium
 - 31 days
- Reinstatement provision
 - Proof of insurability may be requested
- Automatic premium loans (APL)
 - Because “cash value” is required, this feature is not available on term insurance

©2011 Kaplan, Inc.

13

Premium Modes

- Mode of premium payments
 - Premiums and mode of payments, (i.e., monthly, quarterly, semi-annual, annual, or single pay)
 - The less frequently you pay, the lower the overall premium required will be
 - Time value of money principle
 - Single pay (1 time payment only)
 - Annual (1 payment a year)
 - Semi-annual (2 payments a year)
 - Quarterly (4 payments a year)
 - Monthly (12 payments a year)

©2011 Kaplan, Inc.

14

Standard Exclusions

- Suicide: two years
 - Protects insurer against the possibility that an insured may buy insurance and deliberately commit suicide to gain the death benefit for the beneficiary
- Aviation
 - Flight crew, not passengers
- War
- Hazardous occupation and avocation
- Commission of a felony

©2011 Kaplan, Inc.

15

Policy Dividends: Options to Receive

- Cash
- Interest only
- Apply toward premium
- Buy additional amounts of paid-up life insurance
- Buy annually renewable term
- *Must know: dividends are not taxable or guaranteed!*

©2011 Kaplan, Inc.

16

Nonforfeiture Options

- Only on permanent policies
- Cash
- Policy loan
- Reduced paid-up policy
- Extended term

©2011 Kaplan, Inc. 17

Nonforfeiture Table

Table of Guaranteed Values

Year	Cash Value	Reduced Paid-up		Extended Term	Days
		Years	Days		
1	\$0.00	*	0	0	0
2	\$0.00	*	0	0	0
3	365.50	*	1	1	120
4	891.00	*	3	3	67
5	1,616.50	*	4	4	260
6	2,537.50	*	6	6	252
7	3,486.50	*	8	8	128
8	4,464.00	11,450	9	9	265
9	5,471.50	13,950	10	10	320
10	6,511.50	16,350	11	11	304
11	7,584.50	20,650	12	12	217
12	8,690.50	22,550	13	13	68
13	9,832.00	24,400	13	13	230
14	11,008.00	26,100	13	13	345
15	12,219.50	27,650	14	14	59
16	13,258.50	28,700	14	14	32
17	14,316.00	29,600	13	13	349
18	15,393.00	30,450	13	13	283
19	16,489.00	31,150	13	13	188
20	17,607.00	31,800	13	13	94
Age 55	18,747.50	32,400	13	13	340
Age 60	19,932.50	33,650	12	12	340
Age 65	24,341.50	37,650	11	11	285

©2011 Kaplan, Inc. *Not available; benefit, less than \$10,000 18

Life Insurance Beneficiary

- Who or what can be designated a beneficiary?
 - Individuals
 - Businesses
 - Trusts
 - Estate
 - Charities
 - Minors

©2011 Kaplan, Inc. 19

Life Insurance Beneficiary: By Order of Succession

- Primary (first class)
 - First in line to received benefits
- Contingent (second class)
 - Second in line to received benefits—all primary beneficiaries are deceased
- Tertiary (third class)
 - Third in line to received benefits—all primary and secondary are deceased

©2011 Kaplan, Inc. 20

Life Insurance Beneficiary: By Order of Succession

- Per Capita
 - Divided evenly among eligible *named* recipients
- Per Stirpes
 - Divided evenly among each family line of the *nearest generation*

©2011 Kaplan, Inc. 21

Per Capita: Divided Evenly Among Eligible (Living) Named Recipients

Decedent (Don)

Ann 1/3 of estate
Bob 1/3 of estate
Sue 1/3 of estate

Decedent (Don)

Ann 1/2 of estate
Bob 1/2 of estate
~~Sue~~

Don names his 3 surviving children to take equal shares

Sue predeceased her father Don, and Sue is survived by her children Ed and Fran (Don's grandchildren), and they were NOT NAMED—they're out, and Ann and Bob split evenly 50/50

©2011 Kaplan, Inc. 22

Per Stirpes: Divided Evenly Among Each Family Line of the Nearest Generation

Decedent (Don)

Ann 1/3 of estate
Bob 1/3 of estate
Sue 1/3 of estate

Decedent (Don)

Ed 1/6 of estate
Fran 1/6 of estate
~~Sue~~

Don states his surviving children take equal shares

Sue predeceases her father Don, and Sue's two surviving children Ed and Fran (Don's grandchildren) split equally what was their parent's share, even when they are not named; Sue's total share was equal to Ann's and Bob's.

©2011 Kaplan, Inc. 23

Life Insurance Beneficiary

- Changing of beneficiaries
 - Revocable (can be changed)
 - Irrevocable (cannot be changed)
- Special situations
 - Simultaneous death act
 - Common disaster
 - Spend thrift

©2011 Kaplan, Inc. 24

Life Insurance Beneficiary: Settlement Options

- Policy death benefit proceeds
 - Not taxable as income to beneficiary
 - Lump sum
 - Other options of payment to beneficiary
 - Future interest earned under settlement options are taxable to beneficiary's
 - Interest only
 - Fixed amount
 - Fixed period
 - Life income

©2011 Kaplan, Inc.

25

Life Insurance Beneficiary: Claims Process

- Insured's death
- Certified death certificate
- Claim form completion
- Adjustor
 - Check insurable interest
 - Cause of death
 - Check (verify) age
 - Pay named beneficiary

©2011 Kaplan, Inc.

26

Practice Question

Assuming that an owner fails to choose a settlement option, all the following statements regarding life insurance settlement options are correct EXCEPT

- A. the beneficiary may elect to receive the death benefit as a series of equal payments spread out over a specified period of time
- B. the beneficiary may elect to receive the death benefit as a series of equal payments of any amount
- C. the beneficiary may elect to receive the death benefit as a series of equal payments spread out over a lifetime
- D. regardless of the settlement option elected, all money received is free of income taxation

©2011 Kaplan, Inc.

27

Practice Question

An insured has a \$25,000 whole life policy with an accidental death benefit rider. The insured suffered a heart attack while driving to work. How much will the policy pay?

- A. \$25,000
- B. \$50,000
- C. \$75,000
- D. \$0

©2011 Kaplan, Inc.

28

Practice Question

The payor benefit rider determines which of the following?

- A. When the benefits pay out
- B. When the premiums will be waived
- C. How to increase benefits
- D. When the policy ends

©2011 Kaplan, Inc. 29

Practice Question

All of the following are true regarding the waiver of premium EXCEPT

- A. the waiver lasts until the insured is no longer disabled
- B. the insured must be disabled for a certain amount of time before the premiums are waived
- C. premiums must be paid during the disability
- D. the insured retains all rights to the policy while the waiver is in effect

©2011 Kaplan, Inc. 30

Practice Question

For what reason can a company cancel a life insurance policy after 2 years?

- A. Insured's misstatement on the application
- B. Nonpayment of premium
- C. A new medical condition arises
- D. Insurable interest has changed

©2011 Kaplan, Inc. 31

Class Notes

Review Exams



GENERAL LIFE INSURANCE REVIEW EXAM

1. What settlement option would have no residual benefit to the beneficiary after the annuitant dies?
 - A. Fixed period
 - B. Fixed amount
 - C. Interest only
 - D. Life income
2. An insured buys a single pay policy at age 40 and dies at age 85. The premium cost for this policy is
 - A. more than a 5 pay life policy
 - B. more than a straight life policy
 - C. same as a straight life policy
 - D. less than a straight life policy
3. The agent/producer tells an insured that the insured's endowment policy will pay \$20,000, but the face amount is \$10,000. What provision will protect the insurance company against the misstatement?
 - A. Consideration clause
 - B. Insuring clause
 - C. Entire contract clause
 - D. Free look
4. Which of the following policies will provide the lowest amount of protection for the same premium?
 - A. Term life
 - B. Whole life
 - C. Endowment policy
 - D. Variable life
5. Accelerated death benefits are also referred to as
 - A. cash value
 - B. endowment
 - C. living benefit
 - D. policy loan
6. Under the misstatement of age provision, if an insured understates his age, what will the company do?
 - A. Pay the same benefit and charge more premium
 - B. Pay a benefit based on the premium the insured paid at his correct age
 - C. Pay the benefit less any interest
 - D. Pay the face amount since the incontestability clause expired
7. If a policy is overfunded, the IRS will deem this policy to be which of the following?
 - A. Retirement plan
 - B. MEC
 - C. Whole life
 - D. Annuity
8. What dividend option could have a potential tax consequence?
 - A. Accumulate with interest
 - B. Reduce premiums
 - C. Cash
 - D. Paid up insurance
9. Two partners in a business worth \$100,000 purchase a Buy and Sell agreement. Which of the following would most benefit their needs?
 - A. The partnership purchases a \$100,000 policy on each of the partners.
 - B. Each partner purchases a \$100,000 policy on each other.
 - C. Each partner purchases a \$50,000 policy on each other.
 - D. The partnership purchases 6 total policies.
10. What policy protects the business in the event of the death of the Chief Executive Officer?
 - A. Buy and sell
 - B. Deferred compensation plan
 - C. Key employee policy
 - D. Group insurance

20. The proposed insured prepaid on an application, and the policy came back rated. What is the agent's responsibility?
- The agent must collect an additional premium, and an amendment will be made to the policy.
 - The agent must get a Statement of Good Health signed.
 - An amendment is made to the application.
 - The agent must get additional underwriting information.
21. What provision states that the owner is the premium payor, owns the cash value, and can change the beneficiary?
- Nonforfeiture option
 - Settlement option
 - Entire contract clause
 - Owner's rights
22. Which of the following is CORRECT regarding group conversion?
- Evidence of insurability is required.
 - It must be converted to term.
 - Premiums are based on attained age.
 - The death benefit may be increased.
23. What policy has a premium that increases each year for a specified number of years?
- Term
 - Graded premium
 - Traditional whole life
 - Modified premium
24. An insured prepaid an application and waits several months without receiving the policy. The insured contacts the agent, who contacts the insurance company. Once the agent receives the policy and delivers it, what is the agent's responsibility?
- The agent must acquire a Statement of Good Health is required since underwriting took so long.
 - The agent must explain the coverages, riders, options, and exclusions to the insured.
 - The agent must extend the free look period.
 - The agent must take a new application.
25. Regarding Social Security benefits, which of the following is NOT correct?
- If an insured delays payment until after age 65, the payments will be higher.
 - The payments may increase according to the Federal government.
 - Payments will be paid in full when the insured reaches age 65, even if they are not retired.
 - The insured must be "fully insured" to receive full benefits.
26. A joint whole life policy may be written as which of the following?
- Term
 - Decreasing term
 - Traditional whole life
 - Universal life
27. An insured and spouse are in a car accident in which the insured dies. The spouse dies 10 days later. Under the common disaster clause, who will receive the benefit?
- The insured's next of kin
 - The spouse's next of kin
 - The insured's estate
 - The spouse's estate
28. In a family plan policy, which of the following is TRUE regarding the children's benefit?
- Additional children are not automatically covered.
 - The children's coverage is based on their future need as an adult.
 - The breadwinner can adjust the benefits of each child separately.
 - The children's coverage is convertible at age 18.
29. Who must initial changes made on an application?
- The insurance agent
 - The insured or applicant
 - The beneficiary
 - An officer of the insurance company

Glossary

A

absolute assignment Policy assignment under which the assignee (person to whom the policy is assigned) receives full control over the policy and also full rights to its benefits. Generally, when a policy is assigned to secure a debt, the owner retains all rights in the policy in excess of the debt, even though the assignment is absolute in form. (See *assignment*)

accelerated benefits rider A life insurance rider that allows for the early payment of some portion of the policy's face amount should the insured suffer from a terminal illness or injury.

acceptance (See *offer and acceptance*)

accident and health insurance Insurance under which benefits are payable in case of disease, accidental injury or accidental death. Also called health insurance, personal health insurance and sickness and accident insurance.

accidental bodily injury provision Disability income or accident policy provision that requires that the injury be accidental in order for benefits to be payable.

accidental death and dismemberment (AD&D) Insurance providing payment if the insured's death results from an accident or if the insured accidentally severs a limb above the wrist or ankle joints or totally and irreversibly loses his or her eyesight.

accidental death benefit rider A life insurance policy rider providing for payment of an additional benefit when death occurs by accidental means.

accidental dismemberment Often defined as "the severance of limbs at or above the wrists or ankle joints, or the entire irrevocable loss of sight." Loss of use in itself may or not be considered dismemberment.

accidental means provision Unforeseen, unexpected, unintended cause of an accident. Requirement of an accident-based policy that the cause of the mishap must be accidental for any claim to be payable.

accumulation unit Premiums an annuitant pays into a variable annuity are credited as accumulation units. At the end of the accumulation period, accumulation units are converted to annuity units.

acquired immune deficiency syndrome

(AIDS) A life-threatening condition brought on by the human immunodeficiency virus; insurers must adhere to strict underwriting and claims guidelines in regard to AIDS risks and AIDS-related conditions.

acute illness A serious condition, such as pneumonia, from which the body can fully recover with proper medical attention.

adhesion A life insurance policy is a "contract of adhesion" because buyers must "adhere" to the terms of the contract already in existence. They have no opportunity to negotiate terms, rates, values, and so on.

adjustable life insurance Combines features of both term and whole life coverage with the length of coverage and amount of accumulated cash value as the adjustable factors. Premiums may be increased or decreased to fit the specific needs. Such adjustments are not retroactive and apply only to the future.

administrative-services-only (ASO)

plan Arrangement under which an insurance company or an independent organization, for a fee, handles the administration of claims, benefits and other administrative functions for a self-insured group.

admitted insurer An insurance company that has met the legal and financial requirements for operation within a given state.

adult day care Type of care (usually custodial) designed for individuals who require assistance with various activities of daily living, while their primary caregivers are absent. Offered in care centers.

adverse selection Selection "against the company." Tendency of less favorable insurance risks to seek or continue insurance to a greater extent than others. Also, tendency of policyowners to take advantage of favorable options in insurance contracts.

Advertising Code Rules established by the National Association of Insurance Commissioners (NAIC) to regulate insurance advertising.

agency Situation wherein one party (an agent) has the power to act for another (the principal) in dealing with third parties.

Notes