QUICK NOTES™
SUPPLEMENTAL STUDY GUIDE

NEW JERSEY

A REVIEW SUPPLEMENT FOR THE NEW JERSEY LIFE, ACCIDENT & HEALTH STATE LICENSING EXAM

(April 2016 Edition)

What is Insurance Schools' Quick Notes™ Supplemental Study Guide?

Insurance Schools Quick Notes™ Study Guide is a comprehensive study guide that follows the state licensing exam content outline and covers the topics listed on the content outline.

This supplemental study guide is designed to be used as an adjunct learning tool along with our online practice exam simulator and is not a substitute for the required New Jersey prelicensing education course.

Insurance Schools Quick Notes™ Study Guide does not meet the New Jersey prelicensing education course requirement.

Excerpts of New Jersey insurance laws and regulations cited in this study guide have been condensed to emphasize important, testable topics you will see on your state insurance exam.

This study guide should not be used as a substitute for competent legal advice.

LIFE PRODUCER CONTENT OUTLINE

I. TYPES OF POLICIES (9 Items)

1.1 Traditional Whole Life Products

Ordinary (Straight) Life – Ordinary life is referred to as whole life because it is a life insurance product that can provide permanent protection for the whole life of an insured-from the date of issue to the date of death, provided the premiums are paid. The benefit payable, commonly referred to as the death benefit, remains constant throughout the policy's life. Additionally, the premiums remain level throughout the life of the policy as well. There are other features that distinguish ordinary whole life from term life insurance such as cash values and policy maturity at age 100. These two features combine to produce "living benefits" to the policyowner.

Limited-Pay and Single-Premium Life:

- **Limited Payment Whole Life -** This form of whole life insurance is designed to provide level premium payments that are limited to a certain period (less than the life of the insured) of time. This period of duration can be of any length, like 10 years, 20 years, or to a given age like age 60, or age 65, after which time the required premium payments cease, but the policy remains in-force until the death of the insured or his or her age of 100, whichever occurs first. Please take note that the names of the policies denote how long the required premiums will be payable. For example, a 20 payment policy requires premium payments for a period of 20 years; a "life paid-up at age 65" policy requires premium payments to age 65. In either case, if the insured is living when the required premium payments cease, the death protection continues until the insureds death or age 100, whichever occurs first.
- **Single-Premium Whole Life -** This is the most extreme form of limited payment life policies. A single premium whole life policy involves a large one-time-only premium payment at the beginning of the policy period. From that point forward, the policy is completely paid-up

Adjustable Life - Adjustable life is simply a traditional whole life policy with flexibility. If a client decides to buy an adjustable life policy, he will be presented with three choices. He will make decisions on two, which will then automatically determine the third:

- The amount of life insurance protection. The client can choose the amount of life insurance protection he feels is needed.
- The amount of premium the client believes is affordable. Within certain limits, a client can actually set the amount of premium he wants to pay.
- The type of plan (the period of protection and the duration of premium payments). The plan can take the form of just about any of the traditional, ordinary policies. This is a point worth repeating in another way. The type of coverage under an adjustable life policy can take any traditional life insurance form, depending on the decisions made by the insured.

At any time after the policy is in force, the insured can contact the insurance company and request a policy change. Specifically, the policy can be adjusted to:

- Increase or decrease the face amount
- Increase or decrease the premium or the payment period
- Extend or reduce the protection period

1.2 Interest-Sensitive Life Products

Universal Life – Universal Life is a variation of whole life insurance, characterized by considerable flexibility. Universal life allows the policyowner to determine the amount and frequency of premium payments and to adjust the policy death benefit, either up or down to reflect changes in needs. No new policy needs to be issued when changes are desired and made. A universal life policy provides its flexibility by "unbundling" or separating the basic components of a life insurance policy; the insurance (protection) element; the savings (accumulation) element and the expense (loading) element. Obviously, the policyowner pays a premium; however, a mortality charge is deducted from the policy's cash value account for the cost of the insurance protection. This mortality charge may also include an expense, or loading, charge.

Like term insurance premiums, the universal life policy's mortality charge steadily increases with the insureds age. Even though the policyowner may pay a level premium, an increasing share of that premium goes to pay the mortality charge as the insured ages.

As premiums are paid and as cash values accumulate, interest is credited to the policy's cash value. This interest may be either the current interest rate, declared by the insurer, (and dependent on current market conditions) or the guaranteed minimum rate, specified in the contract. As long as the cash value account is sufficient to pay the monthly mortality and expense costs, the policy will continue in force, whether or not the policyowner pays the premium. If the cash value account is not large enough to support the monthly deductions, the policy terminates (lapses). The policyowner obviously may surrender the universal life policy for its entire cash value at any time. Depending on the length of time the policy has been in force, the company will usually assess a surrender charge against the cash value.

Universal life insurance offers two death benefit options. With the first option, usually designated as option A, the policyowner may designate a specified amount of insurance. The death benefit equals the cash values plus the remaining pure insurance (decreasing term plus increasing cash value). If, due to possible rising interest rates, the cash values approach the face amount before the policy matures, an additional amount of insurance called the "corridor," is maintained in addition to the cash values. With option B, the death benefit equals the face amount (pure insurance) plus the cash value (level term plus increasing cash value). To comply with the United States Tax Code's definition of "life insurance," the cash value cannot be disproportionately larger than the term insurance portion.

Variable Whole Life – Variable insurance products do not guarantee contract values and it is the policyholder who assumes the investment risk. These products do offer the potential to realize investment gains that exceed those available with traditional life insurance policies previously discussed. This is done by allowing policyowners to direct the investment of the funds that back their variable contracts through separate account options. By placing their policy values into separate accounts, policyowners can participate directly in the account's investment performance, which will earn a variable (as opposed to fixed) return. Functioning on much the same principle as mutual funds, the return enjoyed-or losses suffered-by policyowners through their investment in separate accounts is directly related to performance of assets underlying the separate accounts. The separate accounts are not insured by the insurer and the returns are not guaranteed. Regarding the insurer, this presents a means of transferring the investment risk from itself to the policyowner.

Due to the transfer of investment risk from the insurer to the policyowner, variable insurance products are considered securities contracts as well as insurance contracts. Therefore, they fall under the regulatory arm of both the State Insurance Departments and the Securities and Exchange Commission (SEC). In order to sell variable products, an individual must hold a life insurance license and a National Association of Securities Dealers (NASD) registered representative's license. In Illinois, agents who have fully satisfied the requirements for a life insurance license, including successful completion of a licensing examination covering variable annuities, are eligible to sell or solicit variable annuity contracts.

By law, a variable insurance sales presentation cannot be conducted unless it is preceded or accompanied by a prospectus, prepared and furnished by the insurance company and reviewed and approved by the SEC. The prospectus contains information about the nature and purpose of the insurance plan, the separate account, and the risk involved. All other materials used in selling and promoting variable insurance products like, direct mail letters, brochures, and advertising pieces must also have prior approval of the SEC.

Variable whole life insurance is permanent life insurance with many of the same characteristics of traditional whole life insurance. The main difference is the manner in which the policy's values are invested.

With variable life insurance policies, the policy values are invested in the insurer's *separate accounts* which house common stock, bonds, money-market and other securities investment options. With the traditional whole life products, the cash values are kept in the insurer's general accounts and invested more conservatively by the insurer to match its contractual guarantees and liabilities. Therefore, those values held in the insurer's separate accounts are invested in riskier, but potentially higher-yielding, assets than those held in the insurer's general account.

Like traditional whole life insurance, variable life insurance requires the payment of set premiums on a scheduled basis, Failure to make these premium payments may result in a policy lapse.

Variable life insurance policyowners can access their policy's cash values through policy loans. The amount of a maximum policy loan is usually limited to 75%-80% of the cash value. The reason for this limitation is to reduce the possibility that falling investment returns will cause an outstanding policy loan that may become greater than the policy's cash value.

Variable Universal Life - This is a product that blends many features of whole life, universal life and variable life. Key among these features is premium flexibility; cash value investment control and death benefit flexibility by the policyowner. Every variable universal life insurance policy is issued with a minimum scheduled premium based on an initial specified death benefit. This initial premium establishes the plan, meets first-year expenses and provides funding to cover the cost of insurance protection. Once this initial premium has been paid, policyowners can pay whatever premium amount they chose, with certain limitations. Provided the cash value is available to cover periodic charges and the cost of insurance, they can suspend or reduce premium payments.

Policyowners wishing to increase death benefits or take advantage of tax-favored accumulation of cash values can pay additional premiums into their plans. Most policies contain maximum limits, and if the increase is above a certain amount, proof of insurability may be required. These maximum limits are imposed to maintain the corridor between cash value and the death benefit. This corridor must exist for the policy to qualify as life insurance and retain its tax-sheltered cash value accumulation status.

Cash value in a VUL plan is maintained separately from the rest of the plan. At the time of application, the policyowner elects to have his or her net premiums and cash values allocated to one or more separate account investment options. These accounts are usually mutual funds created and maintained by the insurance company and other investment companies. These funds are kept in separate accounts and function independently of the insurance company's assets. Earnings or losses accrue directly to the policyowner's cash value, subject to stated charges and management fees. Policyowners can redirect future premiums and switch accounts periodically, generally once a year, without a charge. The result is a life insurance policy that provides policyowners with their own self-directed investment options.

VUL policies generally offer both a level death benefit (until the policy values reaches the corridor level) and potentially higher cash value accumulation. A variable death benefit is also available, which provides a death benefit that fluctuates as the cash values increase or decrease. Cash values may build up within the policy until they reach the corridor, at which time the death benefit will increase to corresponding increases in the cash value.

Under the variable death benefit, the policyowner selects a specified amount of pure insurance coverage that remains constant. The death benefit payable at any time is a combination of the specified (or face) amount, and the cash value within the policy.

Like the traditional universal life policy, VUL policies permit partial withdrawals of cash, without the policyowner incurring any indebtedness. Policyowners, who exercise this option, do not have to repay those withdrawn funds, and no interest is incurred on the amount of monies withdrawn.

Partial withdrawals taken in the early years of the policy's existence may be subject to surrender charges (when the insurer is trying to recover the costs of issuing the policy).

Interest-Sensitive Whole Life - This product is also known as "current-assumption whole life," and is characterized by premiums that vary to reflect the insurer's changing assumptions with regard to its death, investment and expense factors. Interest-sensitive whole life products do provide cash values that may be greater than the guaranteed levels, if the company's underlying death (mortality experience), investment and expense assumptions are more favorable than expected. Favorable assumptions, like those just referenced, provide policyowners with two options: lower premiums or higher cash value accumulation. If the underlying assumptions are less favorable than projected, then the insurer would call for a higher premium than that charged at policy issue. The policyowner then may agree to either pay the increased premium, or chose to reduce the policy's face amount and continue to pay the original premium.

1.3 Term Life Insurance

This form of life insurance is the most basic form of life insurance. Term life insurance is designed to provide a death benefit for a given period of time; 1 year, 5 years, 10 years, 20 years, or to a given age like to age 60, 65, 70, or age 75. Term life insurance is also referenced as "temporary" life insurance because it provides protection for a "temporary term of time;" from the date of issue until either an expiration of a period of time, or to a given age.

Level Term Insurance - This form of life insurance provides a level death benefit for a specified period of time. A "term-to-age-65" policy, as an example, provides a level death benefit and a level premium to the insureds age of 65. If the insured lives to age 65, the policy expires and no death benefit is payable.

Decreasing Term Insurance - This form of term life insurance is characterized by the death benefit decreasing gradually over a given period of time. A 20 Year Decreasing Term Life policy will pay the issued the full death benefit when issued, but that death benefit reduces gradually over the 20-year period to $0 at the end of the term period (20 years). Credit life insurance, sold to cover the outstanding balances on a loan (such as an auto loan), is generally issued as decreasing term life insurance.

Increasing Term Insurance - Features level annual premiums and a death benefit that increase each year over the duration of the policy term. The amount of the increase in the death benefit is usually expressed as a specific amount or a percentage of the original amount. Increasing term insurance is often used by insurers to fund certain riders that provide a refund of premiums or a gradual increase in total coverage, such as the "cost of living" or "return of cash value" riders. The premium for increasing term insurance is less than level term coverage, but higher than decreasing term coverage.

Special Features:

- ***Renewable* -** Right to renew the policy on a renewal date without evidence of insurability to a maximum age established by the insurer. The policy premium usually is increased on the policy's renewal date.
- ***Convertible* -** Right to convert to a permanent policy without evidence of insurability at the insured's attained age or the insured's original age when the policy was first issued.

Note: To help you remember and understand this life insurance product, think of its name. Term life insurance is insuring a life for a defined "term of time." Options included in the product are included in the name of the product. Example: Five-year renewable and convertible term life insurance.

Summary -Term insurance is designed to provide death protection for a definite and limited period of time such as one-year term, five-year term or term to age 65. If the insured dies during the term period, the policy matures and the insurance company pays the face amount of the policy to the named beneficiary. If the insured doesn't die during the term period, the policy expires unless the policy is a renewable policy.

The second important characteristic of term life insurance is that it is pure protection. As long as the insured pays the premium during the policy period the named beneficiary is afforded a death benefit - pure protection.

Since there are no promises of forced savings or cash value attached to a term life insurance contract, it is designed to provide the greatest amount of death protection for the lowest possible cost. Therefore, the two key points to remember about term insurance are that it offers protection only for a specified period of time.

Finally, it is important to remember how a term life insurance contract reaches maturity. Maturity occurs in any life policy when the face amount is paid. Therefore, a term life policy can only mature upon the death of the insured during the policy period. If the insured lives beyond the designated period of coverage, the contract does not mature; it expires. It is at this point that you should remember the first major tax advantage the law gives to life insurance policies. The death benefits are not considered to be taxable income to the beneficiary. This is true not only for term policies but also for the death benefits paid by any life insurance policy.

1.4 Annuities

Annuities are cash contracts with an insurance company. Individuals may purchase or fund annuities with a single sum of money, or through a series of periodic payments. The insurer credits the annuity fund with a certain rate of interest, which is not currently taxable, until distributed to the annuitant (contract owner). The ultimate amount that will be available for payout to the annuitant will be the total accumulation of money in the annuity. With any annuity, there are two distinct time periods: the accumulation period and the payout period a.k.a. the annuity period, when the contract is annuitized. The accumulation period is that time during which money is being paid into the annuity, and interest is being credited to the accumulation of money by the insurer. The payout period (when the annuity is annuitized) refers to the period at which time the annuity ceases to be an accumulation vehicle and begins to generate periodic income to the annuitant on a regular basis. The amount of periodic income received by the annuitant is determined by:

- The contributions paid and/or accumulated,
- The credited rate of interest paid by the insurer,
- The age and sex of the annuitant,
- The income option elected by the annuitant.

A ***single premium annuity*** is purchased by the annuitant making a lump sum payment. This type of payment may be one chosen by a retiree who has a lump sum distribution from a 401(k) plan. The distribution would be used to purchase a single premium annuity.

A ***level premium annuity*** may also be purchased through a series of periodic level premium payments that, over time, creates the annuity principle fund.

A ***flexible premium annuity*** is purchased by premium payments that are flexible, and may be increased or decreased by the annuitant.

The ***immediate annuity*** provides for immediate income payments following a single premium payment. An immediate annuity can only be purchased with a single premium payment.

The ***deferred annuity*** provides for a delayed (or deferred) commencement of income to some future date or age, established by the annuitant. This form of annuity can be purchased either by a single premium payment or flexible premium payments.

A ***fixed annuity*** is a type of annuity that provides a fixed benefit amount to the annuitant, and the interest rate credited to this annuity by the insurer is also fixed, and your life insurance license will permit you to market fixed annuities.

A ***variable annuity*** has no guarantee in the amount of dollar payments to the annuitant because the accumulation account is invested in the stock market, primarily in common stocks. There is a similarity between the variable annuity and the fixed annuity, in that both are designed to pay periodic payments to the annuitant. But that is where the similarity ends. An agent desiring to market variable annuities must hold a life insurance license in addition to a variable license in this State.

An ***equity index annuity*** is a type of fixed annuity that offers the potential for higher credited rates of return than their traditional counterparts but also guarantee the owner's principal. The interest credited to an Equity Indexed Annuity (EIA) is tied to increases in specific equity or stock index, commonly the Standard & Poor's Composite Stock Price Index. Underlying the contract for the duration of its term is a minimum guaranteed interest rate (ordinarily 3 to 4%) so a certain rate of growth is guaranteed. When the increases in the index to which the annuity is linked produce gains that are greater than the minimum rate, that gain becomes the basis for the amount of interest that will be credited to the annuity.

1.5 Combination Plans and Variations

Joint Life Insurance - This policy insures one or more persons on one policy, and each person insured is insured for the same level death benefit. This policy will pay the insured death benefit at the death of the first insured's death. A common policy is issued insuring two lives; however, some companies will issue coverage insuring more than two lives. Under a two-life joint first death policy, the survivor is usually granted a 90-day conversion privilege permitting the survivor to convert to an individual whole life policy at his or her then attained age without submitting any medical evidence of insurability. Another feature usually available is the ability to exchange to separate policies. If a joint policy is used in a business situation and the need for coverage is gone, the insureds may exchange to individual life insurance policies for the same death benefit originally provided under the joint life policy. The premium will be adjusted to reflect the current ages of the insureds, and the exchange is generally made without medical evidence of insurability. Any cash value accumulation in the original joint life policy is refunded to the original owner of the joint life policy.

Survivorship Life insurance - This policy form insures two lives, and pays the policy death benefit when the second of the two insured lives dies (acts as a one life deductible). This policy is very popular among estate planners, and is usually issued on husband/wife combinations. The underwriting is usually very liberal in the sense that it is common to find one of the two lives having a medical issue. In some cases, one of the two lives may be totally uninsurable to qualify for a singular whole life policy, but is insurable under the joint second to die policy.

2.0 POLICY RIDERS, PROVISIONS, OPTIONS AND EXCLUSIONS (21 Items)

2.1 Policy Riders

Waiver of Premium Rider - The waiver of premium rider serves to waive the premium for a policy if the insured becomes totally disabled. By waiving the premiums, the coverage remains in force until the insured is able to return to work. If the insured is never able to return to work, the premiums will continue to be waived by the insurance company, usually to age 65. Most insurers impose a 6-month waiting period from the time of disability until the first premium is waived. If the insured is still disabled after this waiting period, the insurer will refund the premium paid by the insured from the start of the disability. This rider usually expires when the insured reaches age 65. If an insured who is disabled recovers, he/she will not be required to repay the insurer for any premiums that were waived during the disablement. In order for the insured to qualify for this benefit, he or she must meet the policy's definition of total disability. Although this definition will differ from one policy to another, it is generally defined as the inability to engage in any work. No benefits are payable for partial disability. Policy cash values will continue to accumulate at their normal pace during the period of time that premiums are waived. In addition, if the policy is participating, the policyowner will continue to receive dividends as they are declared.

Waiver of Cost of Monthly Deduction Rider - With the Waiver of Cost of Monthly Deduction Rider, if an insured with a Universal Life policy becomes disabled, the monthly cost of insurance will be waived by the insurer while the insured is disabled.

Waiver of Premium with Disability Income Rider - This rider provides a monthly disability income benefit that is usually $10 per $1,000 of the policy death benefit (face amount). As an example, if an insured has a $100,000 life insurance policy with the waiver-of-premium-disability-income-benefit-rider, the insurer would pay $1,000 per month of income to the disabled insured for as long as the disability continues. This rider typically includes the waiver of premium benefit as previously described. NOTE: Insurers have different definitions of disability and benefit periods.

Guaranteed Insurability Rider – This rider allows the insured to purchase additional insurance at specified dates or upon specified events in the future without submitting new proof of insurability. Normally, this option may only be added to policies issued to new insureds under a maximum age, such as age 40. The insured is permitted, at stated option dates or upon specific events (e.g. when he attains ages 25, 30, 35 and 40 or upon marriage or birth of a child), to purchase the additional amounts of insurance specified in the rider. The insured will pay standard rates based on the attained age at the option dates, and will *not* be required to take a physical or otherwise prove insurability.

Payor Benefit Rider – This rider functions much like the waiver of premium rider and provides much the same benefit. The payor benefit rider, however, is issued only in connection with juvenile insurance. If the payor (parent) of the child insured under the policy dies or becomes totally disabled, the premium is waived until the child reaches some predetermined age, such as 18, 21, or 25. At that time, the young adult-insured begins paying the premium without any penalty. In some versions, if the payor dies, the policy becomes fully paid instead of premiums simply being waived.

Accidental Death and/or Accidental Death and Dismemberment Riders

- **Accidental Death Benefit Rider -** This is a life insurance policy rider that provides for the payment of an additional death benefit (usually equal to the policy's face amount) when death occurs by accidental means. The death benefit is only payable if the death occurs within 90 days of the accident and prior to a stipulated age (usually age 70) sited in the policy.
- **Accidental Death and Dismemberment Rider -** This benefit rider provides for an additional death benefit payment if the insured dies from an accident (usually equal to the policy's face amount), or a scheduled reimbursement payment if the insured accidentally severs a limb, or accidentally and totally loses irreversibly, his/her eyesight. The events described generally must occur within 90 days of the accident or prior to the expiration age stipulated in the policy.

Term Riders - When purchasing insurance, buyers may add virtually any form of term insurance to a base whole life policy. The principal advantage to the insured of using a term rider is that the insurer issues the additional insurance on a net cost basis, without some of the fees typical of new issues. Policyowners frequently use such riders when they have a temporary need above their long term base need or when the policyowners cannot afford to pay the premiums for a permanent policy for the full amount of insurance they need, but still wish to assure coverage for the full amount of their need.

Other Insureds Rider - Other insureds riders are commonly attached to life insurance policies to provide coverage for one or more additional people. These term insurance riders can cover a spouse, one or more children, or all family members in addition to the insured policyholder.

Cost of Living (COLI) Rider - This rider provides for increases in the face amount of the policy based upon some cost of living index, such as the Consumer Price Index (CPI).