

CHAPTER 1
INSURANCE BASICS

1. Which of the following situations would create insurable interest?
 1. An employee in an employer
 2. A lender in the life of a borrower
 3. An individual in his or her own life
 4. A homeowner in the life of a next door neighbor
 5. A student on the life of the person providing their financial support

a) 1, 3, 5 b) 1, 4 c) 2, 3, 5, d) 2, 3, 4
2. The purchase of an insurance policy by a consumer is the process of risk:
 - a) Reduction
 - b) Avoidance
 - c) Retention
 - d) Transfer
3. All of the following are true of insurance except:
 - a) It involves a sharing of loss
 - b) It protects against uncertainty
 - c) It eliminates risk
 - d) It reduces anxiety
4. "Facing a personal risk of loss and having a lawful and substantial economic interest in the safety or preservation of the subject of insurance" is the definition of which of the following:
 - a) Offer and acceptance
 - b) Estoppel
 - c) Indemnity
 - d) Insurable interest
5. An example of a morale hazard in relation to a life insurance application would be:
 - a) An individual has an indifferent attitude about participating in activities that may be damaging to his health
 - b) Misstating health history to an insurance company
 - c) A person suffering bouts of severe depression
 - d) The insured is color blind
6. The industry's application of the "law of large numbers" is beneficial to insureds because it enables the insurers to increase the accuracy of their predictions for the loss experience of an individual insured.
 - a) True
 - b) False
7. The professional liability insurance that an agent could purchase is known as Errors and Omissions coverage. Which of the following statements concerning this type of insurance is correct?
 - a) It would have a relatively low deductible of \$100 or \$250
 - b) It would cover the dishonest omission of an agent or broker
 - c) It would cover an agent who created a financial loss by forgetting to renew a policy – a negligent act
 - d) None of these are correct

Chapter Questions

8. There are four core components that are required in all contracts, including insurance policies. Three are: agreement, consideration, and valid legal purpose. Would "competent parties" be the fourth?
 - a) Yes
 - b) No
9. The phrase "utmost good faith" means that both the insured and the insurer are relying upon the fairness and honesty of the representations being received from each other.
 - a) True
 - b) False
10. The concept of "adhesion" refers to:
 - a) An insured being unable to recover more than what was actually lost
 - b) A court making a decision in favor of an insured because there was unclear wording in the policy document
 - c) The insurance company making a one-sided promise that can be enforced in a court of law
 - d) The insured relying upon the information given by the agent

CHAPTER 2 SELLING AND BUYING INSURANCE

1. "Fiduciary Responsibility," as it pertains to an insurance agent, is best defined as:
 - a) Prompt and timely forwarding of premium payments from the insured to the home office
 - b) Prompt and timely handling of a claim form.
 - c) Frequent reviews of an insured's insurance coverage
 - d) Assisting clients in the selection of policies
2. The company in which the policyholders receive dividends when there is a profit is a/an:
 - a) Stock company
 - b) Mutual company
 - c) Service company
 - d) Assessment company
3. The purpose of an insurance company's underwriting department is to:
 - a) Put a limit on the applications submitted by agents
 - b) Assist insureds in selecting correct coverage
 - c) Classify and select risks
 - d) Perform accounting functions
4. Which of the following is associated with the authority of agents:
 - a) Express or actual
 - b) Apparent
 - c) Implied
 - d) All of the above

Chapter Questions

5. In establishing the rates to charge premium payers on life insurance, a company will use:
 - a) Mortality, interest, claims rate
 - b) Morbidity, interest, claims rate
 - c) Mortality, interest, expenses
 - d) Morbidity, interest, expenses
6. Which of the following statements is/are true?
 1. Life insurance can create an immediate estate
 2. Life insurance premiums can be paid in full or on a monthly basis

a) 1 only b) 2 only c) Neither 1 or 2 d) Both 1 and 2
7. Which of the following is/are true statements?
 1. Policy dividends will be larger for a participating policy as compared to a "non-par" policy
 2. Policy dividends are a stockholder's investment return
 3. Policy dividends are considered "return of excess premiums paid"

a) 1 only is true c) 1 and 3 are true
b) 2 and 3 are true d) 1, 2, and 3 are true
8. The Medical Information Bureau is a source of information available to the underwriting departments of insurance companies. Along with other sources of information, it helps insurers in making decisions whether to insure or not.
 - a) True
 - b) False
9. Insurers will not charge more than 25% of the annual premium if the current premiums are now paid quarterly.
 - a) True
 - b) False
10. A type of receipt stating that coverage begins on the date of the application, should the insurer declare the applicant is insurable according to the company's guidelines, is a:
 - a) Temporary insurance agreement
 - b) Conditional receipt
 - c) Binding receipt
 - d) Partial receipt

CHAPTER 3 LIFE INSURANCE POLICIES

1. Which of the following best describes a term insurance policy?
 - a) A death benefit is not payable, but cash value is generated
 - b) A death benefit is payable, but there is no cash value
 - c) Premiums, based on \$1,000 of insurance, are higher overall than other types of policies
 - d) A living insured receives the funds

Chapter Questions

2. If a term policy contains a "convertible" clause in it, it allows the policyholder to convert to permanent insurance from temporary insurance:
 - a) Without evidence of insurability
 - b) With evidence of insurability
 - c) Never
3. Assuming all of the following would have an equivalent face amount, which would have the lowest premium in the first year if the insured were 22 years old?
 - a) Whole life insurance
 - b) An endowment policy
 - c) Five-year term insurance
 - d) Fifteen-year term insurance
4. Which of these categories of insurance combine insurance protection together with cash accumulation?
 - a) Convertible term insurance
 - b) Mortgage protection insurance
 - c) Buy-sell insurance
 - d) Permanent insurance contracts.
5. Which of the following choices relate to whole life insurance?
 - a) Will pay the face amount when the insured reaches 65 and combines nonforfeiture values with protection
 - b) Will pay the face amount when the insured reaches 100 and combines nonforfeiture values with protection
 - c) Will pay the face amount when the insured reaches 100 and does not combine nonforfeiture values with protection
6. How are limited payment whole life policies different from ordinary whole life policies?
 - a) Limited payment policies will have a shortened premium payment period
 - b) Limited payment policies contain a provision that allows them to be in force no more than 10 years
 - c) Limited payment policies will endow and/or end coverage at a specific age, usually at or around 80
7. The type of life insurance policy which will pay the face amount to a beneficiary if the insured dies during the policy's term, or will pay the face amount to the insured who is living at the end of this period of time is a/an:
 - a) Mortgage redemption policy
 - b) Term insurance policy
 - c) Illegal contract
 - d) Endowment policy
8. Which of the items listed can be associated with adjustments made to universal life insurance cash values?
 1. Interest is credited and termed "current"
 2. Both guaranteed and current interest are credited
 3. Excess interest is charged
 4. Premium is charged
 - a) 1, 3, and 4
 - b) 1 and 4
 - c) 1 and 3
 - d) 2, 3, and 4
9. Each of the following statements is correct about universal life insurance, except:
 - a) It is transparent and unbundled, which means that the policyowner can identify how premium funds are allocated
 - b) Neither the death benefit nor premium level is fixed
 - c) There is a tremendous amount of flexibility available to the policyholder
 - d) Just a small minimum premium payment is required each year

Chapter Questions

10. When using the guaranteed insurability rider on a contract an agent can state that the policyowner is allowed to purchase more insurance:
1. Only on dependents
 2. On their own life
 3. Anytime
 4. On certain dates or ages
 5. With insurability requirements
 6. Without insurability requirements
- a) 1, 4, and 6 b) 2, 3, and 5 c) 2, 4, and 6 d) 2, 4, and 5

CHAPTER 4 PROVISIONS AND OPTIONS, BUSINESS INSURANCE

1. The 31 day grace period found in life insurance policies means:
 - a) The policyholder has 31 days to review the policy
 - b) The premium must be paid within the 31 days before the due date
 - c) If the insured dies within 31 days after issue, the claim will not be paid
 - d) None of these are true
2. The insurer cannot void a policy because of concealment, fraud or misrepresentation by the insured after a stated period. What part of a life insurance policy states this?
 - a) Incontestable clause
 - b) Entire contract provision
 - c) Non-forfeiture option
 - d) None of the above
3. An assignment that transfers all "incidents of ownership" to another party is a(n):
 - a) Collateral assignment
 - b) Absolute assignment
 - c) All inclusive assignment
 - d) None of the above
4. A policy names an irrevocable beneficiary. This beneficiary type:
 - a) Is able to disapprove contingent beneficiaries
 - b) Has the same role as a policy co-owner
 - c) Has a "vested" interest in the life contract
 - d) Automatically becomes an owner if they pay the premiums
5. Equally sharing the death benefit among children can be done most effectively by:
 - a) Beneficiaries in succession
 - b) A class beneficiary designation
 - c) Contingent beneficiaries
 - d) Making a child-specific designation

Chapter Questions

6. The survivorship clause is not concerned with the question of medically determining if the insured or primary beneficiary died first.
 - a) True
 - b) False
7. All of the following are examples of policy exclusions, frequently found in life insurance to reduce exposure to higher than average risk, except:
 - a) Suicide
 - b) Aviation
 - c) War
 - d) Incontestability
8. The settlement option stating that the principal will only decrease if the beneficiary makes withdrawals from it is the:
 - a) Fixed period or fixed amount option
 - b) Interest-only option
 - c) Life income option
 - d) None of the above
9. Choose the selection below which is not a common non-forfeiture option:
 - a) Interest only
 - b) Cash surrender value
 - c) Extended term insurance
 - d) Paid-up insurance
10. How can a policyholder's dividend be received?
 - a) Paid in cash
 - b) Draw interest
 - c) Reduce premiums
 - d) All of above

CHAPTER 5 ANNUITIES, TAXATION, RETIREMENT AND SOCIAL INSURANCE

1. Jeffrey is a client of yours who wishes to retire when he is 65. He wants to use his whole life policy to fund his retirement with an income he cannot outlive. If the policy has been in effect for many years what would you suggest he do?
 - a) Purchase an annuity with the cash value
 - b) Select the extended term option
 - c) Use a life income with amount certain
 - d) Choose a pure life income option
2. Of the following, which best describes an annuity?
 - a) It is generally paid out to the annuitant in a lump sum cash payment
 - b) It has an obligation that is different to the insurance company for both the accumulation period and the liquidation period
 - c) Since it can provide monthly income to a beneficiary, it is said to create an immediate estate
 - d) Since it can provide monthly income to an annuitant, it is said to create an immediate estate

Chapter Questions

3. An insurer will pay out an annuity that stipulates monthly annuity payments for life with "10 years certain." How will this be done?
 - a) Only if the insured lives for 120 months
 - b) Until the annuitant dies, after which the named beneficiary receives the income for 10 more years (beneficiary gets no less than 10 years of income)
 - c) Until the annuitant dies, but if the annuitant dies before the 10 years is up, the remainder of the 10 years of payments goes to the beneficiary
 - d) Through the 10 years, then a reduced amount will be paid to the annuitant
4. Bernie's contributory group plan:
 - a) Allows him no insurability requirement, along with lower than individual rate premiums
 - b) Allows him no insurability requirement, and charges higher than individual rate premiums
 - c) States that his family members must prove insurability to be insured under his plan, and he loses coverage if he quits his current position with his employer
 - d) None of the above
5. A variable annuity is considered a good hedge against inflation since the investment within it is normally:
 - a) A "fixed" portfolio of bonds only
 - b) A separate account of common stocks
 - c) A real estate trust
 - d) None of the above
6. Choose the correct statement from the following:
 - a) All entitled employees must be covered in a non-contributory health policy
 - b) Under a contributory group health plan only a small percentage of employees who wish to participate are covered
 - c) Non-contributory group plans have no anti-discrimination requirements
 - d) Contributory group plans require the employee need not pay a portion of the premiums; the full amount is contributed by the employer
7. A probationary period is best described as a:
 - a) Result of criminal acts against an insurer
 - b) A form of waiting period to receive benefits
 - c) Premium payment time limitation
 - d) None of the above
8. From the choices below, select the one which is false about social security (OASDHI):
 - a) Benefits are instituted by federal law, not by a contract
 - b) The benefits received are closely related to the contributions made, actuarially speaking
 - c) It will likely need to be supplemented by the individual participant since it was designed only to provide a minimum floor of income
 - d) It is, for the most part, a compulsory system

Chapter Questions

9. Lawrence is a "fully insured" worker. If he were to die leaving his 40 year old spouse and 12 year old son, would his surviving spouse be entitled to receive monthly benefits for the remainder of her life?
- a) Yes b) No
10. There are four types of benefits given by the Social Security system. Three are: Disability, Medicare and Survivors. What is the missing fourth benefit?
- a) Medi-Cal
b) Workers' Compensation
c) Retirement
d) Medicaid

CHAPTER 6 CALIFORNIA INSURANCE CODE

1. The process whereby an insurer has an agreement with other insurers to share amounts of insurance over established retention limits is known as:
- a) Over insurance
b) Excess insurance
c) Reinsurance
d) Coinsurance
2. Alien insurers are located in another state of the United States.
- a) True b) False
3. Of the choices below, where does most of the regulation take place relative to the insurance industry?
- a) Federal level
b) State level
c) Self-regulatory level
d) None of the above
4. If an insurer is deemed an admitted company in California:
- a) They are approved to sell insurance products in this state
b) They are not allowed to sell here if they are also an alien company
c) It is because they incorporated in California
d) They publicly admit they can't sell here
5. When can a person who is a life-only agent be licensed as a Life Solicitor?
- a) Only if they will be generating new business and not servicing existing accounts
b) Never; Life solicitor licenses do not exist
6. The Life Analyst is allowed to charge a fee for services provided, as long as it is stated in writing, in advance of performing the service. Each of the following must be included in this written agreement, except:
- a) The exact fee to be charged
b) The commission received for the sale of products, if applicable
c) The services which will be performed and provided, but for which no fee will be charged
d) The information being analyzed can be obtained directly from the insurer at no charge

Chapter Questions

7. When can an application for a life-only Agent license be denied without a hearing?
 - a) The applicant has had no prior insurance experience
 - b) The applicant has been charged with a felony
 - c) The applicant has had an application for a license previously denied within 5 years for cause
 - d) All of these are grounds for denial
8. On which of the following dates does the authority given to a licensee from an insurer to transact insurance become effective?
 - a) The date the DOI receives the appointment
 - b) The date the DOI approves the appointment
 - c) The date the insurer signs the Notice of Appointment
9. When does the license of a life-only agent become inactive?
 - a) When the agent is not transacting with the general public
 - b) When the agent is not currently appointed by an insurer, but renewal fees are paid and continuing education requirements have been met
 - c) When the license passes renewal date
 - d) When the appointment agreement time period expires
10. From the choices listed below, choose the one that best describes "insolvency" as it relates to insurance:
 - a) The inability of an insurance firm to write business in a state other than that firm's domicile state because of restrictions placed upon it by the Commissioner
 - b) The inability of the California Insurance Guaranty Association to provide financial backing to a specific insurer as the result of that insurer not paying contributions to the Association
 - c) The denial of a claim payment by an insurer because of fraudulent intent by the insured
 - d) The inability of an insurer to meet financial obligations to policy owners as a result of a deficient amount of paid-in capital

CHAPTER 7 TRANSACTIONING INSURANCE

1. Failure to disclose to another party that which should be known, in order to make a proper decision is known as:
 - a) Parol evidence rule
 - b) Impersonation
 - c) Concealment
2. All of the following are within the Insurance Code definition of "transacting" insurance except:
 - a) Soliciting a contract of insurance
 - b) Negotiating with the client before the sale is made
 - c) Purchasing a lavish vacation with the commission money
 - d) Executing and then servicing a contract of insurance

Chapter Questions

3. Both concealment and representations can be "material" to the risk. How is materiality best defined here?
 - a) It is based on the influence of the facts on the parties in forming an opinion as to the disadvantages of the considered policy
 - b) In life insurance, materiality is only affected by a warranty
 - c) Materiality has no connection with the influence on the parties when they make their decisions to buy insurance
 - d) None of the above
4. Amie forgets about a small health problem she had some years ago. A disability income policy is issued to her. A short time after policy issuance she is in a serious car accident and not able to work for about 1½ months. The insurance company will still pay the loss and not cancel the policy even though the small health problem is discovered just a day after the accident since:
 1. The insurer would only cancel if these concealed facts were "material"
 2. Those concealed facts were unintentional, therefore legal
 3. Canceling the policy would have to be done before the loss occurred

a) 1 and 3 b) 1 only c) 2 and 3 d) None of the above
5. The guaranteed projected investment results that an agent states in a sales presentation for variable life is an example of:
 - a) Policy twisting
 - b) A misrepresentation
 - c) A prospectus disclosure
 - d) Contract defamation
6. Attempting to induce a policyholder to lapse, forfeit, or surrender existing insurance through the use of misleading representations or comparisons of insurers is the definition of:
 - a) Coercion
 - b) Rebating
 - c) Boycotting
 - d) Twisting
7. When the terms of a policy are misrepresented by a producer to a client, that producer has committed a:
 - a) Felony
 - b) Violation of a warranty
 - c) Misdemeanor
 - d) Distortion violation
8. Sunrise Life Insurance Company forms an agreement with Sunset Builders to make a free annuity (with no extra charge) available as an incentive to those who buy homes in Moonlight Retirement Park. The California Insurance Code prohibits this activity.
 - a) True
 - b) False

Chapter Questions

9. If, after a hearing, the Commissioner determines that an agent violated an order of the court that was final and still in effect, the Commissioner may impose a fine of up to _____ if the violation is found to be willful:
- a) \$5,000
 - b) \$10,000
 - c) \$55,000
 - d) \$100,000
10. To which of the following classifications of transactions do the regulations regarding replacement of life insurance and annuity contracts not apply?
- a) Insureds and prospects who want full, fair and unbiased disclosure when replacing existing contracts
 - b) Agents who are recommending replacement of existing insurance policies
 - c) Insurers who suggest that an existing contract should be replaced
 - d) New agents who are contacting the clients of other agents

CHAPTER 8 CLAIMS, SENIORS AND ETHICS

1. The Unfair Claims Practices Act says that any attempt to settle a claim, by an insured, for less than a reasonable person believes they were entitled to according to a written or printed advertising document which accompanies an application, is in fact an unfair and deceptive act.
- a) True b) False
2. All of the following are deceptive acts or practices, or unfair methods of competition except:
- a) An insured submits a claim, but it is not covered by his insurance contract. His agent doesn't take the insured's call but instead sends a letter to him giving the reasons why the claim will not be paid
 - b) An agent tries to sell a prospect on three separate occasions. A second agent is able to sell the same prospect by convincing him to buy a more expensive, but higher coverage policy
 - c) An agent tells an insured to submit a second proof of loss in order to allow more time for a payment to be made on a prior proof of loss that is taking several weeks to be processed
3. Which of the following are in violation of the California Insurance Code provisions regarding an agent's capacity in handling and providing advice to clients on insurance claims?
- 1. Presenting a false claim for the payment of a loss
 - 2. Refusing to submit multiple claims to one or several insurers on the same injury or loss by an insured, even though the insured demands submission of these claims
 - 3. Preparing a false claim for a friend as a favor
- a) 1 and 3 b) 2 and 3 c) 1 and 2 d) All the above

Chapter Questions

4. Admitted life insurers cannot decline an application for life insurance for a reason that doesn't apply to people of every:
1. Sexual preference
 2. Religion
 3. Race
 4. Age
 5. Ancestry
- a) 1 and 4 b) 2, 3, and 5 c) 1, 2, 3, and 5 d) 4 only
5. The insurance code allows insurers to ask questions about the birthplace of applicants if the question is used only to identify the individual, not to discriminate against them.
- a) True
 - b) False
6. Insurance companies are allowed to refuse insurance, charge a higher rate, or limit coverage on a person who has a physical handicap, if these limitations, restrictions, or ratings are based on sound actuarial statistics or are related to reasonable anticipated experience.
- a) True
 - b) False
7. Which of the following is not a contributing factor to an agent acting unethically?
- a) Paying no attention to a recent tax law change affecting their clients
 - b) Selling so little insurance that the office manager threatens to fire the agent
 - c) Keeping the client's best interest foremost in mind
 - d) Fraternizing with a group of agents that blatantly and consistently break code regulation
8. Agents must act on behalf of their clients in the same manner as they would hope to be treated. This is an important part of acting ethically, according to the code.
- a) True
 - b) False
9. Regarding an agent's ethical behavior, which of the following is/are true?
- a) Since agents are always more knowledgeable about insurance than their prospects and clients, "short-cutting" may be tempting
 - b) The pressure to reach sales quotas may lead to unethical behaviors
 - c) Success defined only in terms of money, distorts perspective, and often causes unethical actions
 - d) These are all true
10. Manny is becoming impatient with questions that his prospects ask during his sales presentations. He feels that he can better manage his time by not addressing a question unless it comes up at least twice. After careful thought, most insurance professionals would agree that this is an ethical practice.
- a) True
 - b) False

ANSWERS TO CHAPTER QUIZZES

CHAPTER 1 INSURANCE BASICS

1. (C) Love, blood or business relationships determine insurable interest. An employee can always get another job.
2. (D) Getting someone else to handle the risk (an insurance company) because the risk is too large for the consumer to handle on their own.
3. (C) Insurance manages risk and the costs associated with it. It does not eliminate risk.
4. (D) This is the definition of insurable interest.
5. (A) Morale is associated with an indifference to the outcome of an action. Example: Driving too fast.
6. (B) It is a false statement because predictions cannot be made for an individual, only for a group of exposure units.
7. (C) Errors and Omissions is designed to protect the agent against lawsuits from their honest mistakes and negligent acts they commit.
8. (A) There are four core components that are required in all contracts.
9. (A) If the insurer and the insured are not treating each other honestly or fairly, one of them would have an advantage over the other.
10. (B) Since the insurance company has lawyers that write life insurance contract language, the court will always side with the insured if the language is unclear. They will require the insurance company "stick" or "adhere" to the contract.

CHAPTER 2 SELLING AND BUYING INSURANCE

1. (A) The term is primarily associated with the trustworthiness of the agent handling money.
2. (B) This is one of the characteristics of a mutual company.
3. (C) This is the definition of the purpose of the underwriting department.
4. (D) Once appointed by a company, the agent's written contract will outline what the agent can and can not do. It can't outline every authority the agent has, however, as some are apparent and some are implied.
5. (C) Life insurance premiums are based on mortality, interest and expenses.
6. (D) These are characteristics of life insurance.
7. (C) These are characteristics of participating policies.
8. (A) The MIB's sole purpose is to help underwriting departments assess risks so the company can decide if a policy should be issued or not.
9. (B) People who pay premiums on a mode other than annually will be charged a financing charge.
10. (B) This question is defining conditional receipts. Binding receipts are not issued by Life-Only agents.

Chapter Answers

CHAPTER 3 LIFE INSURANCE POLICIES

1. (B) This is a description of term insurance.
2. (A) The purpose of purchasing a convertible policy is so that it can be converted without evidence of insurability.
3. (C) Of the term insurance choices offered, the one with the shortest premium paying period would be the lowest cost.
4. (D) Permanent insurance builds cash value.
5. (B) These are characteristics of whole life.
6. (A) This is one of the differences between limited payment and whole life.
7. (D) This is the definition of an endowment policy.
8. (B) These are two of the characteristics of a universal life policy.
9. (D) A premium payment may or may not be required each year depending on the performance of the policy.
10. (C) An insured always has an insurable interest in their own life. This rider is insurance to guarantee that the insured can buy more insurance without evidence of insurability.

CHAPTER 4 DUTIES, RIGHTS AND OPTIONS

1. (D) None of the choices describe the grace period.
2. (A) This is the definition of the incontestable clause.
3. (B) The key word in the question is "all" and an absolute assignment assigns all.
4. (C) The purpose of an irrevocable beneficiary is so that no changes can be made to the contract without permission. If they give their permission, it must be in writing.
5. (B) Children are a beneficiary classification. If the insured has 2 children or 12, they will all be treated equally under this designation unless the policyowner requests otherwise.
6. (B) The purpose of this clause is to protect the contingent beneficiaries so it presumes the insured died last.
7. (D) Incontestability is a condition (i.e. a duty or right), not an exclusion.
8. (B) If only the interest is being drawn off, the principal will never decrease.
9. (A) Choice (a) is a settlement option.
10. (D) These are ways the policyholder can receive dividends.

CHAPTER 5 BUSINESS PLANS, ANNUITIES AND TAXATION

1. (A) This choice will allow Jeffrey to convert his cash value into an income that he cannot outlive. This is the only way for the *insured* to receive a lifetime income from a Whole Life policy.
2. (B) The name, variable annuities, describes the nature of this type of annuity. The interest rates produced by the investment are variable.
3. (C) This is the definition of how a life income with a 10 year period certain works.
4. (A) Generally, group plans do not require anyone on the plan to prove insurability (employee or family members) and group rates are typically lower than individual rates.

Chapter Answers

5. (B) Common stocks are generally used to hedge against inflation.
6. (A) Non-contributory plans require 100% participation by eligible members.
7. (B) This is the definition of probationary period.
8. (B) Actuarially speaking, there is no relationship between the amount of money one contributes and the benefits received.
9. (B) The spouse would only receive benefits for a limited period of time, not the rest of her life.
10. (C) Retirement is the fourth part.

CHAPTER 6 CALIFORNIA INSURANCE CODE

1. (C) Every company has a retention limit established for it.
2. (B) Alien insurers are ones located outside of the US.
3. (B) Insurance is primarily regulated by states.
4. (A) This is the definition of an admitted company.
5. (B) The word solicitor is only used with property and casualty.
6. (C) It would be impossible to list all the services that could be provided that would not be charged for.
7. (C) This is one of the provisions of the law.
8. (C) The insurer gives the appointee authority to act on its behalf. The Department of Insurance has nothing to do with this transaction.
9. (B) This list is what an agent must do to make their license inactive.
10. (D) A deficient amount of paid-in capital is another way of saying that the insurance company does not have enough money to function as a business.

CHAPTER 7 TRANSACTIONING INSURANCE

1. (C) This is the definition of concealment.
2. (C) Once an agent has earned their commission they can spend it any way they want.
3. (A) This is the definition.
4. (B) The key phrase in this question is "small health problem" which should be interpreted to mean not material.
5. (B) Variable life projections have no guaranteed investment results.
6. (D) This is the definition of twisting.
7. (C) Under California insurance laws, most offences are misdemeanors.
8. (A) Generally, there is no free insurance.
9. (C) The fine is large because the Commissioner wants the agent to know to quit doing whatever they did.
10. (D) This is called competition and it is not illegal.

CHAPTER 8
CLAIMS, SENIORS AND ETHICS

1. (A) This is one of the specific provisions of the Unfair Practices Act.
2. (B) The example is not an unfair act. This is competition.
3. (A) Lying in these cases are criminal offenses. A false claim is a lie.
4. (C) Age is not an unfairly discriminatory factor but the others are.
5. (A) There are probably thousands men named Bob Johnson in the world. Birthplace would help to distinguish one from the other.
6. (A) If insurance companies were required to provide coverage for the sickest of individuals, they face an increased risk of insolvency.
7. (A) The State protects the consumer in all circumstances. The agent must act ethically.
8. (A) Keeping the client's interest in mind is the ethical thing to do.
9. (D) All of the statements presented are true.
10. (B) Manny's job as an agent is to answer the prospects questions no matter how long it takes.

PRACTICE EXAM 1

1. How would a "pure" risk best be described?
 - a) Winning at the poker tables in Las Vegas
 - b) Experiencing a loss in the stock market
 - c) Losing some pay from work because of an injury
 - d) The fluctuations of international currency
2. Insurable interest in a life insurance policy:
 - a) Does not need to exist at the time of loss, only at the time the policy is written
 - b) Must exist only at the time of a loss
 - c) Throughout the entire life of the policy
3. The Maple Insurance Company has only the Milehigh Manufacturing account for disability income insurance for all of Milehigh's employees. A high concentration of these insureds is in one location. Oak Grove Insurance Company previously had the account along with many other large manufacturing companies around the country. Choose from below the correct statement(s) regarding the "law of large numbers" as it relates to these two insurers:
 1. Oak Grove can use the law of large numbers better than Maple
 2. Catastrophic loss exposure was the same for both insurers
 3. The more employees are insured, the better a company can predict the injury of any one employee

a) 1 and 3 b) 2 and 3 c) 1 only d) All of the above
4. Non-participating policies:
 - a) Use their dividends for purchasing other products
 - b) Can not be whole life insurance
 - c) Are tied to the Consumer Price Index
 - d) Will not pay a dividend
5. Raymond, an agent who represents the Sterling Insurance Company advertises in the yellow pages:

STERLING INSURANCE CO.
Raymond Insurance Agency

Raymond no longer has a contract to sell for Sterling but since Sterling has such a good name he decides to let the ad run again. This would be considered:

 - a) Creative marketing, and an encouraged practice
 - b) Twisting
 - c) Express authority
 - d) Apparent authority
6. Insurance firms and their agents have to identify questions that are asked of the applicants for insurance that are (partly) used for marketing research as long as they are specified for underwriting purposes. This is per the California Insurance Code.
 - a) True
 - b) False

Practice Exam 1

7. If a court were to decide your insurance policy was written in an ambiguous or unclear fashion the special characteristic of an insurance policy that will prompt the court to rule in your favor is:
- a) Adhesion
 - b) Unilateral
 - c) Negligence
 - d) Aleatory
8. Among other powers, the California Insurance Commissioner has the responsibility and authority to redraft parts of the Code whenever he/she sees fit.
- a) True
 - b) False
9. Which of the following is correct about a representation provided by either the insurance company or applicant in negotiations for an insurance policy?
- 1. Could not be a misrepresentation if it was provided orally and not written
 - 2. May be altered
 - 3. May be withdrawn
 - 4. Only the insurer is allowed to rescind if a representation involves a material point
- a) 1, 2, and 3 b) 1 and 4 c) 2 and 3 d) none of the above
10. As defined by the Insurance Code, "transacting" insurance means:
- a) The negotiations leading up to the final execution of a policy
 - b) Taking your family on a Hawaiian vacation paid for by the commissions earned on a large life insurance sale
 - c) Both of the above
11. In order to obtain the license of a life and disability insurance analyst, an individual is required to have a good business and general reputation, a thorough knowledge of life, health, and disability insurances, and must be a fit and proper person.
- a) True
 - b) False
12. When can an application for a life-only agents license be denied without a hearing?
- a) The applicant has had no prior insurance experience
 - b) The applicant has been charged with a felony
 - c) The applicant has had an application for a license denied previously within the past 5 years for cause
 - d) All of these are grounds for denial without hearing
13. When does the license of a life-only agent become inactive?
- a) When the agent is not transacting with the general public
 - b) When the agent is not currently appointed by an insurer, but renewal fees are paid and continuing education requirements have been met
 - c) When the license passes its renewal date
 - d) When the appointment agreement time period expires

14. Any agency name used by life producers who have earned the CLU designation are automatically approved by the Department in recognition of this special title.
- a) True
 - b) False
15. Life insurers are required to maintain records on policies they have sold. How long from the date of delivery must these records be kept?
- a) 6 months
 - b) 1 year
 - c) 3 years
 - d) 5 years
16. A licensed life-only agent tells a prospect he is guaranteed the amount he will get in dividends. Being convicted of this misdemeanor could result in going to jail for 30 days.
- a) True
 - b) False
17. The Unfair Practices Act allows:
- a) Associations to recommend to their members to not sell products for companies that may sell insurance direct to the public
 - b) Tell people who have filed claims not to engage attorneys
 - c) Having different life policy and annuity premiums for men and women based on gender specific mortality table information
 - d) All the above
18. Which of the following is/are true?
- a) Staying educated on insurance issues can help one act more ethically
 - b) Increased sales volume does not necessarily mean an agent is acting more ethically
 - c) Both the above are correct
 - d) Neither of the above is correct
19. Insurers are not allowed to refuse insurance, charge a higher rate, or limit coverage on a person who has a physical handicap if these limitations, restrictions, or ratings are based on sound actuarial statistics or are related to reasonable anticipated experience.
- a) True
 - b) False
20. Select from below the potential costs related with a person's death:
- a) Paying off a new car
 - b) Medical payments
 - c) Both of the above
 - d) Neither of the above
21. Choose the correct statement:
- a) Death occurring without a will is called dying interstate
 - b) Annuities create an immediate estate
 - c) Life insurance creates an immediate estate
 - d) All of the above are incorrect

22. There are many unique features in life policies written for groups. They typically don't require evidence of insurability, don't focus on individual selection, and spread their risk among a large number of people, thus avoiding adverse selection. Since the groups can be quite large, does the insurer become too busy processing applications to do a good job of underwriting?
- a) Yes
 - b) No
23. From the choices below select the one which is false about Social Security (OASDHI):
- a) The program is considered "fully funded"
 - b) The benefits received are not closely related to the contributions made, actuarially speaking
 - c) It will likely need to be supplemented by the individual participant since it was designed only to provide a minimum floor of income
 - d) It is, for the most part, a compulsory system
24. An "exclusion ratio" applies to payouts of annuities. An annuity purchaser who contributes \$100,000 of premium after tax, is expected to live for 10 years and will receive 20,000 per year for a total of \$200,000. In each of the first 10 years his taxable amount will be:
- a) \$10,000
 - b) \$20,000
 - c) \$0
25. How do tax laws treat the premature distribution of Modified Endowment Contracts?
- a) Like IRA accounts
 - b) Like a regular life insurance policy
 - c) Tax laws do not affect MECs
26. Applicant forms used for life insurance:
- a) Express facts about the person applying.
 - b) Are required to be submitted to begin the process of acquiring the life plan.
 - c) Represent a request to an insurer to provide an insurance contract based on the information contained in the application
 - d) All the above are correct
27. Which of the following are elements of "non-medical" applications?
- 1. No medical exam is needed regardless of the insurer's underwriting standards
 - 2. Answers to application questions could trigger a requirement to have a physical exam performed
 - 3. A medical exam may not be needed
- a) 1 & 2
 - b) 2 & 3
 - c) 1 & 3
 - d) all are correct
28. Which of the below often acts as a "field underwriter?"
- a) The claims department
 - b) A person being interviewed by the insurance company for a large policy application
 - c) The agent

29. A schedule illustrating the probabilities of death each year for life insurance is called:
- a) A morbidity table
 - b) An annuity table
 - c) A premium table
 - d) A mortality table
30. John pays the premium for a \$200,000 life insurance policy, and is issued a binding receipt. John dies in an accident the next day. In the course of underwriting, the company determines John was not insurable by their guidelines at the time the binding receipt was issued. What must the insurer do?
- a) Nothing, they are not liable to pay the death benefit
 - b) Pay a percentage prescribed by the California Insurance Code
 - c) Return only the initial premium
 - d) Pay the claim in full
31. The replacement of life insurance and annuity contracts require which of the following:
- a) A statement to the effect that the policy being applied for is replacing a prior one
 - b) That laws apply alike for group or individual plans
 - c) A disclosure by the applicant that they own other policies
 - d) All the above
32. The professional liability insurance that an agent should purchase is known as Errors and Omissions coverage. Which of the following statements concerning this type of insurance is correct?
- a) It would have a relatively low deductible of \$100 or \$250
 - b) It would cover the dishonest omission of an agent or broker
 - c) It would cover an agent who created a financial loss by forgetting to renew a policy - a negligent act
 - d) None of the above
33. If Bill were to expose the insurer to an increased risk on his life insurance policy because he has taken up sky diving, can the policy be non-renewed for cause or the premiums raised?
- a) Yes, if it is a non-renewable contract
 - b) No, only renewable contracts can be issued
 - c) No, renewable and non-renewable apply only to health insurance
34. Clark, a 25-year-old, would like to buy \$50,000 of life insurance protection. He wants to select the policy with the lowest premium among the following plans. What would you suggest he buy?
- a) A 20-pay life policy
 - b) A life paid-up age 65 policy
 - c) An endowment age 65 policy
35. A policy is issued to a 32 year old that has a face amount of \$100,000. When the insured reaches the age of 55, the policy has built up \$100,000 of cash value. Choose from the selections below the type of policy this most likely describes:
- a) A 20-pay life insurance policy
 - b) A life paid-up at age 55 policy
 - c) A term to age 55 policy
 - d) An endowment at age 55 policy

36. A policy that makes funds available to pay off a mortgage, and is structured so that the face amount follows the debt amount closely, is often called a decreasing term policy.
- a) True
 - b) False
37. Universal life insurance contains which of the features listed below:
- 1. Flexible premium
 - 2. Fixed premium
 - 3. Fixed rate of interest
 - 4. Current rate of interest
- a) 1 & 4 b) 2 & 3 c) all the above d) none of the above
38. Select the incorrect choice regarding variable life contracts:
- a) They always offset inflation
 - b) The value of the investment with the policy could conceivably fall to zero
 - c) They often contain mutual funds as their investment
39. When using the guaranteed insurability rider on a contract, an agent can state that the policyowner is allowed to purchase more insurance:
- 1. Only on dependents
 - 2. On their own life
 - 3. Anytime in the future
 - 4. On certain dates or ages
 - 5. With insurability requirements
 - 6. Without insurability requirements
- a) 1, 4, & 6 b) 2, 3, and 5 c) 2, 4, and 6 d) 2, 4, and 5
40. Under certain conditions, a life insurance policy owner may reinstate a lapsed policy. These conditions:
- a) Require that reinstatement can only be done within a grace period
 - b) Are found in the reinstatement provision of the policy
 - c) Say you can reinstate if past due premiums are paid back with interest within 5 years
 - d) Are not normally a part of a policy, they must be requested
41. The "entire contract" clause of life insurance policies states that the use of evidence is limited to the contract and the attached application in determining the policy's validity.
- a) True
 - b) False
42. The Free Look provision of life insurance issued in California states that certain conditions exist in order for a policy to be delivered to the insured properly. Which of the following is not correct in determining good delivery?
- a) The policy was mailed with a signed delivery receipt
 - b) The policy was mailed certified
 - c) The policy was hand delivered personally, no receipt of delivery needed
 - d) None of the above

43. The insured cannot borrow against the loan value of the policy without the permission and consent of which of the following?
- a) Revocable beneficiary
 - b) Irrevocable beneficiary
 - c) It doesn't matter what kind of beneficiary is designated. As long as there is enough cash value, the insured can borrow funds without permission from anyone
44. The Uniform Simultaneous Death Act (survivorship or time clause) was created to address situations in which the beneficiary survives the insured. Which of the following is false?
- a) It is a time period after the death of the insured as stated in the policy. The time is always very short
 - b) It is also known as the common disaster clause
 - c) The act assumes a certain order of death occurs in determining who gets paid the face amount
45. If the insured of a life insurance policy does not select a settlement option on behalf of the beneficiary, the beneficiary:
- a) Must take a lump sum payment
 - b) Can choose a settlement since it was not chosen by the insured
 - c) Now becomes the new owner and will make premium payments to build tax deferred cash value
 - d) None of the above
46. What recommendation would you give to a client who wants to receive the highest monthly income from a whole life policy purchased many years ago (this client needs an income that cannot be outlived and will not fluctuate monthly)?
- a) Take all the cash value and buy a good variable annuity
 - b) Get a life income with period certain option
 - c) Get a fixed period option
 - d) None of the above, there is nothing that can accomplish the request
47. Identify how the cash surrender value of a policy can be used:
- a) Buy paid-up insurance in a reduced amount
 - b) Buy extended term insurance for a full face amount
 - c) Receive cash
 - d) All the above are true
48. Utilizing the "extended term option" means taking the cash value and using it as a single premium payment to buy a paid up policy with the same face amount for a specified length of time.
- a) True
 - b) False
49. A participating policy gives the policy owner the right to receive dividends. These dividends are not guaranteed.
- a) True
 - b) False

Practice Exam 1

50. There is a financial product that was created to address the risk of a person outliving their life savings. What is this product called?
- a) Bank certificates
 - b) Mutual funds
 - c) Annuities
 - d) The retirement benefits of Social Security
51. Connie owns a single premium immediate annuity. Select the answer which is most correct as to how payments will be made to her.
- a) Immediately after the first year has elapsed
 - b) Immediately following the first premium
52. Which of the products listed below contain an appealing feature of tax deferral?
- a) Annuities
 - b) Individual retirement accounts (IRA's)
 - c) Both A and B
 - d) Neither A nor B
53. Select the correct statement concerning qualified retirement plans.
- a) Any money that a company contributes is not tax deductible for them
 - b) These plans have qualified for a high investment ranking that is much sought after
 - c) Income taxes are deferred until a later date when the income is received by the plan participant
 - d) Even at distribution, no income tax is paid because the company has paid it
54. Of the following, which are true statements?
- 1. Profit sharing programs are a type of defined benefit plan
 - 2. A tax deduction is granted to all contributions to an Individual Retirement Account
 - 3. Any employee contribution to a 401(k) program is 100% vested
 - 4. Self-employed persons can plan for retirement by using a Keogh plan
- a) 1 & 2 b) 1, 2 & 3 c) 3 & 4 d) 2, 3, & 4
55. Marge participates in an ESOP at her work. All of the following are correct about Marge's ESOP, except:
- a) There are no tax deduction incentives for the company on an ESOP
 - b) It is a qualified employee benefit plan
 - c) Marge actually has partial ownership of the company through stock
56. Which of the following is false regarding retirement plans?
- a) TSA stands for Tax Sheltered Account
 - b) 401(k) plans reduce salary to contribute money to the plan
 - c) An annuity is a qualified plan per the IRS rules
57. What is required of the insured to attain group insurance coverage and not have to provide "evidence of insurability?"
- a) Enrollment must occur during an eligibility period
 - b) Nothing at all
 - c) An attending physician's statement (APS) is needed with the application

58. Which of the following is a true statement?
- a) The "free look" clause gives an applicant enough time (30 days) to review proposed endorsements and any sales literature before applying for insurance
 - b) The "free look" clause provides that an insurer has the authorization to get an inspection report and physical exam within 15 days on the proposed insured prior to insuring
 - c) The "free look" clause allows the insured to review the contract for a number of days (10 days). If they so desire, they may return it and receive a full refund of premiums paid
 - d) The "free look" clause only lets the applicant look over the application for 10 days before filling it out
59. Industrial life insurance, used in the early years of the insurance business, has what characteristics:
- a) Premiums are paid each year
 - b) Face values are more than \$1,000
 - c) The policies are written for people in industrial plants only
 - d) Premiums are submitted every week
60. Life insurance has become unimportant in the process of financial planning since the introduction of long term care policies:
- a) True
 - b) False
61. Insurance companies have an obligation to pay death benefits to:
- a) The owner upon the death of the insured
 - b) The owner upon the death of the beneficiary
 - c) The beneficiary upon the death of the insured
62. An employee's dependent who is 23, and in school full time, is always entitled to be covered under group insurance:
- a) True
 - b) False
63. If an applicant submits to a blood test, and the test verifies the applicant has AIDS, the insurance company cannot share this information with the applicant's doctor.
- a) True
 - b) False
64. Group insurance law stipulates that an incontestability period be provided to the applicant. The time period is:
- a) 2 years
 - b) 1 year
 - c) 6 months
 - d) There is no incontestability period in force in California
65. Certificates of insurance are issued to employees covered under group plans. These certificates may not contain which of the following?
- a) The premium
 - b) The conversion clause
 - c) The person who would receive benefits

66. Domestic life insurance companies can invest in all the following, except:
- a) Bank CDs
 - b) Junk bonds of small European countries
 - c) Mutual funds
 - d) Real estate investments
67. Death benefits paid are subject to special income tax treatment. Generally these death benefits are:
- a) Taxed more than regular income
 - b) Taxed less than regular income (or not at all)
 - c) Tax-deferred
 - d) None of the above
68. When must a policyowner have an insurable interest in the life of an insured?
- a) For the whole length of time the policy is in force
 - b) When the loss occurs
 - c) When the policy becomes effective
 - d) (b) and (c) above
69. In regards to representations, which of the following is correct?
- a) Representations can only be in writing
 - b) Representations are guaranteed to be true
 - c) Representations are statements made to the best of one's knowledge
 - d) All are true
70. Which of the following is false?
- a) Life insurance creates an immediate estate, annuities do not
 - b) Annuities create an immediate estate, life insurance does not
71. Choose the correct statement about getting insurance through "non-admitted" carriers:
- a) The Department does not regulate these insurers
 - b) The Department allows a life-only agent the same freedom to market non-admitted business as admitted business
 - c) The Department does not allow a life-only agent the same freedom to market non-admitted business as admitted business
72. The main purpose of an Insurance Guarantee Association is to protect the public against:
- a) Discrimination
 - b) High premium rates
 - c) Loss as the result of insurer insolvency
 - d) False claims practices
73. For life insurance, the Guarantee Association will pay no more than \$250,000 per person.
- a) True
 - b) False

74. Choose from the list below those which are designated "classes" of insurance, according to the code:

1. Liability
2. Workers' Compensation
3. Annuities
4. Marine

a) 2 and 3 b) 1, 2, and 3 c) 1, 2, and 4 d) All the above

75. An insurance solicitor is a natural person hired to assist an insurance broker in transacting insurance other than life insurance.

- a) True
- b) False

ANSWERS TO PRACTICE EXAM QUESTIONS

PRACTICE EXAM 1 ANSWERS

1. (C) There is no possibility of financial gain by being injured. That is the definition of a pure risk.
2. (A) This is one of the principles of insurable risk.
3. (C) Oak Grove has a larger more diverse group and that allows the law of large numbers to operate more effectively.
4. (D) This is the definition of a non-participating policy.
5. (D) Because Raymond's name is still associated with Sterling's name, most people would assume that he has the authority to do business for Sterling.
6. (A) The client must always be informed about the kind of information and the purpose of getting the information.
7. (A) This is the definition.
8. (B) The Commissioner has many responsibilities and duties but this is not one of them.
9. (C) During the process of getting the insurance policy, either of these two things can be done by either party.
10. (A) Transacting Insurance = **Negotiation, Execution, Transaction, Solicitation.**
11. (A) This is the definition.
12. (C) (b) is incorrect because the person has not been *convicted* of a felony.
13. (B) This is the definition of an inactive agent.
14. (B) Producers can use the CLU after their name but it does not allow them any special privileges. Also, names are never *automatically* approved.
15. (D) Statement of fact.
16. (A) The agent is in trouble because he/she guaranteed something (dividends) which can not be guaranteed.
17. (C) Charging men and women different premiums is perfectly legal.
18. (C) The more education one has, the more likely the agent will understand all of the issues. Sales volume and ethics are unrelated concepts. One has nothing to do with the other.
19. (B) The key word in this sentence is "not". Insurers are allowed to do all of the things listed.
20. (C) Both are debts to be paid upon death.
21. (C) This answer describes what life insurance does.
22. (B) The group sponsor makes an application for the insurance. The individuals in the group enroll in the plan rather than submit individual applications.
23. (A) Social Security is an *unfunded* program.
24. (A) The exclusion ratio is a formula and using the formula, this would be the correct answer.
25. (A) When comparing the tax treatment of a MEC to an IRA, they are the same.
26. (D) All of the items listed are reasons an application is used.
27. (B) These two elements are part of the definition of a non-medical application.
28. (C) The agent is called a field underwriter because they see people in their home and offices, etc.
29. (D) Chance of death = Mortality.
30. (D) A binding receipt by definition binds the company to pay a claim if the insured dies during the underwriting period, regardless of insurability.
31. (A) The law requires that the agent identify when a policy is being replaced by a new one.

Exam 1 Answers

- 32. (C) If the agent forgets to renew the policy, he/she has the liability for the negligent act.
- 33. (A) If Bill is now a skydiver, the insurance company, by the type of contract he has, can increase the premium or cancel the policy at renewal.
- 34. (B) Of the types of policies listed, the life paid up at 65 has the longest premium paying period, is less expensive than endowments and, therefore, would be the least expensive.
- 35. (D) By definition, when the cash value equals the death benefit the policy endows and the cash value is paid to the insured.
- 36. (A) Since the amount of money owed declines, a decreasing term policy's face amount declines at the same rate as the loan.
- 37. (A) These are two of the features of a UL.
- 38. (A) The key word in this question is "always." Variable life policies tend to keep up with inflation but they can also decline in value even when inflation is going up.
- 39. (C) The correct answers are characteristics of the rider.
- 40. (B) The life insurance contract lists the things that can and can not be done to it and under what circumstances.
- 41. (A) This is the definition of the entire contract clause.
- 42. (C) If the policy is delivered by hand, a delivery receipt must still be signed.
- 43. (B) An irrevocable beneficiary must give permission because he/she has a vested interest in the death benefit i.e. the death benefit is effectively "theirs" and cannot be taken away from them or reduced without their agreement.
- 44. (A) The time period could be long.
- 45. (B) This is the standard operating procedure.
- 46. (B) This option gives the client what they want: A life income that can not be outlived and with the highest payout. In addition, the payout is fixed and will remain the same for as long as they live.
- 47. (D) These non-forfeiture options do identify how the cash surrender value of a permanent policy can be used.
- 48. (A) This is the definition of extended term.
- 49. (A) This is the definition of a participating policy.
- 50. (C) An annuity is the only product that guarantees a life income that can not be outlived.
- 51. (B) The name of the product explains how it works. Immediate in this instance means now.
- 52. (C) The product design of both annuities and IRA's has the tax deferral characteristic.
- 53. (C) This is the main characteristic of tax qualified plans.
- 54. (C) When the employee puts their own money into a 401k plan, it is always 100% vested. The only people who can have Keogh's are self-employed people.
- 55. (A) Employers set up an ESOP to take the tax deduction.
- 56. (C) This question is describing a regular annuity and these are not IRS approved. The difference in this answer than the one in a) is that a TSA is always used in conjunction with 403(b)'s which are tax qualified plans.
- 57. (A) This is the rule the insured must follow.
- 58. (C) This is the definition of the free look period.
- 59. (D) This type of insurance has premiums that can be paid weekly, bi-weekly or monthly depending upon how the contract is written.

Exam 1 Answers

- 60. (B) Life insurance protects the family if the insured dies too soon. LTC protects the family if the insured lives too long with a health problem that would deplete their assets to pay for the care. Financial planning must take both possibilities into account.
- 61. (C) The owner and the beneficiary might or might not be the same person. The benefits are paid to the named beneficiary.
- 62. (B) The cut off age for dependents in school full time vary from policy to policy.
- 63. (B) The insured's doctor is usually the person the insurance company tells.
- 64. (A) This is a memorization question.
- 65. (A) The premium is paid by the group sponsor and could change periodically.
- 66. (B) These are the riskiest of all the investments listed and insurance companies are not allowed to invest in very risky products.
- 67. (B) Death benefits are generally not taxed at all and therefore, would be taxed less than regular income.
- 68. (C) Insurable interest in life insurance is required at the origination of the policy.
- 69. (C) This is the definition of a representation.
- 70. (B) Life insurance creates an estate. Annuities systematically liquidate an estate.
- 71. (C) The DOI regulates the marketing to only admitted carriers because they want to have controls on who can do business in CA and keep them accountable to CA laws.
- 72. (C) The State of CA does not want insolvent insurers so they developed the Guarantee fund. If the State did not have the fund, they would have to bail out the policyholders when an insurer became insolvent.
- 73. (A) This is a memorization question.
- 74. (C) Annuities are not a class of insurance.
- 75. (A) This is the definition of an insurance solicitor.

PRACTICE EXAM 2

1. Coverage cannot be obtained from an admitted insurer. Therefore an entity is identified that *can* sell insurance not underwritten in California. What is this entity?
 - a) An insurance broker
 - b) A bail bond broker
 - c) A foreign insurer
 - d) A surplus lines broker
2. Regarding the handling of personal funds with fiduciary funds, which of the following is true?
 - a) The two funds can never commingle
 - b) Fiduciary funds are allowed to be placed in safe stock investments
 - c) (a) and (b) are true
 - d) (a) and (b) are false
3. A life-only agent gets her license after 1991. She must complete _____ hours of continuing education per year for the first four years?
 - a) 15
 - b) 25
 - c) 30
 - d) There are no continuing education requirements for a life-only agent
4. What is the free look (Right of Rescission) of a disability insurance policy issued to an individual who has attained the age 65 or older?
 - a) 10 days
 - b) 25 days
 - c) 30 days
 - d) 91 days
5. Choose from the items listed below a possible penalty for an agent who commits fraud:
 - a) Up to 5 years in state prison
 - b) A fine of \$150,000 or double the value of the fraud (whichever is greater)
 - c) A year in county jail
 - d) Any of the above
6. Which is correct about the "Notice Regarding Replacement of Life Insurance" that agents are required to deliver to life insurance applicants?
 - a) It must be delivered to all applicants, whether or not a policy is replaced
 - b) If the policy being replaced is less than \$5,000 in face amount, the notice is not required to be delivered
 - c) It must be delivered to the applicant at least by the date of the application
 - d) It is not required for life insurance
7. Which of the following statements is correct?
 - a) The premium is the amount payable to the insurer from the insured
 - b) The consideration is the amount payable to the insurer from the insured
 - c) Neither is correct
 - d) Both are correct

Practice Exam 2

8. An insurance policy that states surplus from an insurance co. that is shared with policy owners is a:
 - a) Participating policy
 - b) Non-participating policy
 - c) Stock insurance company contract
9. A life insurance policy has cash value build-up in it. This means:
 - a) Cash value is too small to be considered of any value
 - b) Cash value can be used for loans, usually found available for lower rates of interest
 - c) Cash value cannot be accessed until the policy matures
 - d) All are true
10. The premiums for a variable universal life insurance contract:
 - a) Must be paid at certain times, and can vary in their amount
 - b) Can vary in payment schedule and amount
 - c) Must not vary in amount, but can vary when they must be paid
 - d) Can not vary in payment and amount
11. Which of the following comprise a "Family Income" insurance policy?
 - a) Term insurance
 - b) Permanent insurance
 - c) Permanent combined with increasing term insurance
 - d) Permanent combined with decreasing term insurance
12. If a premium is overcharged in the early years, and then remains constant throughout the premium paying period, though the risk of dying increases, it is called a _____ premium?
 - a) Net
 - b) Natural
 - c) Gross
 - d) Level
13. The taxes that fund Social Security are paid by:
 - a) Employees only
 - b) Employers only
 - c) Employers and employees equally
 - d) Employers and employee, but the employer pays more
14. Express warranties:
 - a) Help speed the underwriting process by not requiring some questions be answered on an application
 - b) Do not have to be in writing
 - c) Are contained in the policy, signed by the insured, and made part of that contract
 - d) Do not have to be stated
15. What form of insurance is usually found in Group Life Insurance?
 - a) Family policies
 - b) 1 year term
 - c) 5 year term
 - d) Universal

Practice Exam 2

16. Identify the minimum age that one must attain in order to be legally able to apply for a life-only agent's license in this state:
- a) 15 to the nearest birthday
 - b) 16
 - c) 18
 - d) 21
17. An insurance company can transact any class of insurance:
- a) Authorized by its articles of incorporation or charter, and is admitted to transact that class by the insurance commissioner
 - b) Assuming it has paid all required fees
 - c) Assuming the Commissioner grants this ability
 - d) If it has 25 agents with signed appointments
18. A written contract that attempts to indemnify another party against loss, damage, or liability arising from a contingent or unknown event. This describes:
- a) Incontestability
 - b) A provision
 - c) Insurance
 - d) An illegal contract in California
19. An insurer endorses, rejects, declines, cancels, or surrenders an insurance policy. The unearned premium must be returned to the insured within _____ days of cancellation?
- a) 5
 - b) 25
 - c) 35
 - d) 120
20. Which of the following may hold a license as a life-only agent?
- 1. A life insurance analyst
 - 2. An insurance broker or agent
 - 3. An officer of a life insurance firm
 - 4. An insurance solicitor
- a) 1 and 3 b) 1, 2, and 3 c) 1, 2, and 4 d) All the above
21. A _____ may charge a fee for providing advice and consultation in reference to insurance?
- a) Life analyst
 - b) Charter Property and Casualty Underwriter
 - c) Life-only agent
 - d) None of the above
22. Jerry collects premiums and pays claims associated with life or health insurance and annuities. Jerry should hold:
- a) An insurance adjuster's license
 - b) A life broker license
 - c) A life analyst license
 - d) An Administrator Certificate

Practice Exam 2

23. After receiving your insurance life-only agent license, if you change your address, you are to notify the Commissioner, in writing:
- a) Within 10 days
 - b) Immediately
 - c) Within 60 days
 - d) Within 90 days
24. Mary has a restricted license. This means she:
- a) Cannot sell outside of California
 - b) Cannot sell life insurance any longer
 - c) May have this license revoked or suspended without a hearing
 - d) All the above
25. Marvin is involved in a serious car accident. No one is surprised because Marvin is known to drive too fast. Identify the hazard here:
- a) Marvin owns a car
 - b) Marvin drives too fast
 - c) The bodily injury he sustained in the accident
 - d) Medical payments paid by the insurer
26. In order to be considered an "ideally insurable risk," must there be a possibility that a loss will occur?
- a) Yes
 - b) No
27. From the choices below, select the answer that best reflects the concept of indemnification:
- a) A promise is given by only one party, the insurer
 - b) If it is determined that a statement in the contract is ambiguous, courts will favor the policyowner
 - c) Either of the parties to the contract can assume the other is not concealing facts
 - d) The insured can not get back any more than the loss they have experienced
28. Select the answer from below which best describes an insurance sales situation closely connected to the direct response marketing system:
- a) Waiting by the phone to get calls from prospects with no effort being made to get these leads
 - b) Seeing an old friend at the supermarket and hoping he will give you his personal life insurance business
 - c) Using a vending machine in an airport to purchase travel accident insurance
29. "Fiduciary Responsibility," as it pertains to an insurance agent, is best defined as:
- a) Prompt and timely forwarding of the insured's premium payment to the home office
 - b) Prompt and timely handling of a claim form
 - c) Frequent reviews of an insured's insurance coverage
 - d) Assisting clients in the selection of policies
30. "Consideration," as it applies to a life insurance contract, is defined as:
- a) \$50.00 minimum
 - b) The "face value" on any contract anniversary date
 - c) What the insurance company gives your application during the underwriting process
 - d) The premium payment

Practice Exam 2

31. The insurance code provides which of the following:
- a) Federal laws relative to the practice and principles of insurance
 - b) State of California laws relative to the practice and principles of insurance
32. How does the California Life and Health Insurance Guarantee Association limit the total amount of benefits for the life insurance policies it protects?
- a) On a per-life basis
 - b) On the total number of policies in effect only
 - c) There is no maximum on the guarantee
33. Mitch qualifies for, and receives, his life-only agent license in 2008. He markets Long Term Care products. Does he have to complete 8 hours of LTC continuing education in addition to his normal 25 hours of continuing education?
- a) Yes
 - b) No
34. The only circumstance, according to provisions of the code, by which a name can always be approved, is if it is a true corporate name.
- a) True
 - b) False
35. Which of the following documents must show the license number of an active life-only agent?
- 1. Price quotes
 - 2. A magazine advertisement
 - 3. Business cards
- a) 1 only b) 3 only c) None of the above d) All of the above
36. Attempting to induce a policyholder to lapse, forfeit, or surrender existing insurance through the use of misleading representations or comparisons of insurers is the definition of:
- a) Coercion
 - b) Rebating
 - c) Boycotting
 - d) Twisting - a misdemeanor which could result in imprisonment of up to 1 year
37. Identify which of the following is not a deceptive act or practice, or unfair method of competition:
- a) An insured submits a claim, but it is not covered by his insurance policy. The agent doesn't take the insured's call, but instead, sends a letter to him explaining the reasons why the benefit is not payable
 - b) An agent tries to sell a prospect on three separate occasions. A second agent is able to sell the same prospect by convincing him to buy a more expensive, but better coverage policy
 - c) An agent tells an insured to submit a second proof of loss in order to allow more time for a payment to be made on a prior proof of loss that is taking several weeks to be processed

Practice Exam 2

38. Progressive Life establishes an agreement with Twilight Builders to provide an annuity without any separate charge (free) as an inducement to those who buy homes from Twilight. The Code has no requirement prohibiting this.
- a) True
 - b) False
39. Arnold is trying to improve his time efficiency. To accomplish this, he decides to answer objections only if they are brought up by the client at least twice. This is generally considered to be:
- a) Unethical by most standards
 - b) Ethical by most standards
 - c) Ethics are not an issue in the scope of insurance
40. A sailor in the merchant marines has contacted you and expressed interest in life insurance. What important planning step will you take to determine this sailor's needs in order to provide an appropriate policy?
- a) Refer to mortality tables
 - b) Assess the current buy/sell needs
 - c) Review key employee insurance requirements
 - d) Review the person's overall financial goals
41. The period of time in which a housewife, who has survived the death of her husband, will not receive income benefits from Social Security is called the:
- a) Blackout period
 - b) Elimination period
 - c) Qualification period
 - d) None of the above
42. All of the following are examples of types of life insurance, except:
- a) Term plans
 - b) Ordinary plans
 - c) Surety plans
43. From the following, select the correct choice(s) concerning a contributory group life program:
- 1. 100% of eligible employees must participate
 - 2. 75% of eligible employees must participate
 - 3. 100% of premium paid by employee
 - 4. 75% of premium paid by employee
- a) 1 & 3
 - b) 2 & 3
 - c) 1 only
 - d) 2 only
44. Regarding federal income taxes, which of the following is false?
- a) A company usually receives a deduction when paying for their employees' group plans
 - b) Typically, premiums on individual policies are not deductible
 - c) Life insurance death benefits are not income tax exempt
45. Tax laws have established the Modified Endowment Contract or "MECs." Select the correct response:
- a) They reduce the premiums payable for high death benefit policies
 - b) They are actively used by the public, so they are recommended
 - c) Taxing of their death benefit is not like a non-MEC
 - d) Taxing their living benefit is not like a non-MEC

46. The applicant, the policyowner, and the insured of a life insurance policy may be:
1. The same individual
 2. Three different individuals
- a) 1 only b) 2 only c) 1 or 2
47. Applications for life insurance:
- a) May not be modified by an agent for any reason without the applicant's initials for the change
 - b) Must be made a part of the contract only if cash values are a feature of the policy
 - c) A and B are false
 - d) A and B are true
48. Which entity or entities financially support(s) the non-profit Medical Information Bureau?
- a) The State of California
 - b) The federal government
 - c) Insurance companies
 - d) A network of medical practitioners
49. In determining the rates to charge payers for life insurance premiums, a company will use:
- a) Policy reserves, interest, expenses
 - b) Mortality, policy reserves, expenses
 - c) Mortality, interest, policy reserves
 - d) Mortality, interest, expenses
50. Compared to a yearly premium, a whole life insurance contract's quarterly premium will be:
- a) Less overall
 - b) More overall
 - c) The same overall
 - d) Whole life does not offer quarterly premiums
51. Which of the following statements about collecting an initial premium with the application is incorrect?
- a) It is not encouraged since it can lead to misunderstandings
 - b) It is encouraged since it creates commitment to the purchasing decision
 - c) It can provide immediate protection for the insured
 - d) Both A & C are incorrect
52. Which of the following does not necessarily lead to effective retention of policies by an agent?
- a) High sales production
 - b) Proper and timely service
 - c) Effective communication with the client
53. Generally, E & O coverage is issued in a standard form determined by state law.
- a) True
 - b) False

54. From the following, select the type of life insurance which could be best used to protect your customer's heirs from a mortgage obligation should your customer die:
- a) Level term insurance
 - b) Increasing term
 - c) Decreasing term
 - d) None of the above
55. Which of the following is a policy that can be considered never "paid up?"
- a) A term to age 65 policy
 - b) A life paid-up age 65 policy
 - c) An endowment age 65 policy
56. A type of life insurance policy, called a first-to-die policy, is very helpful in business situations, whereby a partner can purchase the interest of a deceased partner at death. This policy can also be used by a husband and wife by naming each other as beneficiaries. Select the incorrect statement about first-to-die plans from below:
- a) Compared to buying two individual ordinary life insurance contracts, a first-to-die would be cheaper
 - b) They pay the full face amount on the death of the first insured to die
 - c) They pay a reduced amount upon the death of the last surviving insured
 - d) None of the above
57. Index-linked life insurance plans have their benefit determined by an index which provides an indication of the effects of inflation on the purchasing power of the dollar. Which index is typically used to do this?
- a) The Seventh District Cost of Funds Index
 - b) Actuarial tables
 - c) Table of Guaranteed Values
 - d) The Consumer Price Index
58. All of the following apply to variable life insurance except:
- a) Their funds are invested in equity investments like stocks
 - b) A guarantee is provided by the insurer for the performance of the fund
 - c) A securities license is needed for an agent to sell variable products to the public
59. A waiver of premium provision of a policy contains which of the following features?
- a) A linking to the CPI
 - b) Is frequently referred to as living needs benefits
 - c) Provides an income in the event of a disability
 - d) Releases the owner from having to pay premiums in the event of a disability
60. From the choices below, identify the party able to exercise the right of borrowing from cash value:
- a) An irrevocable beneficiary
 - b) A designated officer of the insurer's underwriting department
 - c) The insured (as named in the contract)
 - d) The policy owner

Practice Exam 2

61. The incontestable clause of a life insurance policy:
- a) Says that if the insured dies after 2 years, misrepresentation, concealment or fraud may disallow the beneficiary from collecting the death benefit
 - b) Says that the insurer is protected from liability from misrepresentation, concealment or fraud of an agent
 - c) Prevents the insurer from voiding the policy after 2 years on the grounds of misrepresentation, concealment or fraud of the insured
 - d) Says the insurer can't contest paying the claim if the premium is not paid
62. Unlike other financial instruments, life insurance cannot be transferred by an assignment since it has no monetary value; it is only an agreement.
- a) True
 - b) False
63. The Free Look provision of life insurance issued in California states that certain conditions exist in order for a policy to be delivered to the insured properly. Which of the following is not correct in determining good delivery?
- a) The policy was mailed with a signed delivery receipt
 - b) The policy was mailed certified
 - c) The policy was hand delivered personally, no receipt of delivery needed
 - d) None of the above
64. Betty, the beneficiary of a life insurance policy, dies before the insured of the contract dies. In the state of California, when the insured eventually passes away, the death benefit goes to which of the following, if the policy is still in effect?
- a) The insured's next of kin
 - b) Betty's next of kin
 - c) The State of California
 - d) The insured's estate
65. Which of the following is false about beneficiaries?
- a) Minor children can be named as beneficiaries
 - b) Trusts are only documents, and therefore cannot be named as beneficiaries
 - c) Corporations can be named as beneficiaries
66. What are the requirements of the insurer should the insured take their own life after only seven months after the inception of life policy?
- a) The full death benefit is payable
 - b) Only a return of premiums is necessary
 - c) A service charge is assessed the death benefit payable to the insured's estate.
67. The principal amount from a death benefit is held by the insurer upon the request of the beneficiary. Payments are made per a schedule and subject to a guaranteed rate of interest based on the amount of the benefit. The principal is withdrawn only on the request of the beneficiary. What is this type of settlement option referring to?
- a) The interest only option
 - b) The variable option
 - c) The life income option
 - d) None of the above

68. Cash surrender value, extended term insurance, reduced paid-up insurance. These are examples of:
- a) Dividend options
 - b) Settlement options
 - c) Nonforfeiture options
69. John has been paying into his whole life policy that has generated cash value for many years. He now wishes to take the cash value out before maturity and use it to effect a non-forfeiture option. The company is required to fulfill his request as per law.
- a) True
 - b) False
70. An automatic premium loan, found only in cash value policies:
- a) Will pay a premium that is due only one time; the loan must immediately then be paid off
 - b) Will pay a premium that is due by using the policy's cash surrender value
 - c) Is used to pay off consumer loans
71. Choose the correct statement from the selection below:
- a) Dividend income is considered a taxable event
 - b) If a company overestimates what is needed to issue policies a dividend can result
 - c) Dividends can not be paid in cash by an insurer
 - d) Law restricts the use of dividends to pay down premium payments
72. What occurs during the accumulation period of an annuity?
- a) Payout of the benefits of the annuity
 - b) Provides for a guarantee of mutual fund growth
 - c) Allows the annuity to build on a tax deferred basis
 - d) Allows the annuity to build on a tax free basis
73. Select the type of annuity payment option that has the least amount of risk for the insurer, and therefore, pays the highest amount of income to the insured over time:
- a) Life with 15 year certain
 - b) Life with 30 year certain
 - c) Straight/pure life
 - d) None, the above do not apply to annuities
74. Which of the following would be the best client to purchase a variable annuity?
- a) A person who does not like the fluctuations of equity investments
 - b) A middle aged divorced housewife with a substantial portfolio, and \$60,000 per year income
 - c) An older man searching for a guaranteed monthly income that will last for the rest of his life. He is on Social Security and has little savings
75. Non-tax deferred compensation plans are examples of qualified retirement programs.
- a) True
 - b) False

**PRACTICE EXAM 2
ANSWERS**

1. (D) This is the definition of a surplus lines broker.
2. (A) Commingling of funds is never allowed.
3. (B) This is a memorization question.
4. (C) This is a memorization question. A way to remember it is that older people take longer to make decisions because they frequently consult with advisors before deciding.
5. (D) This is a memorization question.
6. (C) It must be given to the applicants by the date of the application so that when the application is being filled in, they will know what they are giving up for what they are getting in their new policy.
7. (D) The word consideration means anything of value, such as money. Premium is also money. Money is what is given by the insured to the insurer.
8. (A) This is the definition of a participating policy.
9. (B) The characteristics listed are ones found in cash value policies.
10. (B) The characteristics listed are ones found in variable universal life policies.
11. (D) This is a memorization question.
12. (D) The key phrase in this question is "if a premium mains constant throughout the premium paying period." This defines a level premium.
13. (C) It's the law that both parties pay equally.
14. (C) The application becomes part of the contract and the answers to the questions are answered (expressed) and the insured must sign the application.
15. (B) One year term is used to keep the premiums low.
16. (C) This is based on state law and must be memorized.
17. (A) A company is allowed to sell whatever the state has approved.
18. (C) This is the definition of insurance.
19. (B) This must be memorized.
20. (D) This question is poorly worded; however, any of the choices may hold a license as a Life-Only Agent.
21. (A) Charging a fee is a characteristic of a life analyst.
22. (D) Since Jerry is handing administrative duties he should have an administrator's certificate.
23. (B) The Commissioner wants the ability to find an agent so that if they do something wrong, the agent can be contacted.
24. (C) This must be memorized.
25. (B) The morale hazard is that he is indifferent to how fast he drives.
26. (A) This is the definition of insurable risk.
27. (D) Indemnification is the concept of making the person whole again-no better - no worse.
28. (C) The purchaser is directly buying the policy from the company.
29. (A) All are fiduciary responsibilities, but handling other's money is the most important one.
30. (D) "Consideration" includes premium, information and the promises made by the insurer.
31. (B) Insurance is regulated by states.
32. (A) The per life basis limits the liability of the Association.
33. (B) The eight hour requirement is included in the 25 hours.
34. (B) An agent's real (given) name can be used without getting approval.
35. (D) Anything that acts as an advertisement must include the license number.

Exam 2 Answers

- 36. (D) This is the definition.
- 37. (B) This is competition.
- 38. (B) The code prohibits free insurance and that includes annuities.
- 39. (A) Time efficiency has nothing to do with ethics. Ethical salespeople answer questions until the prospect understands what they are buying.
- 40. (D) A person's needs will determine the person's goals.
- 41. (A) The period of time from when the last child turns 16 until the widow is eligible for Social Security that she will not be receiving any money from Social Security is called the "Blackout Period."
- 42. (C) Surety falls under its own classification. It is not a type of life insurance.
- 43. (D) The contribution percentage must be memorized.
- 44. (C) Life insurance proceeds are generally income tax free (exempt).
- 45. (D) MEC and Non-MEC policies have different tax laws applied to each kind of policy.
- 46. (C) There could be 1, 2 or 3 different people assigned to each of these labels.
- 47. (A) The agent cannot modify the application on their own. Modifications to applications must be initialed by the applicant (future policy owner.)
- 48. (C) The MIB is strictly for the benefit of insurance companies.
- 49. (D) These are the three components of setting a premium.
- 50. (B) Insurance companies charge for the loss of interest they are not earning when the insured wants to pay premiums with a mode other than annually.
- 51. (A) Collecting the first premium is encouraged so that the insured is covered by the receipt at application.
- 52. (A) Production is related to how persuasive the agent can be. It has nothing to do with keeping the policies on the books.
- 53. (B) The state does not determine E&O coverage. The insurance carrier determines what is covered in the policy; therefore, there is no "standard" form in E&O coverage.
- 54. (C) Decreasing term is generally used to cover declining debt obligations.
- 55. (A) The only way a policy can be paid up is if it contains a cash value. Term has no cash value.
- 56. (C) First to die policies have one death benefit and it is paid at the death of the first insured.
- 57. (D) The Consumer Price Index tracks inflation so it is tied to a life policy. When inflation is up, the benefits in the life policy go up at the same rate as the index.
- 58. (B) Insurers do not guarantee performance results under these policies.
- 59. (D) This is the definition.
- 60. (D) The policy owner has all the rights and privileges associated with the policy.
- 61. (C) This is the definition.
- 62. (B) Life insurance is property and therefore can be transferred.
- 63. (C) A delivery receipt must be signed.
- 64. (D) The policy is property. Therefore, if a beneficiary is not named, the proceeds are added to the insured's estate. The estate is then distributed according to the laws of the state.
- 65. (B) Trusts act like a person and can be named as a beneficiary.
- 66. (B) This is the suicide clause and under that clause the insurer's only obligation is the return of premiums paid.
- 67. (A) This scenario is describing the interest being sent to the beneficiary. This is interest only option.
- 68. (C) This is a memorization question.

Exam 2 Answers

- 69. (A) Permanent whole life policies contain non-forfeiture options and companies must fulfill the request if asked.
- 70. (B) This is the description of how automatic premium loan works.
- 71. (B) This description is a scenario of how dividends can work.
- 72. (C) Annuities build on a tax deferred basis not a tax free basis.
- 73. (C) By definition, a life income pays the most to the annuitant. If the annuitant receives one payment and then dies, the insurer gets to keep all the money that should have been paid out to the annuitant over their life-time. Since their lifetime was so short, the insurer has little risk.
- 74. (B) A middle-aged person has enough time to allow the annuity investments to make it grow. With a portfolio she has experience with investments and with a yearly income she will probably not need the money to live on currently.
- 75. (B) Deferred compensation plans are not regulated by the government.

PRACTICE EXAM 3

1. Phil works for a non-profit religious organization. He wishes to invest some of his income into a retirement program that will provide him with the most benefits. Can Phil qualify to open a Tax Sheltered Account?
 - a) Yes
 - b) No
2. IRA accounts have certain restrictions that apply to them for the purpose of discouraging participants from withdrawing money from them too soon. If a withdrawal is made before the age of 59½ there can be a:
 - a) 6% tax penalty (with certain conditions)
 - b) Total cancellation of all prior tax deferral
 - c) There is no penalty on withdrawals before 59½
 - d) 10% penalty (with certain conditions)
3. Kim has purchased a new car. The salesman told Kim of a program that will make the loan payments if Kim were to become disabled as the result of sickness or injury. Kim would pay for the plan by having higher bank loan payments. Identify the form of insurance the salesman has described to her:
 - a) Credit health insurance
 - b) Credit life insurance
 - c) Long term care insurance
 - d) Travel accident insurance
4. Your customer pays her insurance premium for one year. On November 1 the policy has two months left to run. The portion of her premium payment for which the insurer has provided insurance coverage (the first 10 months) is called:
 - a) The unearned premium
 - b) Deferred compensation
 - c) The earned premium
 - d) The carryover period
5. Beverly is shopping for a life insurance policy. Could she have an endorsement that covers her for long term care?
 - a) Yes
 - b) No
6. Certain principles apply to the business of insurance. One of them is the concept of insurance issued as an "aleatory" contract. What does aleatory mean here?
 - a) The contract must be adhered to if put in writing and signed by applicant
 - b) Actions only have to be performed by one of the parties of a contract
 - c) Performance depends on an uncertain future event
 - d) Oral contracts have no basis in a court of law
7. Within the scope of insurance contracts, what is "consideration?"
 - a) A replacement of lost income due to injury
 - b) A monthly payment is made by the insured
 - c) A death benefit paid by a life insurance company
 - d) The process of field underwriting
8. The "Conditions" portion of an insurance contract is best defined as:
 - a) Obligations of the contract owner only
 - b) Obligations of the applicant only
 - c) Obligations of both contract owner and applicant
 - d) Obligations of both insurer and insured

9. Children born or adopted after a family policy is issued, have what effect on the policy?
- a) The child will have term insurance coverage under the same contract
 - b) There is an additional premium for the child
 - c) Both of the above are true
 - d) Both of the above are false
10. Select the following statement that is correct regarding deposit term insurance:
- a) It is a type of annuity only sold through savings associations
 - b) It combines 5-year endowment with 5-year term insurance
 - c) It combines single premium endowment with 10-year renewable term insurance
 - d) None of the above
11. If you were the beneficiary of a life insurance policy, and were receiving an income for a stated period of time, and then received a large lump sum, the insured probably had chosen a/an:
- a) Family maintenance plan
 - b) Family income plan
 - c) Answer a) or b) above
 - d) Annuity
12. At what age does a "jumping juvenile" policy usually increase the benefit from \$1,000 to \$5,000?
- a) 15
 - b) 16
 - c) 18
 - d) 21
13. Brad has a waiver of premium rider provision in his life insurance policy. Which of the following would be excluded from coverage?
- a) An injury one inflicts on oneself
 - b) An injury sustained as the result of a war
 - c) An injury incurred while robbing a bank
 - d) All the above are true
14. The extra premium charged by an insurance company for a rider that benefits the insured _____ build up in cash value?
- a) Will
 - b) Will not
 - c) Neither. Insurance companies cannot charge extra for riders
15. The usual elimination (waiting) period for a disability income rider is:
- a) One month
 - b) One week
 - c) One day
 - d) Three to six months
16. Industrial life insurance contains a limit disallowing any one person from having more than a stated amount of insurance. What is the limit?
- a) \$1,000
 - b) \$5,000
 - c) \$10,000
 - d) \$15,000

Practice Exam 3

17. What are the duties of a master policyowner?
- a) Pay the premiums
 - b) Own the contract
 - c) Apply for the policy with the information supplied by the employees
 - d) All the above apply
18. An annuity in which the underlying investment performance will cause a fluctuation in the value of the benefit is:
- a) A tax sheltered annuity
 - b) A stock-company annuity
 - c) A variable annuity
 - d) Annuities cannot be invested in equity securities
19. Regarding the difference between mortality tables for annuities and life insurance, choose the correct statement from the following:
- a) Annuitants and policy insureds live the same length of time
 - b) Policy insureds die sooner
 - c) Annuitants die sooner
20. Who is protected by the incontestable clause of a life insurance policy?
- a) The agent
 - b) The insured
 - c) The insurer
 - d) The beneficiary
21. Which of the following is true regarding an irrevocable beneficiary?
- a) If the irrevocable beneficiary permits, the policy owner may borrow from the cash values
 - b) An irrevocable beneficiary may borrow from the cash value without the permission of the policy owner
 - c) A policy owner may remove an irrevocable beneficiary whenever she wishes
 - d) None of the above
22. Which of the listed premium payment schedules would reflect the lowest overall premium?
- a) Annual
 - b) Every six months
 - c) Quarterly
 - d) Monthly
23. Which of the following is not characteristic of life insurance?
- a) An incompetent adult may not enter into a contract
 - b) It creates an immediate estate
 - c) It does not have to be paid for at once
 - d) It may be based strictly on an oral agreement
24. When an annuity is considered to be a "flexible premium" annuity it means the premium payment amount is based on an underlying investment of securities affecting the amount that must be paid each month.
- a) True
 - b) False

25. Which of the following is not a factor in determining the premium for a life insurance contract?
- a) The number of new policy owners expected in the next anniversary year
 - b) Expense loading
 - c) Interest
 - d) Mortality
26. What is required of a policyholder to reinstate a policy that has lapsed coverage?
- 1. Pay all past due premiums with interest
 - 2. Provide proof of insurability
 - 3. File an application for reinstatement
- a) 1, 2 b) 2, 3 c) 1, 2, 3 d) None of the choices
27. A Non-medical Application:
- a) Relieves the applicant from having to submit to a physical
 - b) Applies only to health insurance
 - c) May require an applicant to submit to a physical
 - d) Non-medical Applications are disallowed in California by the code
28. If there is a violation of a material warranty or other provision of a policy on the part of either party, this entitles the other party:
- a) To rescind the policy
 - b) To renew the policy
 - c) To extend the policy
 - d) All the above
29. If all the employees of a company elect to pay a part of their group health insurance premium, it is referred to as a:
- a) Participating group policy
 - b) Contributory group policy
 - c) Non-participating group policy
 - d) Non-contributory group policy
30. Twisting is a form of a misrepresentation where a life-only agent:
- a) Convinces an applicant to purchase more insurance that costs more
 - b) Illegally describes how a mutual fund works
 - c) Could be subject to a fine of no more less than \$15,000
 - d) Tries to induce a client to lapse, forfeit, or surrender a policy for another
31. If a policy is cancelled and the insurance company legally keeps the earned premium along with a penalty charged the premium payer it is called a:
- a) Penalty cancellation
 - b) Pro-rata cancellation
 - c) Short rate cancellation
 - d) None of the above
32. If an agent is not able to place business with an admitted carrier, the first alternative would be to contact Lloyds of London, since insuring with this insurer will not require going through a surplus lines broker.
- a) True
 - b) False

Practice Exam 3

33. From the following, describe a natural person employed to aid an agent or broker in transacting insurance other than life insurance:
- a) An assistant
 - b) An Insurance Commissioner
 - c) A life analyst
 - d) A solicitor
34. An insurance producer may keep commission funds commingled with trust account funds in order to advance premiums at a later time.
- a) True
 - b) False
35. Without a hearing, the commissioner can suspend or revoke a license if:
- a) The license holder is a fit and proper person
 - b) The license holder has had an insurance license suspended or revoked for cause with the prior 5 year period
 - c) Both (a) and (b)
 - d) Neither (a) nor (b)
36. Provide the best description of the term "transact" as it appears in the California Insurance Code.
- 1. Execution of a contract of insurance
 - 2. Negotiations leading up to a policy being issued
 - 3. Transaction of matters subsequent to the sale
 - 4. Solicitation of insurance to the public
- a). 2, 3, 4
 - b) 1, 2, 3
 - c) 1, 2, 3, 4
 - d) None, "transact" is not defined in the code
37. Which of the following is true concerning an implied warranty?
- a) It has no application to insurance
 - b) It doesn't have to be in writing
 - c) All warranties in insurance are implied warranties
 - d) It is understood by all parties
38. From the following choices, select the one that best describes the concept of "concealment."
- a) Not communicating that which a party knows and ought to communicate
 - b) Not communicating that which is material and the other party knows
 - c) Not communicating that which is not material and the other party does not know
 - d) All the above
39. "A contract whereby an individual deposits funds with a life insurance company, the individual defers taxes on the buildup of savings within the contract and the individual can choose to take money out in several ways upon retirement." What does this describe?
- a) Social Security
 - b) An annuity
 - c) Life Insurance
 - d) A bank certificate of deposit

40. Which of the following is NOT an example of what an insurance policy can provide an insured?
- a) Help protect from the possibility of a loss
 - b) Reduce the uncertainty of financial loss
 - c) Eliminate the risk of sickness
 - d) Replace a large possible loss with that of a small certain loss (premium)
41. Select from the choices below the best description of a speculative risk:
- a) Insuring someone over the age of 90
 - b) Involving the possibility of a gain in addition to the uncertainty of loss
 - c) Insuring against a situation that offers no possibility of gain
 - d) The purchase of an insurance policy to protect from gambling losses
42. The best description of a hazard is a/an:
- a) Condition that may increase the chance that a loss may occur
 - b) Cause of a loss
 - c) Pure risk
 - d) Uncertainty of a financial loss
43. Intentionally submitting false information on a life application is an example of a moral hazard.
- a) True
 - b) False
44. The owner of an office building recognizes the hazards of the building because of its age. He decides to finally get insurance to protect him from a possible legal suit. This would be an example of avoidance of risk.
- a) True
 - b) False
45. Choose from the following selections the best description of a premium:
- a) Funds received by an insured from an insurer to realize the benefits of the policy
 - b) Funds received by an insurer from an insured to realize the benefits of the policy
 - c) A bonus paid to an agent for high insurance sales production
 - d) The amount an insured pays for each unit of coverage. \$7 for every \$1,000 of coverage is an example
46. Which of the following is the best way to define the concept of "indemnity?"
- a) It's only when concealed facts are material that an insurer can rescind or cancel a policy
 - b) Only the insurance company makes a legally enforceable promise
 - c) An insured cannot receive more than an actual economic loss in the event of a claim
 - d) If there is an unclear statement in a contract of insurance the courts will rule in favor of the insured

Practice Exam 3

47. The principle of indemnification is best described below as:
- a) Protecting from any past legal situation
 - b) A hazard not specifically defined in the code
 - c) A form of insurance that insurance companies buy to decrease exposure from investment losses
 - d) Restoring an individual to a condition they enjoyed in the past, thus making them whole
48. When is insurable interest required to exist with a life insurance policy?
- a) At the time of death
 - b) At the time the policy is written but not at the time of death
 - c) At the time the policy is written and at the time of death
 - d) At all times during the policy life
49. All the following statements regarding policy dividends are true except:
- a) Non-participating policies generally pay large dividends
 - b) Dividends cannot be guaranteed
 - c) Not all dividends are taxable
50. Sam's insurance policy pays a dividend. The agent that sold Sam the policy refers to the shareholders of the company as "participating," therefore it is a(n) _____ insurer?
- a) Assessment
 - b) Foreign
 - c) Stock
 - d) Mutual
51. Which of the following would be considered an alien insurer?
- a) An unauthorized company that underwrites undocumented workers
 - b) A company located in England and doing business in California
 - c) A company that is organized in Nevada but maintains branch offices in this state
 - d) All the above are alien insurers
52. Julie is a licensed insurance salesperson who represents the Silver Dollar Insurance Company. If you were to look at the front of her office you would see a sign that reads:
- SILVER DOLLAR INSURANCE COMPANY
Julie Insurance Agency
- If Julie performs acts that are not specifically named in the written contract she has with Silver Dollar she is exercising her _____ authority?
- a) Principal
 - b) Implied
 - c) Express
 - d) All the above
53. Agents must act on behalf of their clients in such a way that uphold their "fiduciary duty." Select the best example of this duty from the choices below:
- a) Assuring a claim form is forwarded to the insurer in a timely manner
 - b) Reviewing the insurance needs and coverage for a client periodically
 - c) Quickly sending an insured's premium to the home office
 - d) Assisting a client to choose the best policy for their situation

54. The Fair Credit Reporting Act mandates that a credit reporting company responds to a consumer complaint when that company's credit report inaccurately reflects information about the consumer.
- a) True
 - b) False
55. In the process of applying for insurance an applicant is asked questions that do not relate to underwriting but are clearly meant for attaining marketing information. Under the code this practice is allowable assuming the person applying for coverage is informed of such practices.
- a) True
 - b) False
56. The term "consideration" applies to the issuance of an insurance policy. Choose the best description of this term from the choices below:
- a) The amount of death benefit
 - b) The time the underwriting department gives the application
 - c) The face amount of the policy one year from the date of issue
 - d) None of the above
57. The doctrine of "utmost good faith" applies to the business of transacting insurance. Which of the following is an example of its application?
- a) Each party is entitled to rely upon the representations of the other party
 - b) Answers to application questions are provided to the best of one's knowledge
 - c) Each party to a contract must give valuable consideration
 - d) Any unclear or ambiguous statement in a contract of insurance is decided in favor of the insured
58. Fraud is an intentional act to deceive and induce another to part with something of value. Which of the following would describe fraud in the process of applying for insurance?
- 1. Intentionally distorting the truth to get an insurance policy
 - 2. making a misrepresentation that has no material effect and displays no intent to lie
- a) 1 only b) 2 only c) Both 1 and 2 d) Neither 1 nor 2
59. Choose the correct answer. The California Insurance Code:
- 1. includes laws and regulations the Commissioner has issued
 - 2. is basically the body of laws governing insurance business in this state
 - 3. is broken into five sections. They are: life, health, personal lines, commercial property and commercial liability insurance
- a) 1 only b) 2 only c) 1 and 3 d) 1, 2 and 3
60. The Commissioner has numerous responsibilities and wide-ranging authority concerning the California Insurance Code. Should he deem it necessary, he can rewrite certain sections of the code to better serve the insuring public.
- a) True
 - b) False

Practice Exam 3

61. Which of the following is required to be included in the writing of an insurance contract?
- a) The parties between whom the contract is made
 - b) The risks insured against
 - c) The period in which the insurance is to continue
 - d) All the above
62. Neglecting to communicate that which a party knows, and ought to communicate, so that the other party may make a sound decision is known as:
- a) Concealment
 - b) Material information
 - c) Boycotting
 - d) None of the above
63. From the following, identify that which applies to an applicant's misstatement on an application for insurance:
- 1. Should the misstatement be made with express intent to mislead the insurer it is considered fraud
 - 2. Should the misstatement not be material to the company's decision it may not affect the application
- a) 1 only b) 2 only c) 1 and 2
64. All of the following statements are correct regarding a "warranty" except:
- a) It is a statement merely made to the best of one's knowledge, and can only be express
 - b) Should either party violate a warranty it entitles the other party to cancel the contract
 - c) Warranties can be made about events in the past, present or future
 - d) Warranties made at or during the execution of a policy must be contained in the policy, signed by the insured and attached to the contract
65. Which of the following is correct about the term "transact" as it applies to the field of insurance and the various penalties for insurance transactions in violation of the code?
- 1. Solicitation is a part of transacting insurance
 - 2. Negotiations preliminary to the execution of a policy falls within the definition of transacting insurance
 - 3. Should a person transact insurance without a valid license he/she is guilty of a misdemeanor
- a) 1 and 2 b) 2 and 3 c) 1 and 3 d) 1, 2 and 3
66. According to the code, "transact," as it applies to insurance does not include negotiations preliminary to the execution of a contract of insurance.
- a) True b) False
67. The California Insurance Code cites a specific definition for a "life-only agent." A life-only agent is:
- a) An insurance broker
 - b) An insurance agent
 - c) A person authorized to aid an insurance agent to solicit life insurance
 - d) a, b and c are false

68. In the California Insurance Code there is a definition that reads, in short, "...a person who, for a fee, offers to advise any insured having any interest in life or disability insurance contracts..." This is the definition of:
- a) An insurance broker paid on a fee-for-service
 - b) A solicitor
 - c) A life and disability analyst
 - d) None of the above
69. Of the items listed below, which are requirements for a life and disability insurance analyst license?
- a) The applicant must have a good general reputation and good business reputation
 - b) The applicant must be 18 years of age, minimum
 - c) The applicant must have a thorough knowledge of life and disability insurance
 - d) These are all required
70. To protect (subject to statutory limitations) life and health owners and insureds in the event of impairment or insolvency of a member insurer. This is a description of:
- a) Medi-Cal
 - b) The California Life and Health Insurance Guarantee Association
 - c) OBRA
 - d) None of the above
71. An agent mostly sells long-term care insurance to individuals. He obtained his insurance license (life and health) in January of 2008. In 2008 he must:
- a) Complete 25 hours of life and health continuing education only
 - b) Complete 25 hours of life and health continuing education and, in addition, complete 8 hours of LTC -specific continuing education, a total of 33 hours
 - c) Complete 25 hours of life and health continuing education, 8 of which are LTC specific
 - d) None of the above
72. The license of an agent is considered inactive when:
- a) All renewal fees are paid but there is a termination of all appointments
 - b) The license has not been renewed
 - c) Transactions of insurance are no longer executed following a 1 year period
 - d) None of the above
73. Ben is a life-only agent who would like to do business with the Rock Solid Insurance Company but he doesn't have an appointment to sell their policies. Assuming Rock Solid does not require exclusive representation, can Ben submit an application to them from a prospect?
- a) No, appointments are always required to be filed prior to submitting applications
 - b) Yes, and the application need not be approved by the underwriting department
 - c) Yes, and if the insurer approves the application they must appoint Ben within 14 days
 - d) All the above are false

Practice Exam 3

74. Assuming CE requirements have been met, how is the life-only agent's license renewed?
- a) Pay the renewal billing notice the Department sends out about 60 days before the renewal date
 - b) Pay the renewal billing notice the Department sends out 90 days before the renewal date
 - c) Pay the renewal fee, at which time the Department will send the renewal notice
 - d) Licenses are automatically renewed assuming no disciplinary action has been taken
75. Chuck Harris has earned a Chartered Life Underwriter designation. From the selections below choose the one that the California Insurance Code would find acceptable when publishing his name:
- a) Harris Insurance Services
 - b) Chuck Harris, CLU and Company
 - c) Chuck Harris, Insurance Company
 - d) All the above are acceptable

**PRACTICE EXAM 3
ANSWERS**

1. (A) A 403 (b) religious organization would qualify for a TSA.
2. (D) This is a memorization question.
3. (A) Kim is borrowing money on credit so she would need credit insurance. Since she is worried about getting sick, she needs health insurance. She needs a policy that contains both credit health insurance.
4. (C) The insurance company is holding her money and they have not yet provided her any coverage so they have not yet earned that portion of the premium yet.
5. (A) Some companies combine a life policy and a LTC rider.
6. (C) This is the definition.
7. (B) See exam two, question 30, above.
8. (D) This is the definition.
9. (A) This describes how the child's rider works.
10. (C) The term "deposit term" is term insurance with a side fund for money. The question is poorly worded by using the word endowment. In this question, the word endowment means "the money will eventually be paid out."
11. (C) Both a) and b) are correct. The difference between a Family Maintenance Plan (FM), and a Family Income Plan (FI) is that a FM has a level death benefit amount, whereas a FI is a decreasing death benefit amount.
12. (D) Although children are no longer juveniles when they reach age 18 in California, the usual age at which Jumping Juvenile policies increase benefits is age 21 since the insured is more likely to be able to assume the role of policyowner at that age than at the age of majority (i.e.18).
13. (D) This is a memorization of the exclusions.
14. (B) Riders give coverage but are pure expenses. They add nothing to the cash value of a policy.
15. (D) The long period of time is so that the insured can get back to work or prove they really are disabled. A longer period is also chosen so that the premium is more affordable.
16. (C) This is a memorization question.
17. (D) This describes the duties of the policyowner.
18. (C) The key word is "fluctuation." Another word for it is variable.
19. (B) The mortality table for life insurance goes to age 100. For annuities, it goes to age 115.
20. (D) The beneficiary is ultimately protected by the incontestable clause because if there was any misrepresentation or concealment on the application, the insurance company cannot void the benefits after a period of time has gone by (usually two years).
21. (A) The owner and the irrevocable beneficiary must both agree when a change is made to the policy.
22. (A) No interest is being charged.
23. (D) Life insurance policies are written contracts, only.
24. (B) This is not the correct definition of a flexible premium annuity.
25. (A) It would be impossible for a company to accurately predict how many policies it would sell by the next anniversary year.
26. (C) This is a memorization of the characteristics of reinstatement.
27. (C) Even though the application is taken non-medically, the insurance company always reserves the right to ask the applicant to take a medical exam.
28. (A) This is part of the definition of material warranty.

Exam 3 Answers

- 29. (B) The key phrase is "pay part of....the premium." This makes it a contributory plan.
- 30. (D) This is the definition.
- 31. (C) This is the definition.
- 32. (B) This is a Fire & Casualty question that sometimes appears on the Life & Health test. Generally, in California surplus lines brokers deal with Lloyds of London.
- 33. (D) This is the definition.
- 34. (A) This is permissible under the law.
- 35. (B) This is a memorization question.
- 36. (C) This is the definition of transacting insurance.
- 37. (B) This is correct because it can also be done orally.
- 38. (A) This is the definition.
- 39. (B) This is the definition and characteristics of an annuity.
- 40. (C) Insurance does not eliminate risk. It manages it.
- 41. (B) This is the definition of speculative risk.
- 42. (A) This is the definition.
- 43. (A) Moral hazards deal with the concept of right and wrong. Lying is wrong in most value systems.
- 44. (B) This would be an example of transferring the risk.
- 45. (B) Don't confuse "rate" with "premium."
- 46. (C) The concept of indemnity is to "make whole" or to be brought back to the same condition as before the loss. It is neither to make a gain nor to have a loss.
- 47. (D) This is the definition.
- 48. (B) This must be memorized. Thinking about it in practical terms....married people who eventually get divorced are not required to surrender all the life insurance on the ex-spouse.
- 49. (A) Non-participating policies don't pay dividends.
- 50. (D) Mutual companies by definition pay dividends.
- 51. (B) Alien insurers are domiciled outside of the US but are allowed to do business in the state.
- 52. (B) The key phrase in this question is "acts....not specifically named;" and actions not specifically named are implied authority.
- 53. (C) The word "fiduciary" should always be connected with handling money appropriately.
- 54. (A) This must be memorized.
- 55. (A) The code does allow this.
- 56. (D) Consideration is money or something of economic value. None of the examples have anything to do with the concept of consideration.
- 57. (A) The key phrase is "rely upon the other" and this is part of the definition of utmost good faith.
- 58. (A) This question requires applying the definition to an example. The key phrase is "intentionally distorting the truth."
- 59. (B) The Code is the set of laws for the State of California.
- 60. (B) The State Legislature is the body that makes the laws. The Insurance Commissioner enforces the laws.
- 61. (D) Contract law spells out all pertinent information, including all of the items listed.
- 62. (A) This is the definition.
- 63. (C) Both of the concepts presented are true and apply to contracts.
- 64. (A) This concept is misrepresentation.

Exam 3 Answers

- 65. (D) This is the definition of transacting insurance.
- 66. (B) Transacting insurance includes negotiations before execution of contract.
- 67. (D) None of the items listed define a life-only agent.
- 68. (C) Brokers and solicitors transact Fire & Casualty insurance.
- 69. (D) This is common sense.
- 70. (B) This is the description of the Guarantee Association.
- 71. (C) A newly licensed agent must earn 25 hours of CE credits in his first year. If he/she sells LTC, eight hours out of the 25 hours must be in LTC.
- 72. (A) This is the definition.
- 73. (C) This is how applications and appointments are processed.
- 74. (B) This is the process.
- 75. (A) Chuck can use the CLU after his name; however, he can not call himself a company. He is allowed to use the phrase "Insurance Services."

PRACTICE EXAM 4

1. Every licensee must indicate on which of the following documents his or her license number?
 - a) Print advertisements
 - b) Business cards
 - c) Written price quotations
 - d) All the above
2. When any change in residence address occurs, every licensee and every applicant for a license must notify the Commissioner _____. (Select the most correct response)
 - a) Within 6 months after the move has taken place
 - b) Within 6 months before the license is to expire
 - c) 30 days before submitting a continuing education certificate.
 - d) Immediately
3. An agent makes a misleading comparison of a policy he is selling in order to convince a prospect to lapse an old insurance policy. What is this called?
 - a) Intimidation
 - b) Rebating
 - c) Boycotting
 - d) Twisting
4. Which of the following cannot legally be used when determining premium rates for life insurance?
 - a) Gender
 - b) Age
 - c) Nationality
 - d) All the above may not be used
5. Generally, it is unfair to discriminate against any one class of individuals in the business of insurance. However, the code does permit the charging of a higher premium if such premiums can be supported by mortality tables segregated by sex (gender).
 - a) True
 - b) False
6. Which of the following is not a legal activity in this state?
 - a) Participating in a plan to offer free insurance if a person buys some form of service
 - b) Disregarding age in the determination of insurance rates
 - c) Refusing to apply the practice of twisting in sales
 - d) All the above are legal in the state of California
7. Employees that have group life policies covering them are required to be issued a/an _____.
 - a) Estimate of employers premiums
 - b) Certificate of insurance
 - c) Master policy
 - d) Monthly premium notification on a non-participating plan

Practice Exam 4

8. Jerry is using a new time management technique in his insurance sales presentation. In order to cut the amount of time he spends at each appointment he no longer answers questions when they are first asked. Instead he answers them only if they are asked twice. He feels this will allow him to get to his next meeting quicker. Most insurance professionals would consider this:
- a) An unethical practice
 - b) A clever and ethical practice
9. In the life insurance planning process, the "blackout period" is considered:
- a) The period of time after a life insurance application is written and the date the coverage takes effect
 - b) The period of time when there is not enough income available as required by the insured's beneficiaries
 - c) The period of time when a surviving spouse does not receive any Social Security benefits
 - d) None of the above
10. All of the following are reasons for an individual to purchase personal life insurance, except:
- a) To have funds that can supplement Social Security at retirement
 - b) To cover a buy/sell agreement
 - c) For the creation of an immediate estate
 - d) To have cash available for emergencies
11. Why would a business use a key person life insurance policy?
- a) To provide the key employee's surviving family members with funds to live on after the death of the employee
 - b) To help the employee's spouse supplement her Social Security benefits
 - c) To better allow the employee qualify for a bank loan
 - d) To protect the company from the financial consequences of the death of a vice president
12. Identify the statement that is true about contributory group life insurance.
- a) The employer will make a cash contribution to the estate of a deceased employee
 - b) The employer will contribute the full amount of the premium
 - c) The employee will contribute to the premium payments
 - d) None of the above
13. Select the correct statement about the Social Security system:
- a) It is, for the most part, a voluntary program
 - b) It is only meant to be a supplement to an individual's major income; it only supplies a minimum floor of income
 - c) The system is completely and fully funded
 - d) The amount each person gets out is nearly exactly what they put in
14. Which of the following is true regarding the government's social insurance program known as Social Security?
- a) The majority of workers in the U.S. must pay into the program
 - b) The contributions paid in closely match the benefits received
 - c) Participants sign a contractual agreement with the insurer
 - d) Both A and B above are true

15. Choose the payments from an insurance policy which are not subject to federal income taxes:
- a) Any part of the death benefit paid as the result of choosing the "life income" settlement option
 - b) The death benefit paid to a beneficiary in a lump sum
 - c) Any cash value received upon the surrender of a life insurance policy
 - d) None of the above
16. Which of the following is false about dividends paid from life insurance policies? A dividend is:
- a) Treated as a return of excess premium paid by the owner and is therefore taxable
 - b) If interest is earned on dividends and paid to the policy owner, it is considered taxable
 - c) Not guaranteed to be paid to the policyowner
17. Which of these statements with regard to the tax treatment of life insurance is true?
- a) Death benefits are generally exempt from taxation
 - b) Individual policy premiums are tax deductible
 - c) Policy premiums that provide benefits to employees are not tax deductible
 - d) These are all true
18. Which of the following is false regarding the taxation of life insurance?
- a) Annuity death benefits are totally exempt from taxation
 - b) Businesses that buy group term life insurance for its employees can generally deduct the premiums because they are considered a business expense
 - c) Individuals making premium payments on life insurance can not deduct those premiums
 - d) None of the above are false
19. Patrick has been diligent in investing money for his retirement. He has managed to put \$100,000 of after-tax money into a tax-deferred annuity. Now he is ready to take it out, and the insurance company that issued the annuity says his guaranteed payment is \$8,000 a year for the remainder of his life. This means he can expect a total amount of \$200,000 back over his life. How much of each year's annuity payment is taxable?
- a) \$8,000
 - b) \$4,000
 - c) \$2,000
 - d) \$0
20. When applying for insurance, there is usually the owner of the contract, the insured and the applicant. They may be:
- 1. Three different individuals
 - 2. The same person
- a) 1 only
 - b) 2 only
 - c) both 1 and 2
 - d) neither of the above

Practice Exam 4

21. Insurance companies have several departments handling various responsibilities in the issuance of policies. Which department is primarily involved with the selection of risks?
- a) The sales unit
 - b) The claims unit
 - c) The underwriting unit
 - d) The actuarial unit
22. Bill holds two jobs. If Bill were to apply for an insurance policy and the insurer reviews the risk exposure based on his occupation, which of the following would the insurer most likely use to classify him? The job:
- a) Which would constitute the highest premium
 - b) That Bill has worked at the longest
 - c) That represents the highest hazard
 - d) That Bill devotes the most time to every week
23. Which of the following supports the Medical Information Bureau?
- a) Insurance companies
 - b) The Department of Insurance
 - c) Insurance agents
 - d) None of the above
24. Select the incorrect statement from the choices below concerning insurance applications:
- a) Before the insurer can issue the policy, the beneficiary must acknowledge any changes by providing his/her original initial
 - b) Applications become a part of the contract, when attached
 - c) The statements made on the application are viewed as representations (statements made to the best of the applicant's knowledge)
 - d) The name of the insured must appear somewhere on the application
25. From the following, identify that which constitutes the "entire contract" in a life insurance policy. The policy:
- a) And any oral statements along with the application
 - b) And a copy of the application when attached
 - c) And a brochure on the insurer including code-approved financial information
 - d) But not the application
26. Fran is comparing life insurance available through her employer and an independent life-only agent. Her employer provides automatic coverage and requires _____ medical information than the life-only agent?
- a) More
 - b) Less
 - c) Neither A nor B, the medical information required would be the same
27. Which of the following is not an acceptable risk to the underwriting department of an insurance company?
- a) Sub-standard
 - b) Preferred
 - c) Standard
 - d) All are acceptable risks

28. All of the following are used in determining life insurance rates, except:
- a) Investment and interest return
 - b) Insurance company expenses
 - c) Mortality expenses
 - d) Policy reserves
29. If the owner of a life insurance policy elects to pay an annual premium, she will:
- a) Find her premiums the same as compared to all other payment methods
 - b) Pay more as compared to paying premiums every 6 months
 - c) Pay less as compared to paying premiums every 6 months
 - d) Pay a reduced amount if she pays earlier in the year, rather than at the end of the term of coverage, as is customary
30. A binding receipt issued on the sale of a life insurance policy becomes effective from the date the receipt is given--no matter what the insurability of the applicant.
- a) True
 - b) False – Binding receipts do not apply to life insurance policies
31. There are four basic classes of life insurance. All of the selections listed below are regarded as ordinary insurance, except:
- a) A life paid-up-at-age-55 policy
 - b) A 10-year endowment contract
 - c) A group life insurance policy
 - d) Term life insurance policy
32. From the descriptions below, identify which one is a term policy:
- a) The policy contains a provision that provides non-forfeiture options. The owner pays premiums for 25 years after which payments are no longer required yet coverage is still in force
 - b) The policy states premiums are to be paid every year. At the end of 15 years the cash value represents about 25% of the total face amount
 - c) Each year the premium increases as the insured grows older. After several years the coverage and premiums end simultaneously. Cash value is not created
 - d) The premium increases after five years then remains the same until it is paid up at age 65
33. Decreasing term insurance is frequently used to pay the unpaid balance of a mortgage upon death of the mortgage holder.
- a) True
 - b) False
34. The owner of a non-par whole life policy never misses a payment, never borrows from the policy's cash value, and finally reaches the age of 100. What cash value is this person entitled to in comparison to the face amount?
- a) 100% of the cash value which is now the same as the face amount
 - b) None of the cash value, the person has not died
 - c) About 50% of the cash value as of the date of the birthday
 - d) None of the above

35. A policy owner makes the last premium payment on his \$250,000 non-par whole life policy today. The owner is 70 years of age. When will the cash value reach \$250,000?
- a) About 13 years from now
 - b) The cash value is \$250,000 today
 - c) Never, he didn't pay up to age 100
 - d) When he reaches the age of 100
36. When the insured of a non-participating paid-up-at-age-65 life insurance policy attains the age of 65, the cash value will equal the face amount.
- a) True
 - b) False
37. Assume two people apply for life insurance with exactly the same monthly premiums. One individual buys a whole life policy, and the other, a 10-year renewable term plan. Both are standard risks with no difference in their age or health rating. Select the statement from below which is false:
- a) The whole life policy will generate a larger cash value
 - b) Stopping premium payments on the whole life plan may trigger an option of having the cash value pay for premiums. This will have the effect of reducing the overall death benefit
 - c) The 10-year renewable term contract will have a premium increase every 10 years while the whole life policy premium remains level
 - d) The whole life policy will pay a higher amount to the beneficiary should the insured die within the first 10 years
38. A family life insurance policy that provides coverage for children may be converted to permanent insurance for the children, but evidence of insurability is required.
- a) True
 - b) False
39. Survivorship life or second-to-die policies:
- 1. Are effectively used to cover the costs of estate taxes
 - 2. Are issued in excess of \$1 million in most cases
 - 3. Reflect substantially lower premiums when compared to buying two separate policies
- a) 1 only
 - b) 2 only
 - c) 3 only
 - d) 1 and 2
40. Frequently, juvenile life policies contain a payor rider. This rider states that in the event the payor of premiums is disabled or dies, and the juvenile has yet to reach a specific age:
- a) The insurance firm will lend (with interest) funds to make the premium payments
 - b) The premiums will be paid by the insurer until the child reaches the age of 21 or 25
 - c) The deceased parent's estate will pay the premiums
 - d) The insurer will completely waive all future premiums

Practice Exam 4

41. When premiums are paid into a universal life insurance policy, insurers must make certain adjustments to the cash value. The company will add the current premium paid, and:
- a) Deduct for expenses and mortality costs
 - b) Deduct for general expense charges only
 - c) Deduct for expenses and mortality costs, then add current interest
 - d) The current interest
42. Variable life insurance policies and variable annuities are primarily governed by which agency?
- a) FBI
 - b) SEC
 - c) EPO
 - d) NAIC
43. An additional amount of premium used to pay for an accidental death benefit provision does not increase the cash value of the policy.
- a) True
 - b) False
44. When an insured becomes totally and permanently disabled, her condition triggers a provision that keeps the policy in force even though the insured stops making premium payments. This is a/an:
- a) Accelerated living benefit provision
 - b) Guaranteed insurability provision
 - c) Waiver of premium provision
 - d) None of the above
45. The dividends and cash value continue, and all features of the policy remain in force, even though the insurance company, not the owner, is making the premiums. This is a description of a _____ rider?
- a) Cost of living
 - b) Return of cash value
 - c) Waiver of premium
 - d) None of the above
46. Beth wants to purchase more life insurance through her current policy. She calls you, the agent, and asks your opinion. You know Beth has a guaranteed insurability rider on the policy. She can buy more insurance:
- a) Assuming she is still insurable on her life at specific ages
 - b) Without the need to prove insurability on her life at specific ages
 - c) On the life of her dependent children when they reach certain ages
 - d) Without the need to prove insurability on her life at any time
47. Select the policy riders frequently found in life insurance policies:
- a) Accidental death and dismemberment
 - b) Waiver of premium
 - c) Cost of living
 - d) All of the above

48. Choose the correct statement about a cost of living rider. The policy owner:
- a) Is only charged a flat fee to have the rider attached
 - b) Could experience a decrease in amount of the policy if the CPI decreases
 - c) Pays an additional premium for the extra protection the rider provides and will see the face amount of the contract increase according to the increase of the index
 - d) All the above
49. Inflation can have a tremendous eroding effect on the purchasing power of benefits that are received from a disability income policy. What type of supplementary benefit rider can be used by the insured to offset the effects of inflation?
- a) Social insurance supplement rider
 - b) Guaranteed purchase option rider
 - c) Cost of living adjustment rider
 - d) Inflation offset rider
50. Oscar owns a whole life policy that he has been paying into for many years. He would like to continue having life insurance, and can afford to make the premium payments, but needs about 30% of the cash value for a couple of years. What would be the best course of action for Oscar to take?
- a) Continue making the premium payments to keep the contract in force and borrow from cash value
 - b) Since he must surrender the policy to get any money out he can do so, then buy another policy with the other 70% of the funds he received from the cash value
 - c) Find another source of funds. He has no access to cash value until the age of 100
 - d) Find another source of funds. Whole life policies do not build cash value
51. What does the incontestable clause of a life insurance policy do?
- a) It keeps the cash value from losing value if the premium is not paid
 - b) It keeps the insurer from canceling the policy if, after two years, there is a discovery of error, concealment, or misstatement by the policy owner
 - c) It insures the insurance company will not be liable for the acts of fraud by its agents
 - d) All the above
52. One of the provisions commonly found in life insurance is the "misstatement of age" clause. If the age of the insured is in error but not discovered until much later, the insurance company will:
- a) Make an adjustment to the face amount to properly reflect the premiums that have been paid
 - b) Send back all collected premiums to the insured and cancel the policy
 - c) Send back all collected premiums to the insured, pay interest on that amount and cancel the policy
 - d) Try to establish if there was intent to defraud. If not, the insurer will most likely not pursue legal actions

53. Choose the correct statement about the ten-day free look provision in a life insurance policy:
1. A full refund of premium is required if the policy is returned within 10 days of delivery
 2. The contract is in force during the 10 day period and any claims must be paid even though the insured returns the contract
- a) 1 only
b) 2 only
c) 1 and 2
d) neither of the above
54. The California Insurance Code contains very specific regulations regarding the ability of a senior citizen to return a life insurance policy or annuity. The regulation:
1. Applies to group plans and individually issued policies equally
 2. Allows a senior citizen a minimum of 30 days to return a life or annuity contract to the insurer. They are entitled to a full refund of premium
 3. Specifies a senior citizen as an individual who is at least 65 year of age as of the purchase date
- a) 1 and 2
b) 2 and 3
c) 1 only
d) 2 only
55. Juan has been named as an irrevocable beneficiary in a life insurance policy. Juan, therefore:
- a) Can pay premiums at any time and become the policy owner
 - b) Has vested rights to the policy proceeds that, unless he gives consent, cannot be affected by the policy owner nor any creditors
 - c) Is in a legal position to name whoever he wants to as the contingent beneficiary
 - d) a, b and c above are all false
56. An irrevocable beneficiary has certain rights to policy proceeds not shared by revocable beneficiaries. For example, an irrevocable beneficiary must grant permission for the policyowner to borrow from the cash value.
- a) True
b) False
57. In life insurance policies, naming beneficiaries is an important part of the application process. Choose from below the best description of a contingent beneficiary:
- a) One with the first right to receive proceeds if there is no surviving primary beneficiary and the insured dies
 - b) One with the right to proceeds only if the primary and secondary beneficiary die in a common disaster
 - c) One with the right to proceeds if the insured dies
 - d) All the above are false

Practice Exam 4

58. Choose the best beneficiary designation for the following case: The children are to receive equal shares of the benefit. If any of the children die before the insured does, the insured wishes the remaining children receive the deceased child's share equally divided among them.
- a) Per stirpes
 - b) Per capita
 - c) Each named as primary beneficiary, equal shares
 - d) None of the above
59. Many insurance policies issued contain a common disaster provision. The provision is designed to protect:
- a) Insurers
 - b) Contingent beneficiaries
 - c) Both a and b
 - d) Neither a nor b
60. According to the terms of the suicide clause found in a life insurance policy, if an insured commits suicide within six months after the policy is issued, what will the insurer do?
- a) Pay the full claim
 - b) Pay nothing
 - c) Pay a pro-rated amount of the premiums received
 - d) Refund all the premiums paid
61. Settlement options provide a number of choices relating to how death benefits can be paid by the insurer. These choices:
- 1. Can be made by the policyowner at the time of submission of the application
 - 2. Can be changed by the policyowner at any time before benefits are paid
 - 3. Can be made by the beneficiary if, at the time of death of the insured, no option was established
- a) 1, 2 and 3
 - b) 1 and 2
 - c) 1 and 3
 - d) 1 only
62. If no other selection is made, which of the following settlement options becomes the default or automatic mode of settlement for the death benefit of a life insurance policy?
- a) Life income with period certain
 - b) The purchase of an annuity
 - c) Installment payments
 - d) Lump sum in cash
63. All of the following are true regarding a policyowner that ceases making premium payments on a 10-pay life policy and selects the extended term insurance option, except:
- a) The face amount will be the same on the new extended term plan as the old 10-pay life policy
 - b) Premium payments no longer have to be made
 - c) The extended term policy will be in force a certain period and then expire
 - d) The extended term policy will reflect the same cash value as the original policy

64. From the examples below, choose the one that gives the best description of a reduced paid-up non-forfeiture option:
- a) The 40-year-old insured can no longer pay on her whole life policy. She takes the cash value from the plan and buys a paid-up policy for the same amount that lasts only 5½ more years
 - b) The insured decides to cease paying premiums on his \$100,000 cash value policy. He uses the cash value to buy a paid-up policy of \$40,000 face amount
 - c) Pam can't afford the premiums on a 10-pay life policy that now has \$50,000 in it. She contacts the insurer with her instructions and is paid the full \$50,000 in cash
 - d) None of the above describe the reduced paid-up option
65. What type of life insurance policy gives the owner the right to share in the insurer's profits in the form of a dividend?
- a) Whole life
 - b) Endowment policy
 - c) Any modified endowment contract
 - d) Participating policy
66. All of the following are examples of the dividend options available on a whole life insurance policy, except:
- a) One-year term option
 - b) Application to reduce premium
 - c) Paid-up additions
 - d) Life income with period certain
67. When the public purchases annuities, they are attempting to address the risk of:
- a) Dying before the age reflected on mortality tables
 - b) Getting too old to qualify for life insurance
 - c) Having to pay any taxes on their savings
 - d) Outliving the money they have saved for retirement
68. A type of contract, which is considered a savings instrument used for accumulating investment funds for the purpose of eventually receiving those through a systematic program of withdrawal is a/an:
- a) An annuity
 - b) Term insurance policy
 - c) Disability insurance policy
 - d) All the above
69. Charles received a large inheritance from his uncle's estate. Because he can use the income, he buys an annuity with the full amount of his inheritance that will begin paying him monthly payments starting the following month. Charles has purchased a/an _____ annuity?
- a) Flexible premium deferred
 - b) Single premium immediate
 - c) Annual premium deferred
 - d) None of the above

Practice Exam 4

70. Jennifer has reached a time in her life where she wishes to begin receiving payments from her tax-deferred annuity. Her agent has suggested she take the money by means of the "life income with 10 years certain" option. When she does, the insurer will make payments:
- a) For 120 months assuming she lives that long
 - b) For at least 120 months or the remainder of her life
 - c) Up to the date she dies, then payments will be made to her beneficiary
 - d) For 120 months then payments will decrease and be paid to her for life
71. In an overall comparison of a savings account and a tax-deferred annuity, where the savings account and annuity both pay the same interest, on the same principal amount, and for the same period of time, which will generate the highest return on investment dollars?
- a) The savings account and annuity will be about the same, even after the taxes
 - b) The savings account will pay more because of commissions paid on the annuity
 - c) The annuity will pay more because of the tax deferral qualities it has
 - d) The savings account will pay more because of the FDIC
72. An annuity which may be used to help fund retirement in a few years maintains a "separate account." The owner purchases "accumulation units." This is called a _____ annuity?
- a) Qualified
 - b) Fixed
 - c) Flexible
 - d) Variable
73. The master policy owner of a group insurance policy is responsible for paying the premiums, submitting information about the employees, forwarding the applications to the insurer and maintaining the policy.
- a) True
 - b) False
74. Frank is an eligible employee who wishes to participate in group insurance. To get this coverage without having to provide the insurer with evidence of insurability, Frank must:
- a) Do nothing at all, he is automatically entitled by being an eligible employee
 - b) Pay the annual premium for the first anniversary year
 - c) Submit the files the doctor has on Frank's past medical history along with certificates of insurance
 - d) Enroll for insurance during the eligibility period
75. Harold, a variable annuity applicant, does not request the premium be invested in a stock or bond portfolio during the cancellation period. The policy is returned to the company within the cancellation period. What is Harold entitled to receive?
- a) The entire premium
 - b) The value of the policy on the day it was cancelled
 - c) The premium less the surrender charge
 - d) The value of the policy on the day the policy was delivered

**PRACTICE EXAM 4
ANSWERS**

1. (D) Any form of advertisement must contain the license number.
2. (D) This is the requirement.
3. (D) This is the definition.
4. (C) Using nationality would be discriminatory.
5. (A) Sex is not discriminatory.
6. (A) There is no such thing as free insurance.
7. (B) Employees receive a certificate of insurance.
8. (A) It would be unethical because he would be selling a product that the client does not understand.
9. (C) This is the definition of the "Blackout Period."
10. (B) Buy/sell agreements are used in business situations.
11. (D) Vice President = Key Person.
12. (C) Contributory life requires a contribution from the employee.
13. (B) This is a summary of the purpose of Social Security.
14. (A) This is how Social Security works.
15. (B) This is how lump sum payments are treated under current tax law.
16. (A) Dividends are a return of excess premium but they are not taxable.
17. (A) This is how death benefits are treated under current tax law.
18. (A) Annuity death benefits are received tax free equal to the amount of money put into the annuity, but the interest it has earned is taxable upon death.
19. (B) Using the formula, this would be the amount he would have to pay taxes on.
20. (C) Both of the scenarios presented are possible.
21. (C) Underwriting selects the risks.
22. (C) The most hazardous job creates the greatest risk, so they would classify him based on the greatest risk.
23. (A) The MIB is for the use of insurance companies and they pay for it.
24. (A) Any insured can name any beneficiary, and the beneficiary does not have to approve or disapprove of being named.
25. (B) Entire Contract = Policy + Application.
26. (B) Group life insurance is issued without medical information. Individual plans require medical information.
27. (D) All of the risks listed would be accepted by the underwriting department.
28. (D) Policy reserves have nothing to do with rates. They are used to pay claims.
29. (C) With an annual payment, the company has the money to invest for the entire year. Also, there are fewer expenses so the premium will be lower than if paid on any other mode.
30. (A) Life insurers (not life-only agents) sometimes use binding receipts.
31. (C) Group (and industrial insurance) is never classified as ordinary insurance.
32. (C) These are characteristics of term life.
33. (A) This is how and why decreasing term is used.
34. (A) This is how permanent cash value life insurance works.
35. (D) This is how permanent cash value life insurance works.
36. (B) The cash value equals the death benefit at age 100.
37. (D) The type of insurance has nothing to do with the payout of the death benefit. If the insured dies while the premium is paid current, the death benefit will be paid out.
38. (B) Children's coverage can be converted without evidence of insurability.
39. (D) This is a description of survivorship policies. Answer 3 is partially correct in that the premiums would be less than buying two separate policies but since the word "substantially" is used, it is not correct.

Exam 4 Answers

- 40. (B) This is a description of how the payor benefit works.
- 41. (C) This is how universal life works.
- 42. (B) They are governed by the SEC which oversees the NASD.
- 43. (A) This is one of the characteristics of how ADB works.
- 44. (C) This is the definition.
- 45. (C) The state exam often asks more than one question about the same test area
- 46. (B) This is how the guarantee insurability rider works.
- 47. (D) These are frequently found in life policies.
- 48. (C) This is how the COLA rider works.
- 49. (C) The COLA rider is put on policies to keep pace with inflation.
- 50. (A) As long as he keeps the policy current, the cash value will continue to increase. When he needs the funds he can take a loan and use the money as he wishes.
- 51. (B) This is the definition.
- 52. (A) This is the definition.
- 53. (A) This is how the 10 day free look works.
- 54. (D) Older people have longer to review their policies.
- 55. (B) These are characteristics of Irrevocable beneficiaries.
- 56. (A) This is a characteristic of an Irrevocable beneficiary.
- 57. (A) This is the definition of a contingent beneficiary.
- 58. (B) This is the definition of per capita.
- 59. (B) This is why the common disaster provision was created.
- 60. (D) This is how the suicide provision works.
- 61. (A) This is how settlement options work.
- 62. (D) This is the default option.
- 63. (D) The cash value in the policy is being used to pay for the term insurance so the cash value will not be the same.
- 64. (B) This is the description of how the reduced paid up option works.
- 65. (D) This is part of the definition of a participating policy.
- 66. (D) This is a settlement option not a dividend option.
- 67. (D) People who purchase annuities are interested in retirement and not outliving their money.
- 68. (A) This is the definition of an annuity.
- 69. (B) This is a description of a single premium immediate annuity.
- 70. (B) This is a description of how a life income with 10 years certain works.
- 71. (C) This is one of the characteristics of how an annuity works.
- 72. (D) Variable annuities always maintain a separate account and while in the accumulation phase, the payments buy "accumulation units."
- 73. (A) This is how group insurance works.
- 74. (D) This is what Frank must do.
- 75. (A) "Cancellation period" is also known as "Free Look" or "Right to Return."

PRACTICE EXAM 5

1. Any transaction that involves purchasing a life insurance policy and terminating an existing policy is known as:
 - a) Replacement
 - b) Reinsurance
 - c) Reinstatement
 - d) Assignment
2. According to the CA Insurance Code, in which of the following classes of insurance can a binder NOT be issued?
 - a) Marine insurance
 - b) Auto insurance
 - c) Fire insurance
 - d) Life insurance
3. An organization will cease to exist as an entity eligible to hold a license for all of the following reasons, except:
 - a) Termination of an association
 - b) Termination of a key employee
 - c) Dissolution of a corporation
 - d) Dissolution of a co-partnership
4. What does it mean if an agent's license is inactive?
 - a) The agent can still transact insurance business in CA, but not in any other states until the license is reactivated
 - b) The agent can transact any insurance business with another agent's approval
 - c) The agent can transact any insurance business for which the agent is licensed
 - d) The agent cannot transact any insurance business for which a license is required
5. If the Commissioner issues a Notice of Seizure for documents and the individual fails to send those documents what is the penalty?
 - a) 1 year in jail
 - b) \$1,000 fine
 - c) 1 year in jail and/or \$1,000 fine
 - d) Each state handles discipline in its own way
6. Which of the following must any person engaged in the business of acting as an insurance agent or broker who receives compensation for arranging or directing sales in connection with a premium financing agreement do?
 - a) Provide a list of the potential complaints lodged against the broker or agent through past customers
 - b) Provide records of interest payments to the broker agent with respect to interest paid by the insurer
 - c) Maintain a list of accounts in connection with compensation exempted in premium financing payments for three years
 - d) Provide a list of current accounts for any client who wishes to see the records

Practice Exam 5

7. All of the following would be considered one of the three major types of loss exposures, except:
 - a) Liability loss exposure
 - b) Financial loss exposure
 - c) Human and personnel loss exposure
 - d) Property loss exposure
8. Tony Brown has a CLU certification. Which of the following names would be automatically approved for his agency's use?
 - a) Tony Brown CLU and Company
 - b) Brownies Insurance Services
 - c) Brown Insurance
 - d) None of these would be automatically approved
9. A person has paid \$50,000 into a fixed annuity over 20 years. When he decides to begin income payments the insurer calculates that he will receive \$4,000 per year for life, which means that he will receive a total of \$100,000. In the first 10 years of payments how much is taxable each year?
 - a) \$0
 - b) \$800
 - c) \$2,000
 - d) \$4,000
10. According to the Code, all insurers must maintain a department to investigate:
 - a) Possible abuses of rating laws
 - b) Possible arson
 - c) Possible fraudulent claims from insureds
 - d) Possible fraud by insurers
11. What does the Insurance Commissioner have the right to do if an agent lacks authority from an insurer named on a binder for coverage?
 - a) Request his certificate of authority
 - b) Authorize agent with a certificate of convenience
 - c) Suspend or revoke the license of the agent
 - d) Fine the insurance company
12. An insured bought an annuity ten years ago. He will retire in five years. To determine the value of the annuity, the number of accumulation units is multiplied by the value of the separate account. What type of annuity was purchased?
 - a) Variable annuity
 - b) Fixed premium annuity
 - c) Tax sheltered annuity
 - d) Single payment annuity
13. The class beneficiary designation which means that the beneficiaries will receive equal shares of the death benefit divided among the surviving members of the class is:
 - a) Class beneficiaries, equal shares
 - b) Per capita
 - c) Per stirpes
 - d) Per diem

14. The mathematical rule that says that as the number of individual but similar exposure units increases the easier it is to predict losses is which of the following?
- a) Insurable interest standard
 - b) Contract law
 - c) The law of large numbers
 - d) Materiality
15. Which of the following is a description of a Life and Disability Analyst?
- a) A broker paid fees for service
 - b) A person licensed to assist an agent in soliciting life insurance
 - c) A person licensed to advise clients about life and disability insurance for a fee
 - d) Any agent
16. What happens to a license after the death of a natural person who holds a valid insurance license?
- a) It always terminates
 - b) It may be transferred to another person
 - c) The license becomes inactive until the expiration date
 - d) The license must be returned to the Commissioner to cancel the license
17. Which of the following are common insurance policy provisions?
- a) Reinstatement, suicide, pre-existing conditions
 - b) Entire contract, grace period, reinstatement
 - c) Entire contract, incontestability, pre-existing conditions
 - d) Grace period, suicide, right to return
18. With the cost of living rider, the life insurance policy holder:
- a) Must increase or decrease the face value of the policy as the index increases or decreases
 - b) Gets the automatic increase in the face value if there is an increase in the cost of living index. There is an additional premium for the additional coverage
 - c) Gets the automatic increase in the face value if the index goes up. There is no charge except for the flat charge for the rider
 - d) All of the above are false
19. All of the following is required on a life insurance application, except:
- a) Health history
 - b) Amount of other life insurance in force
 - c) Age of the insured
 - d) The amount of disability income insurance in force
20. All of the following statements regarding survivorship life insurance are true, except:
- a) It is particularly well situated to provide cash to cover estate taxes
 - b) The policy face amounts are usually for more than \$1,000,000
 - c) It offers premiums that are quite low compared to what you would be charged for separate policies
 - d) The policy face amount is made out based only on the death of the first to die

Practice Exam 5

21. Which of the following is not an option for the use of the policy dividends?
- a) Fund the distribution of monthly income payment
 - b) Purchase paid-up additions
 - c) Reduce the current premium
 - d) Purchase one year term insurance
22. What information can a party to a contract of insurance be allowed NOT to communicate according to California law?
- a) Information which the other party already knows
 - b) Information not specifically asked by an agent and company, even if it's considered relevant
 - c) Information which is material to the contract
 - d) Information which cannot be proven but is material
23. According to the CA Insurance Code, a judgment against an applicant who entered a plea of "nolo contendere" is considered to be:
- a) Innocent by code, but guilty by law
 - b) Innocent
 - c) Referred to the Insurance Commissioner for opinion
 - d) Convicted
24. The policy provision which prevents an insurer from voiding a policy for misstatements after two years is:
- a) Incontestability
 - b) Indemnity
 - c) Misrepresentation
 - d) There is no such provision
25. The clause that protects the proceeds of a life insurance policy from attachment by creditors after the death of the insured is:
- a) Common disaster clause
 - b) Spendthrift trust clause
 - c) Incontestability clause
 - d) Beneficiary clause
26. Which of the following gives individuals the right to purchase additional life insurance regardless of their insurability?
- a) Incontestability
 - b) Accelerated death benefit
 - c) Guaranteed insurability
 - d) Waiver of premium
27. Which is NOT part of transacting insurance?
- a) Solicitation
 - b) Establishing a list of clients
 - c) Negotiation
 - d) Execution of a contract
28. An insurer organized under the laws of the State of California is a:
- a) Domestic insurer
 - b) Foreign insurer
 - c) Non-alien insurer
 - d) Non-admitted insurer

Practice Exam 5

29. An insured and beneficiary die in a car accident and it is impossible to determine who died first. Who will receive the life insurance proceeds?
- a) The insured's estate
 - b) The insurance company retains the proceeds
 - c) The beneficiary's estate
 - d) Both the insured's and beneficiary's estate will share
30. A beneficiary wants to receive \$2,000 per month until the principal and interest are exhausted. Which settlement option should be chosen?
- a) Fixed amount option
 - b) Cash option
 - c) Fixed period option
 - d) Interest option
31. Which of the following applies to the social insurance program known as Social Security?
- a) Contributions are compulsory for most workers
 - b) Benefits are based upon a contract with the insured
 - c) Benefits are paid to each individual matching their contributions
 - d) All insured workers begin to receive benefits at age 65
32. Any person who diverts or misappropriates fiduciary funds is guilty of:
- a) Misrepresentation
 - b) Forgery
 - c) Fraud
 - d) Theft
33. A probationary period in a group policy is intended for people:
- a) Who decline to join the group during the eligibility period
 - b) With other coverage after a qualifying event
 - c) With a pre-existing condition when they joined the group
 - d) Who joined the group after the effective date
34. An insurer owned by policyholders is:
- a) Fraternal insurer
 - b) Capital stock insurer
 - c) Mutual insurer
 - d) Reciprocal exchange
35. All of the following are valid reasons for the Insurance Commissioner to deny the applicant for an insurance license, except:
- a) Applicant does not have a good business reputation
 - b) Applicant is not properly qualified to perform duties
 - c) Applicant does not have a California business address
 - d) Applicant lacks integrity
36. An agent who replaces an existing life insurance contract, must do all of the following, except:
- a) Submit a copy of the replacement notice to the applicant
 - b) Submit a copy of the replacement notice to the existing insurer
 - c) Submit a copy of the replacement notice to the replacing insurer
 - d) Obtain a signed statement from the applicant as to whether insurance is to be replaced

Practice Exam 5

37. Why should a contingent beneficiary be named in a life insurance policy?
- a) To determine who receives the policy benefits if the primary beneficiary is deceased
 - b) To become the policy owner if the primary beneficiary is deceased
 - c) To allow creditors to receive policy proceeds
 - d) To share the proceeds with the primary beneficiary
38. Which statement best describes a life insurance policy dividend?
- a) It is a stockholders right
 - b) It is found in a non-participating whole life policy and in a comparable participating policy
 - c) It is a distribution of excess funds accumulated by the insurer on participating policies
 - d) It is the interest paid to the policy holder from the cash value of a permanent insurance policy
39. In order for an entity to be eligible to hold a license, a co-partnership whose membership has changed must do all of the following, except:
- a) Obtain the signature of the general partner on the application for registration
 - b) At least one person who will exercise the agency powers of the partnership must remain with the co-partnership
 - c) Return the old license with signatures of the original partners to the Commissioner with an explanation
 - d) Submit a new application to the Commissioner within 30 days of change of partners with the names of the new members of the partnership
40. The Federal Act that is designed to protect group plan participants, establish pension equality, and mandates strict reporting and disclosure requirements is:
- a) COBRA
 - b) DEFRA
 - c) TEFRA
 - d) ERISA
41. The person whose life is the object of a life insurance policy is:
- a) Applicant
 - b) Policy owner
 - c) Insured
 - d) Beneficiary
42. How is the Insurance Commissioner selected?
- a) An annual meeting of insurance professionals in the state
 - b) Appointed by the governor
 - c) A group of qualified applicants voted on by the legislature
 - d) An election by the people
43. A policy is returned to the insurer within 10 days of the date the policy is delivered. How much of the premium is returned to the applicant?
- a) None
 - b) 50%
 - c) 80%
 - d) 100%

44. The SEC is involved in the regulation of:
- a) Universal life policies
 - b) Interest-sensitive life policies
 - c) Variable life policies
 - d) All annuities
45. The guaranteed insurability rider provides that the policy holder can purchase more insurance:
- a) Any time during the policy owner's life, on his own life, without proof of insurability
 - b) On the lives of his dependants at certain specified ages
 - c) On his own life at specified ages provided the policy owner is insurable
 - d) On his own life at certain specified ages without proof of insurability
46. The purpose of laws regarding the replacement of life and annuity contracts includes all of the following, except:
- a) To establish the penalties for failure to comply with replacement requirements
 - b) To reduce the opportunity for misrepresentation and incomplete disclosures
 - c) To protect the interests of life insurers and their agent
 - d) To assure the purchaser receives information to make an informed decision
47. Who has the right to change life insurance policy beneficiaries?
- a) The insurer
 - b) The beneficiary
 - c) The policyholder
 - d) The Insured
48. A person who acts in a capacity that requires an active license without having a valid license, is guilty of a:
- a) Fraud
 - b) Misdemeanor
 - c) Felony
 - d) Misrepresentation
49. Any attempt by an existing insurer or their agent to dissuade a policy owner from replacing an existing life insurance or annuity contract is known as:
- a) Replacement
 - b) Reinstatement
 - c) Assignment
 - d) Conservation
50. Unless the applicant indicates otherwise during the right-to-return period in an individual annuity, the premium for a variable annuity would be invested only in:
- a) Fixed income investments and money market funds
 - b) The mutual funds underlying the variable annuity contract
 - c) The insurer's general fund
 - d) The insurer's separate account

Practice Exam 5

51. Along with having enough assets to provide for its liabilities and for reinsurance for all outstanding risks, in order to remain solvent, the insurer must also meet minimum requirements equal to what amount required by the California Code?
- a) Paid-in capital
 - b) \$1,000,000
 - c) 25% of policy holders deposits
 - d) There are no minimum requirements
52. All of the following would be considered unfair trade practices, except:
- a) Making a statement to the public about a person in the insurance business that is untrue or misleading
 - b) Committing an act of discrimination whether it be fair or unfair
 - c) Filing with any public official a false statement of financial condition concerning an insurer
 - d) Making any statement misrepresenting terms of any policy
53. All of the following would be considered unfair claim practices, except:
- a) Failing to acknowledge communications regarding claims arising from an insurance policy
 - b) Misrepresenting to a claimant policy provisions relating to a claim
 - c) Directly advising a claimant to obtain the services of an attorney
 - d) Failure to affirm or deny coverage of claims within a reasonable time frame after proof of loss requirements have been met and submitted by the insured
54. A variable annuity applicant requests that the premium be immediately invested in a stock portfolio. The policy is returned to the insurer within the cancellation period. What is the applicant entitled to receive?
- a) The policy amount value on the date the policy was received by the insurer
 - b) A refund of the premium minus the surrender charge
 - c) A refund of the entire premium
 - d) The policy amount value on the date the policy was delivered to the insured
55. If a person gives an erroneous statement on an application unintentionally, this is:
- a) Fraud
 - b) False
 - c) Frivolous
 - d) Fair
56. As an employer, the sudden death of an employee is considered a:
- a) Body loss
 - b) Personal loss
 - c) Personnel loss
 - d) Human loss
57. Regarding an organizational license, what happens when a corporation is dissolved?
- a) The license is continued if an original partner (stockholder) remains with the new corporation
 - b) The license is terminated
 - c) The license is passed on to the beneficiary
 - d) The license is renewed provided that fees are paid

58. Which of the following would be considered a morale risk?
- a) Misstatement by an applicant
 - b) The insured is blind
 - c) The insured drives too fast
 - d) The insured is color blind
59. Senior citizens are given a 30 day right to return a life insurance policy:
- a) At age 65
 - b) Under individual or group plans
 - c) At age 60 or older
 - d) All of the above
60. Subject to the restrictions of the CA Insurance Code, any person capable of making a contract may be considered:
- a) An insurer
 - b) A broker
 - c) An agent
 - d) A solicitor
61. The purpose of the California Life and Health Guarantee Association is:
- a) It helps small insurers with less capital to compete with larger insurers
 - b) To protect life policy holders and/or insureds when any insurer becomes insolvent
 - c) To guarantee that any promises made by any insurer's sales or marketing units are fulfilled
 - d) (Subject to certain limitations) to protect life and health policy holders and/or insureds when member insurers become insolvent
62. If an insurance agent or broker receives a commission for arranging a premium finance agreement they must do which of the following?
- a) Disclose to the client the amount of all commissions received
 - b) Disclose to the client the amount of commission received for arranging the financing agreement
 - c) Share the commission with the client
 - d) None of the above
63. Which of the following is NOT ordinary life insurance?
- a) A life paid up to 65 policy
 - b) A 30-year decreasing term policy
 - c) A group life insurance policy
 - d) A 20-year endowment policy
64. A failure to communicate information which a party to an insurance contract knows and should communicate, is called an act of:
- a) Concealment
 - b) Intimidation
 - c) Warranty
 - d) Coercion

Practice Exam 5

65. When a family policy covers children, all of the following are true, except:
- a) The coverage is term insurance for a fixed amount
 - b) Evidence of insurability is required if coverage for children is permanent insurance
 - c) There is no additional charge for covering new additions to the family
 - d) All children living with the family are covered even if born or adopted after the policy is issued
66. Which of the following is not one of the common personal uses of life insurance?
- a) Funding a buy/sell agreement
 - b) Helping to fund a person's retirement
 - c) Creating emergency funds to avoid the need to liquidate assets
 - d) Creation of an immediate estate
67. An individual license is considered terminated:
- a) When transferred to another person
 - b) When transferred to another licensee
 - c) On the death of the licensee
 - d) When transferred to a beneficiary
68. A movie company concerned about their financial losses in case of the illness of one of their actors would purchase:
- a) Surety insurance
 - b) Workers' Compensation
 - c) Miscellaneous insurance
 - d) Credit insurance
69. What must an insurer do who accepts an application from an agent who is not specifically appointed by that insurer and then issues a policy from that application?
- a) The agent must become an employee of that company within 30 days or re-submit the application
 - b) Add the agent's name on the company's list of approved agents
 - c) Send the agent an employment approval notice within 30 days of policy issuance
 - d) Forward to the Insurance Commissioner a Notice of Appointment within 14 days of receipt of application
70. Which of the following is considered ordinary life insurance?
- a) Mortgage insurance
 - b) Continuous premium whole life
 - c) Group insurance
 - d) 30-year decreasing term insurance
71. Which of the following is a true statement regarding the social security (OASDHI) program?
- a) The program is fully funded
 - b) Except for a few exemptions, it is a voluntary program
 - c) The program provides a minimum floor of income, and is meant to supplement a retiree's own personal program
 - d) The actuarial value of each person's contribution is equal to the actual value of each person's benefit

72. Which party has rights in a life insurance policy only after the death of the insured?
- a) The policy owner
 - b) The beneficiary
 - c) The applicant
 - d) The insured
73. A person who spends \$10,000 in a single premium annuity, and another \$10,000 in a Certificate of Deposit (CD). Both pay 10% interest annually. The person is in a 31% income tax bracket. For 40 years, this person does not touch his annuity, and reinvests all income from the CD at 10%. Which of the following statements is true?
- a) The CD would be worth several hundred thousand more because there is no commission paid on a CD
 - b) The annuity would be worth several hundred thousand more because of the tax deferral of the earnings
 - c) The CD would be worth several hundred thousand more because of tax deferral
 - d) They would be worth approximately the same amount after the payment of deferred income taxes
74. Listed below are descriptions of four types of policies. Which is the term policy?
- a) The policy premium increases after three years and then it remains the same until the policy is paid up at age 55
 - b) The policy has a face amount of \$100,000. The policy holder pays premiums annually. At the end of 10 years the cash value is \$25,000
 - c) The policy premiums must be paid for 20 years. Afterwards, the policy continues with no additional premiums paid. The policy has non-forfeiture values
 - d) The policy has a face amount of \$100,000. Every five years, the premium paid increases. After ten years, the policyholder stops paying premiums and the coverage stops. The policy has no cash value
75. The main master policy owner of a group insurance contract is the:
- a) Employer
 - b) Employee members
 - c) Plan administrator
 - d) Agent

**PRACTICE EXAM 5
ANSWERS**

1. (A) This is an example of "replacement."
2. (D) Life-only agents issue conditional receipts, not binders.
3. (B) Although the termination of a key employee may harm an organization, it will not usually cause the organization to cease to exist.
4. (D) In essence, the agent is out of the insurance business.
5. (C) Although answer choice (d) is true, it does not directly answer the question.
6. (C) This is the regulation.
7. (B) Financial loss is not considered one of the three major losses (according to the DOI educational objectives for F&C).
8. (D) Agency names are never "automatically" approved.
9. (C) Question refers to the exclusion ratio formula.
10. (C) Insurance companies and the Department of Insurance have targeted this as a major problem that needs to be addressed.
11. (C) The Commissioner has the right to "discipline" agents. This means suspension or revocation of their license. This is but one example of a circumstance that would cause disciplinary action.
12. (A) Key phrase is "separate account."
13. (B) This is one definition of per capita. Per stirpes refers to sharing the beneficiary's share of an estate among that beneficiary's children.
14. (C) Out of a large group of policy holders, the insurance company can fairly accurately predict the number of policy holders who will suffer a loss, not by name, but by number. They base their premium rates upon this mathematical rule.
15. (C) This is the definition of a Life and Disability Analyst. Choices (a) and (c) refer to property and casualty insurance, not life insurance.
16. (A) Once a natural person dies, their license is automatically terminated.
17. (B) Policies commonly have these provisions. The "entire contract" provision states that the policy, together with the copy of the attached application, is the entire contract. Pre-existing conditions are not a provision, and the right to return is an *optional* provision.
18. (B) Based upon the Consumer Price Index the face value may increase OR decrease.
19. (D) The amount of life insurance in force is required. The amount of disability insurance is not.
20. (D) "Survivorship Life" is also called "Joint and Last to Die."
21. (A) The distribution of monthly income payments do not come from dividends, which are paid to policyowners under a participating policy.
22. (A) A party to a contract does not need to communicate known information, information that should be known, information which the other party waives, nor information that is not material to the risk.
23. (D) "Nolo contendere" is Latin for "no contest."
24. (A) This is the definition. However, if the misstatement concerns the age of the individual, the insurance company can adjust the benefit according to the correct age.
25. (B) This clause will guard the proceeds from creditors until after the time the beneficiary receives them.
26. (C) These additions can be bought at stated times up to a maximum age (usually 40 or 45), or upon the birth of a child.

27. (B) Establishing a list of clients does not come under the CA Insurance Code definition of "transact." All the other choices constitute transacting insurance.
28. (A) A domestic insurer is one organized under the laws of the state of CA.
29. (A) Statement of fact since no contingent beneficiary is named.
30. (A) The key word is "exhausted." This option emphasizes the dollar amount per installment as opposed to length of time installments are to be paid.
31. (A) Federal taxes are withheld from payroll checks of all covered workers through the "Federal Insurance Contributions Act" (FICA). Exceptions are certain categories of Federal and State public employees and others.
32. (D) Fiduciary responsibilities include the proper handling of the funds of clients, which must be held in trust.
33. (D) The probationary period is intended for any person joining the group after the beginning of the policy.
34. (C) This is the definition. Mutual insurers issue participating policies.
35. (C) The lack of a CA business address is not a valid reason to deny an insurance license to an applicant.
36. (B) The replacing insurer notifies the existing insurer.
37. (A) It is important to know who will receive the policy benefits if the primary beneficiary is not able to receive them.
38. (C) This is the definition of a policy dividend.
39. (C) There is no requirement to return the old license to the Commissioner.
40. (D) ERISA is the Employee Retirement Income Security Act.
41. (C) Memorize this definition of the insured.
42. (D) Unlike the Real Estate Commissioner, who is appointed by the governor, the Insurance Commissioner is elected by the people.
43. (D) The policy has been returned during the "free look" period.
44. (C) Since variable life policies provide a return linked to an underlying portfolio of securities, the SEC (Securities Exchange Commission) is involved in the regulation.
45. (D) This is a definition that needs to be memorized.
46. (C) Replacement laws are designed to protect the public.
47. (C) It is the policyholder who actually owns the insurance policy. Thus, they have the right to make changes such as who the beneficiaries will be.
48. (B) Although there may be misrepresentation involved, with the small amount of information offered in the question, the best answer is misdemeanor.
49. (D) This normally occurs when a policy is in danger or in the process of lapsing.
50. (A) During this period, the premium needs to be in a safe investment that will not fluctuate in value.
51. (A) Statement of fact. Paid-in capital is the sum received by an insurance company at the sale of its stock.
52. (B) Fair discrimination is permitted.
53. (C) Advising a claimant to NOT obtain the services of an attorney is unfair.
54. (A) Since the stock portfolio which underlies the policy will fluctuate, the insurer will value the policy on the date received. (It may be higher or lower than expected by the applicant.)
55. (B) This is just a false, unintentional statement.
56. (C) Although the death of an employee is a human loss, when put in the context of employer/employee, the better answer is the loss of personnel.
57. (B) Statement of fact.
58. (C) Morale risk involves carelessness or irresponsibility.

Exam 5 Answers

- 59. (C) A right to return is also known as a "free look period." For seniors age 60+, this free look is for a period of 30 days if it is a life or annuity contract. The age is 65+ if it is a disability policy.
- 60. (A) Question wording is from the insurance code describing insurers.
- 61. (D) CIGA pays "covered claims" as that term is defined by law.
- 62. (B) In addition, the agent must keep a record of all premiums financed by him/her for a period of three years. There is no requirement to disclose all commissions received or to share any commissions.
- 63. (C) Ordinary = Individual; group insurance is a business plan.
- 64. (A) This is the definition. If an insured withholds information on a material fact, about which the insurance company has no knowledge, the company has grounds to void the contract.
- 65. (B) No evidence of insurability is required under these circumstances.
- 66. (A) The key word here is "personal." Funding a buy/sell agreement through life insurance is a "business" insurance need, not personal.
- 67. (C) Statement of fact.
- 68. (A) This is a Fire & Casualty question that appears on the Life & Health test. The actor's failure to fulfill their obligation can be covered by a surety bond.
- 69. (D) If done within 14 days of receipt of the application, the agency relationship and the insurance contract will be validated (legalized).
- 70. (A) Mortgage insurance is individual (i.e. ordinary) insurance; each of the other choices is, or can be, group insurance.
- 71. (C) Only answer choice c) is a true statement. The others are false.
- 72. (B) The beneficiary is the one designated by the owner of a life insurance policy indicating to whom the proceeds are to be paid upon the insured's death or when an endowment matures.
- 73. (B) While the monies are in the annuity, the earnings are not taxed, whereas in the CD, the earnings are taxed each year. This lowers the worth of the CD investment.
- 74. (D) Term insurance is never paid-up, nor are there cash values or nonforfeiture options available.
- 75. (A) The employer is the master policy owner, while the employees (group members) receive certificates as evidence of membership summarizing benefits provided.

PRACTICE EXAM 6

1. All of the following are true statements concerning the treatment of federal income tax on life insurance, except:
 - a) Premiums paid for individual life insurance policies are not tax deductible
 - b) Employers can deduct as a business expense the cost of insurance premiums paid to benefit employees
 - c) Annuity death benefit proceeds are exempt from all taxation
 - d) Death benefits are generally exempt from Federal Income Taxation
2. The policy owner, age 50, has been paying the premiums on his whole life policy for 15 years. He needs the equivalent of 1/3 of the cash value of his policy over the next two years. He wants to continue to have the policy protection, and can afford to pay the premiums. Which of the following would appear to be his best course of action?
 - a) Look elsewhere. The insurer is not obligated to make the cash value available to the policy owner unless the policy matures. If they did, most policies would lapse
 - b) Look elsewhere. Whole life policies do not develop a cash value
 - c) Surrender the policy and take the cash value. He can then take the other 2/3 and purchase another policy
 - d) Use the policy loan provision to borrow money from the policy, but keep paying the policy premiums to keep the policy in force
3. An insured bought a \$150,000 non-participating whole life policy many years ago. She is 100 years old today. She has never borrowed from the policy, and has made all premium payments when due. The policy cash value is:
 - a) \$0
 - b) \$75,000
 - c) \$100,000
 - d) \$150,000
4. In insurance terms a representation can be considered:
 - a) An absolute fact
 - b) An implied warranty
 - c) An express warranty
 - d) None of the above
5. In life insurance, the loss of a key family member is considered a:
 - a) Body loss
 - b) Personnel loss
 - c) Personal loss
 - d) Human loss
6. Under the 10-day right to return, the policy will pay proceeds:
 - a) If premium is not paid
 - b) If the policy is not returned but premium is paid
 - c) If the policy is returned but premium is paid
 - d) None of the above

7. Identify the penalty for each violation for a person engaging in any unfair method of competition:
- a) No more than \$5,000 per agent
 - b) No more than \$10,000 total no matter how many violations or type of violation
 - c) No more than \$5,000 for each act, or no more than \$10,000 for each act if the act is judged to be willful
 - d) \$5,000 for each violation up to a total of \$10,000
8. Unless it is merely a statement of an expectation or a belief, a representation as to the future is considered which of the following?
- a) Promise
 - b) Provision
 - c) Liability
 - d) Description
9. Regarding life insurance coverage for a company, the one responsible for obtaining the coverage, maintaining the policy, and paying the premium is:
- a) The master policy holder
 - b) The individuals who make up the group
 - c) The insurer that provided the group coverage
 - d) The agent who obtained the group coverage
10. The purchase of an insurance policy may not provide one of the following for the insured. Select the most complete answer:
- a) The replacement of a large possible loss for a small certain loss
 - b) A reduction of uncertainty
 - c) Reduction in the worry/greater peace of mind
 - d) Elimination of the risk
11. Which type of life insurance policy gives the policy owner the right to share in the insurer's surplus?
- a) Participating
 - b) Non-participating
 - c) Level term
 - d) Decreasing term
12. Which of the following is a correct statement about life insurance policy types?
- a) Limited payment whole life policies stay in effect only as long as the premium is paid
 - b) Group life insurance policies are offered only to employees who provide proof of insurability
 - c) The initial premium for term insurance is lower than the initial premium for whole life insurance
 - d) Universal life insurance has a structured premium payment schedule that must be followed for the entire contract period

Practice Exam 6

13. Which of the following is true regarding participation in a group plan?
- a) Minimum participation of 15 years is required for a contributory group health plan
 - b) A non-contributory group health plan must involve all members
 - c) A contributory group health plan must involve all members
 - d) A minimum of 79% of all members is required for a non-contributory group health plan
14. The department responsible for evaluation, selection and distribution of risks is:
- a) The marketing and sales department
 - b) The underwriting department
 - c) The claims department
 - d) The actuarial department
15. Joe receives a large bonus at work and decides to purchase an annuity with it. His monthly income payments from the annuity will begin the following month. Which of the following has Joe purchased?
- a) A single premium deferred annuity
 - b) An individual retirement annuity
 - c) A tax sheltered annuity
 - d) A single premium immediate annuity
16. The policy provision which comes into effect when the insured and primary beneficiary die in a simultaneous (common) accident with no evidence as to who died first is:
- a) Common disaster provision
 - b) Simultaneous death provision
 - c) Joint life provision
 - d) Joint and second to die provision
17. In group insurance the Certificates of Insurance are issued to:
- a) The group sponsor
 - b) The group members
 - c) The employer
 - d) The plan administrator
18. Renewable term insurance can best be described as:
- a) A level death benefit with a raising premium
 - b) A decreasing death benefit with a level premium
 - c) A level death benefit with a decreasing premium
 - d) An increasing death benefit with a level premium
19. The Common Disaster provision is designed to protect the interests of which of the following?
- a) The primary beneficiary
 - b) The insurer and insured
 - c) The contingent or secondary beneficiary
 - d) None of the above

20. How much continuing education is a new agent who is both life and fire & casualty licensed is required to complete?
- a) 25 hours per year for each license
 - b) 15 hours per year for either license
 - c) 25 hours per year for either license
 - d) 15 hours per year for each license
21. In order to deal with the financial consequences of the death of a senior sales manager, a corporation could purchase:
- a) Group life insurance
 - b) Key person insurance
 - c) Business overhead expense insurance
 - d) Ordinary life insurance
22. What would a person be guilty of who refuses to submit books and records to the Commissioner?
- a) Misrepresentation
 - b) Contempt of court
 - c) Felony
 - d) Misdemeanor
23. Which of the following requires a reporting company to respond to a consumer's complaint that his file contains inaccurate information?
- a) Unfair Practices Act
 - b) Medical Information Act
 - c) COBRA
 - d) Fair Credit Reporting Act
24. Which of the following statements about policy dividends is true?
- a) Dividends can be guaranteed
 - b) The insured usually selects the dividend option at the time of policy purchase
 - c) Dividends are only issued with non-participating policies
 - d) All dividends are taxable
25. Insurers make an adjustment to the cash value of an account of a universal life policy each time a payment is made. They add the premium paid and:
- a) Current interest
 - b) A general expense charge
 - c) Current interest; adjusted for mortality and a general expense charge
 - d) Mortality and general expense charges
26. After a life insurance policy has been in effect for two years, what keeps it from being rescinded by the insurer?
- a) The grace period provision
 - b) The right to return provision
 - c) The incontestability clause
 - d) The reinstatement clause

Practice Exam 6

27. Usually, in order to join a group insurance plan without proving insurability, an employee must:
- a) Join the plan during the enrollment period
 - b) Join the plan while eligible but after the enrollment period
 - c) Join the plan during the probationary period
 - d) Join the plan during the elimination period
28. Which of the following is true about life insurance beneficiary designations?
- a) The primary and secondary beneficiary share proceeds equally
 - b) If the primary beneficiary dies before the insured, the benefits are paid to the estate of the insured even if there is a contingent beneficiary
 - c) When the insured dies the death benefit is paid to the secondary beneficiary even if there is a primary beneficiary
 - d) If there is no surviving beneficiary, the death benefit is paid to the insured's estate
29. Renewable term insurance can be best described as:
- a) A level death benefit with an increase in premium
 - b) A level death benefit with a decrease in premium
 - c) A decreasing death benefit with a level premium
 - d) An increasing death benefit with a level premium
30. How do rights of an irrevocable beneficiary differ from those of a revocable beneficiary?
- a) An irrevocable beneficiary may be changed by the policy owner without the beneficiary's consent
 - b) An irrevocable beneficiary has a vested right that neither the policy owner nor his creditors can impair without the beneficiary's consent
 - c) A revocable beneficiary can become the policy owner at any time by paying the premiums
 - d) An irrevocable beneficiary has the right to name a contingent beneficiary for the policy
31. What recourse does an insurer have if a violation of a material warranty on the part of the insured is discovered?
- a) A hearing by the Insurance Commissioner to determine the severity of the misrepresentation, and to determine an appropriate course of action
 - b) None, if the policy has been in force for over 12 months
 - c) Rescission of the policy
 - d) A hearing by a court of law to determine an appropriate course of action an insurer may take
32. Which of the following describes an insurer who has enough financial resources only to provide for all its liabilities and for all reinsurance of all outstanding risks?
- a) Guaranteed
 - b) Insolvent
 - c) Solvent
 - d) Non-participating

33. All of the following statements about the election of a life insurance policy's settlement options are true, except:
- a) The election is made by the policy owner at the time the application is submitted
 - b) When no settlement option is chosen, the proceeds are automatically paid to the policy owner's estate
 - c) The policy owner may change the settlement option after it has been chosen
 - d) The election may be made by the beneficiary if no settlement option is in force at the time of death of the insured.
34. What is the purpose of "key person" insurance?
- a) To provide health insurance benefits to key employees
 - b) To give a key employee the ability to purchase the business
 - c) To give retirement benefits to key employees
 - d) To cover decreased business earnings due to the death of a key employee
35. What would be the Insurance Commissioner's most likely course of action if an applicant for an insurance license had a previous application for a professional license denied for cause by any licensing authority within five years of the date of the filing?
- a) Deny the application probably after a hearing
 - b) As long as it was not insurance related, the application will be granted
 - c) Approve only after a review by a panel of insurance professionals
 - d) Deny the application without a hearing
36. An insured bought a \$150,000 non-participating whole life policy many years ago. He is 100 years old today. He has never borrowed from the policy's cash value and has faithfully made all payments when due. The policy's cash value is:
- a) \$150,000
 - b) \$100,000
 - c) \$0
 - d) \$50,000
37. An intentional concealment entitles the injured party to which course of action?
- a) None, due to the fact that the concealment was unintentional
 - b) \$250 fine to be paid to the injured party
 - c) Possible imprisonment to the party who concealed the information
 - d) Rescission of the contract
38. Loss retention is an effective risk management technique when all of the following conditions exist, except:
- a) The probability of loss is unknown
 - b) The losses are highly predictable
 - c) The insured chooses to assume the losses involved
 - d) The worst possible loss is not serious
39. When are parties to a contract required to communicate information solely based on personal judgment for a matter in question?
- a) Only when asked
 - b) Only when the policy terms require it
 - c) Only when relevant
 - d) Never

40. The guaranteed insurability option provides the ability to:
- a) Waive premium payments in the event of disability
 - b) Access a portion of the death benefit in the event of serious illness
 - c) Double the amount of the death benefit in the event of accidental death
 - d) Purchase additional insurance regardless of insurability
41. Which type of insurance guarantees the right to renew the policy each year, regardless of health, but at an increased premium?
- a) Convertible term
 - b) Level term
 - c) Decreasing term
 - d) Renewable term
42. RW and Associates is an agency which represents BLG Insurance Corporation. RW and Associates may leave the name BLG Insurance Corporation in its advertisements by clearly stating the relationship between the two businesses in any of the following ways, except:
- a) RW and Associates who represent BLG Insurance Corporation
 - b) RW and Associates underwriting for BLG Insurance Corporation
 - c) RW and Associates placing business through BLG Insurance Corporation
 - d) RW and Associates using the services of BLG Insurance Corporation
43. The probationary period in a group policy is intended for people:
- a) Who joined the group after the policy effective date
 - b) Without health coverage after a qualifying event
 - c) Who declined to join the group at the time of eligibility
 - d) With a pre-existing condition when they joined the group
44. Which provision will pay a portion of the death benefit prior to the insured's death due to a serious illness?
- a) Waiver of premium
 - b) Accelerated death benefit
 - c) Cost of living
 - d) Disability income
45. An individual with a low income and high insurance needs should buy:
- a) Whole life insurance
 - b) Universal life insurance
 - c) Endowment insurance
 - d) Term insurance
46. All of the following statements about contingent beneficiaries are true, except:
- a) They receive remaining payments to be made under a settlement agreement upon the primary beneficiary's death
 - b) The contingent beneficiary shares death proceeds equally with the primary beneficiary
 - c) They receive the death proceeds if the primary beneficiary is deceased at the time of the insured's death
 - d) More than one contingent beneficiary may be named

47. The payor rider on a juvenile life policy provides that if the payor dies or becomes disabled before the insured juvenile reaches the age specified on the policy:
- a) The insurer will make the payments until the insured juvenile reaches the specified age
 - b) The insurer will lend money to keep the policy in force
 - c) The insured's estate will make the premium payments
 - d) The insurer will make all of the policy payments
48. The insured is totally and permanently disabled. The insured's policy continues in force without the payment of a premium because the policy contains a:
- a) Grace period provision
 - b) Guaranteed insurability provision
 - c) Reinstatement provision
 - d) Waiver of premium provision
49. All of the following statements about survivorship life insurance are true, except:
- a) The policy face amounts are usually more than \$1,000,000
 - b) The policy face amount is paid out only upon the death of the first insured to die
 - c) It offers premiums that are quite low compared to what is charged on separate policies
 - d) It is particularly well suited to meet the needs of estate taxes
50. If an insurer is not able to meet financial obligations when due, the insurer would be considered:
- a) Insolvent
 - b) Unauthorized
 - c) Impaired
 - d) Non-admitted
51. What does the Insurance Commissioner have the right to do if an agent lacks authority from an insurer named on a binder for coverage?
- a) Fine the insurance company for non-compliance
 - b) Suspend or revoke the license of the agent
 - c) Authorize the agent with a certificate of convenience
 - d) Request a certificate of authority be issued immediately
52. People commonly purchase an annuity to protect against the risk of:
- a) Dying before their home mortgage is paid off
 - b) Becoming uninsurable
 - c) Outliving their financial resources
 - d) Dying too soon
53. In the event of an accidental death, the principal sum in a disability policy will be paid:
- a) Over the course of a set period
 - b) On a sliding schedule
 - c) In one lump sum
 - d) As a monthly indemnity

Practice Exam 6

54. Why is having a large number of similar exposure units important to insurers?
- a) The greater the number insured, the more premium is collected to offset fixed costs
 - b) The insurer increases its market share with every insured
 - c) The greater the number insured, the greater the amount of premiums collected to help cover losses
 - d) The greater the number insured, the more accurately the insurer can predict losses and set appropriate premiums
55. The insured, aged 65, owns a \$100,000 non-participating whole life policy. The policy is paid-up as of today. When would the cash value reach \$100,000?
- a) Today
 - b) Age 85
 - c) Never
 - d) Age 100
56. According to the CA Insurance Code, an insured's policy must specify all of the following, except:
- a) The risks insured against
 - b) The financial rating of the insurer
 - c) The property or life being insured
 - d) The policy period
57. Which of the following is a hazard?
- a) A large number of similar exposure units
 - b) A peril
 - c) A condition that might increase the likelihood of a loss occurring
 - d) A speculative risk
58. When a licensed agent submits a renewal application with applicable fee on or before the expiration date:
- a) The agent will be able to operate if a receipt for payment is returned prior to the license expiration date.
 - b) The agent will be able to operate for up to 60 days after the specified expiration date.
 - c) The agent will be able to operate if the agent goes in person to the insurance department to receive a temporary extension of the license
 - d) The agent will be able to continue to operate after a 30 day extension to operate without receipt if requested and approved
59. Common life insurance policy riders include all of the following, except:
- a) Extended term
 - b) Guaranteed insurability
 - c) Accidental death
 - d) Waiver of premium
60. Term insurance is typically characterized by:
- a) Low premiums and high cash value
 - b) High premiums and no cash value
 - c) High premiums and high cash value
 - d) Low premiums and no cash value

61. A \$50,000 whole life policy with a cash value of \$10,000 has been in force for 11 years. The policy owner is unable to continue the premium payments. Which of the following describes the reduced paid-up non-forfeiture option?
- a) The policy owner begins to receive \$200 monthly payments from the insurer that will continue for life
 - b) The policy is surrendered and the policy owner is paid \$10,000 by the insurer
 - c) The cash value is used to purchase a \$50,000 term policy that is paid-up for 10 years
 - d) The cash value is used to purchase a \$20,000 paid-up policy
62. What would we call a representation which fails to correspond with its stipulations or assertions?
- a) Fatal
 - b) Fraud
 - c) Frivolous
 - d) False
63. In the state of California:
- a) Twisting is an approved practice
 - b) Providing free insurance coverage in connection with the sale of services as an inducement for completing the transaction is not legal
 - c) Life and health ratings may not be related to the age of the insured
 - d) A life solicitor's license has the same licensing requirements as a life-only agent's license
64. The adjustments that an insurer makes in a cash value account in a universal life policy each time a payment is made includes all of the following, except:
- a) Subtract from mortality and general expense charges
 - b) Add the current interest
 - c) Subtract the policy surrender charges
 - d) Add the current premium paid
65. The Employee Retirement Income Security Act of 1974 (ERISA) mandates requiring plan sponsor to provide participants with:
- a) Plan descriptions and benefit statements
 - b) Reports of tax qualification fulfillment
 - c) Trust and solvency reports
 - d) Annual financial statements
66. Which of the following requires a reporting company to respond to a consumer's complaint that his file contains inaccurate information about them?
- a) Unfair Practices Act
 - b) Fair Credit Reporting Act
 - c) COBRA
 - d) Medical Information Act

67. Which of the following is a true statement regarding the social security (OASDHI) program?
- a) The program provides only a minimum floor of income. Individuals are expected to supplement this with their own personal programs.
 - b) The actuarial value of each person's contributions are closely related to the actuarial value of each person's benefits
 - c) With only a few exceptions, this is a voluntary program
 - d) The program is fully funded
68. What makes up the entire contract in a life insurance policy?
- a) The policy, and when attached, the application
 - b) The policy, and any sales literature presented by the agent of the policy holder
 - c) The policy, the application, and any verbal understandings
 - d) The policy by itself, but never the application
69. Which of the following is a correct statement about life insurance policy types?
- a) Group life insurance is offered only to employees who provide evidence of insurability
 - b) The initial premium for term insurance is lower than the initial premium for whole life insurance
 - c) Limited payment whole life policies stay in effect only for as long as the premium is paid
 - d) Universal life policies have a structured premium payment schedule that must be followed during the entire contract period
70. While an insurer is paying the premium for a life insurance policy under the waiver of premium rider:
- a) The insurer is named as the primary beneficiary
 - b) The cash value does not increase
 - c) The dividend payments cease
 - d) The policy remains in full force in every respect
71. According to the CA Insurance Code, all insurers must maintain a department to investigate:
- a) Possible abuses of rating laws
 - b) Possible arson
 - c) Possible fraudulent claims from insureds
 - d) Possible abuses of fiduciary responsibilities
72. Unintentional concealment entitles the injured party to which course of action?
- a) Possible imprisonment to the party who concealed the information
 - b) \$250 fine to be paid to the injured party
 - c) None, given the fact that the concealment was unintentional
 - d) Rescission of the contract
73. When may a representation be withdrawn?
- a) Only before the insurance is in effect
 - b) At any time as long as both parties agree
 - c) It can never be withdrawn
 - d) Only after the policy is in effect

74. A significant benefit to the insured in group underwriting verses individual is:
- a) There are no enrollment restrictions
 - b) Previous claims are not a consideration
 - c) The cost of coverage is lower
 - d) Members are eligible for the entire contract period
75. How long must a life-only agent maintain records regarding policies sold in this state?
- a) 1 year
 - b) 2 years
 - c) 3 years
 - d) 5 years

**PRACTICE EXAM 6
ANSWERS**

1. (C) Annuity death benefits are taxed similarly to cash surrenders.
2. (D) This is the best option given the situation.
3. (D) Cash value equals death benefit at age 100.
4. (B) Representations concerning insurability can be implied warranties.
5. (C) Again, when someone dies, it is a human loss, but the best answer for this question is that it is a personal loss.
6. (B) During this "free-look" period, the policy is in force and the insurer is liable as long as the premium is paid and the policy is not returned. If not paid, or if the policy is returned, the insurer is not liable.
7. (C) Don't confuse unfair competition with a fraudulent act which carries higher penalties.
8. (A) If the representation is not merely a statement of an expectation, but is material to the contract, then it is considered a promise. A provision would be in the contract, not a statement by the agent.
9. (A) This what the master policy holder (employer) does.
10. (D) Insurance does not eliminate risk. The other choices depict the value of insurance.
11. (A) In mutual insurance companies, the policy owners share in the surplus in the form of dividends.
12. (C) Term insurance is for a set period of time, such as 10 years, and does not have a cash value build-up component or interest—it is strictly insurance coverage. Whole life is, as it implies, for the whole life. In order to keep the premium level, the early years' premium is higher than term in order to build cash value for the insured, and interest that the insurance company can use to help pay the death benefit later in life.
13. (B) With non-contributory group health, the employer pays the entire direct cost of the plan. Employees do not share in the cost and all must be included.
14. (B) The purpose of this department is to spread the risk among a pool of insureds in a manner that is equitable for the insureds, and profitable for the insurer.
15. (D) This type of annuity begins payments after a single premium is paid. Payments begin the month after purchase.
16. (A) This clause/provision in a life insurance policy is designed to determine the order of deaths when the insured and the beneficiary die in the same accident. Otherwise, the proceeds are payable to the insured's estate.
17. (B) The Certificates go to the group members (employees) and the Master Policy goes to the employer.
18. (A) Renewable term life insurance coverage is renewable at the option of the insured, regardless of physical condition, and the premium cannot be increased to reflect any adverse physical condition. However, the premium can increase to reflect the life expectancy of the individual at that particular age.
19. (C) Primary beneficiary is assumed to have died before insured in this case.
20. (C) Total number of hours required is 25.
21. (B) This insurance is on major, important employees with benefits payable to the business. Amongst the many advantages of key person insurance is that it enhances the ability of the business to continue operations.
22. (D) Statement of fact.

Exam 6 Answers

- 23. (D) This is federal legislation giving an insurance applicant the right to contact a reporting organization doing a credit check and be advised of information contained in the file showing the reason for rejection for insurance.
- 24. (B) The other choices are false. Some of the dividend options that can be selected are: dividends are to be paid in cash; to apply toward reducing premiums; and to purchase increments of paid-up life insurance.
- 25. (C) This is how it is done with universal life policies.
- 26. (C) This is a true statement even if the insured was guilty of misrepresentation or concealment in obtaining the policy.
- 27. (A) One of the major benefits of group insurance is that there is usually no proof of insurability required as long as the employee or group member joins during the enrollment period.
- 28. (D) This is a true statement, and the proceeds are subject to probate and other legal fees.
- 29. (A) Term insurance premiums increase upon renewal based on attained age.
- 30. (B) The irrevocable beneficiary has entitlements that the revocable beneficiary does not.
- 31. (C) Rescission is possible during the contestability period.
- 32. (B) In order to be solvent, the insurer's assets must EXCEED its liabilities, not just meet them.
- 33. (B) Proceeds would be paid to the beneficiary.
- 34. (D) Proceeds are paid to the business in order to help carry on the enterprise in the face of a loss of a key person.
- 35. (D) The key phrase is "for cause."
- 36. (A) The cash value in a whole life insurance policy is calculated and structured actuarially so that it will equal the death benefit and is paid to the insured when the policy matures or "endows" at age 100.
- 37. (D) Rescission is possible during the contestability period.
- 38. (A) If the choice is to take the risk of no insurance (loss retention), to not know the probability of loss could be disastrous.
- 39. (D) Per California Insurance Code #339.
- 40. (D) Statement of fact.
- 41. (D) Specifically, Annual Renewable Term (ART).
- 42. (B) The agency is not an underwriter.
- 43. (A) (See explanation to Practice Exam 5, question #33)
- 44. (B) a.k.a. "Living Needs Rider."
- 45. (D) Term insurance is best for the purchase of pure insurance. It has the lowest cost to benefit ratio.
- 46. (B) If the primary beneficiary outlives the insured, the primary beneficiary gets 100% of the proceeds. Only if the primary beneficiary does not outlive the insured will the contingent beneficiary receive the proceeds. There is no sharing.
- 47. (A) Typically, insurer pays until juvenile reaches age 21 or 25.
- 48. (D) Statement of fact as long as the insured has been disabled for at least six months.
- 49. (B) Death benefits are paid on the death of the second insured.
- 50. (A) To be solvent, the insurer's assets must exceed the insurer's liabilities.
- 51. (B) Agent has issued an incorrect binder and is in violation.
- 52. (C) One of the benefits of purchasing an annuity contract is that, once it annuitizes, the contract holder can receive payments for the rest of their life.
- 53. (C) The principal sum will be paid in one lump sum for dismemberment, or loss of sight as well
- 54. (D) Statement of fact regarding the Law of Large Numbers.

Exam 6 Answers

- 55. (D) This policy fully "endows" at age 100.
- 56. (B) Although important, the financial rating of the insurer is not found in the policy.
- 57. (C) This is a true statement, and includes physical, moral, morale, and legal hazards.
- 58. (B) This is a true statement, but does not apply to licenses that have been suspended or revoked.
- 59. (A) Extended Term is a non-forfeiture option.
- 60. (D) There is no cash value in term insurance. Cash value is found in whole life policies.
- 61. (D) Death benefit has been reduced and policy is paid-up.
- 62. (D) Statement of fact, assuming it wasn't intentional.
- 63. (B) This is the only correct statement. Offering free insurance is a "no-no."
- 64. (C) The surrender charge is a fee charged to the policy owner when a life insurance policy or annuity is surrendered (returned) for its cash value. It has nothing to do with the adjustments made in the cash value account in a universal life policy.
- 65. (A) ERISA established rules and regulations to govern private pension plans, including vesting requirements, funding mechanisms, and general plan design and descriptions.
- 66. (B) Statement of fact.
- 67. (A) Statement of fact.
- 68. (A) The policy and attached application make up the entire life contract.
- 69. (B) Term is pure insurance, whereas whole life is insurance plus cash values plus interest.
- 70. (D) This is a true statement. Remember that this rider becomes effective after six months of disability.
- 71. (C) Although insurers need to be concerned about answer choices a), b) and d), the Code states that a separate department must be maintained to investigate possible fraudulent claims from insureds.
- 72. (D) Intentional or *unintentional* concealment entitles the injured party to rescind
- 73. (A) A representation may be altered or withdrawn before the insurance is in effect, but not afterwards.
- 74. (C) Group policies cost less for the employee than an individual policy (even though the plan may be contributory). In the case of group life insurance (especially with respect to the first \$50,000), it is a bargain since, in most cases, the employer pays all or most of the premium.
- 75. (D) Statement of fact.

PRACTICE EXAM 7
(70 Questions)

1. The purpose of laws regarding the replacement of life and annuity contracts includes all of the following, except:
 - a) To protect the interests of life insurers and their agents
 - b) To establish penalties for failure to comply with replacement requirements
 - c) To assure the purchaser receives information to make an informed decision
 - d) To reduce the opportunity for misrepresentation and incomplete disclosures
2. All of the following would fall under the category of an "adverse underwriting decision," except:
 - a) Charging a higher rate based upon the information given on the insurance application
 - b) Failure of the agent to submit the application to an insurance company
 - c) Declination of insurance coverage
 - d) Termination of insurance coverage
3. In order to obtain group insurance without providing evidence of insurability, what do eligible individuals generally have to do?
 - a) Submit an attending physician's statement with their group enrollment cards
 - b) Pay the first year premium in advance
 - c) Nothing
 - d) Enroll within a specified eligibility period
4. An agent who acts as an insurance agent, broker, solicitor, life-only agent, or bail agent, acts in which capacity when handling premiums or return premiums for an insured?
 - a) Natural person
 - b) Fiduciary
 - c) Legal representative
 - d) Managing general agent
5. In order to determine the amount of premium an insured will pay, the insurer multiplies the rate by:
 - a) The number of insureds on the policy
 - b) The number of exposure units
 - c) The expense factor
 - d) The premium adjustment factor
6. Viatical settlements are accomplished through the use of:
 - a) Non-forfeiture provisions
 - b) Settlement options
 - c) Collateral assignment
 - d) Absolute assignment
7. The conversion privilege allows a person to change coverage from:
 - a) A life insurance policy to an annuity
 - b) A group policy to an individual policy
 - c) An individual policy to a group policy
 - d) An annuity to a life insurance policy

8. All of the following statements about qualified pension plans are true, except:
- a) Employer contributions are taxable to employees in the year they are contributed
 - b) Investment earnings are exempt from income tax until distributed
 - c) Employer contributions are deductible from corporate income taxation
 - d) Employer contributions are taxable to employees in the years they are received as benefits
9. What is the written instrument called in which the insurance contract is set forth?
- a) The provisions
 - b) The warranties
 - c) The policy
 - d) The risk
10. Which non-forfeiture option uses cash surrender values to purchase paid-up term insurance for the full face amount of the policy?
- a) Extended paid-up insurance
 - b) Extended term insurance
 - c) Reduced term insurance
 - d) Reduced paid-up insurance
11. What is the difference between a defined contribution plan and a defined benefit plan?
- a) The party receiving the distribution
 - b) The party making the contribution
 - c) The contract period requiring specific payments
 - d) The penalties for early distribution
12. A life-only agent's records must include all of the following, except:
- a) All correspondence between the agent and the policy holder
 - b) Printed material in general use which has been distributed by the insurer
 - c) A copy of the outline of coverage
 - d) All policies sold by the agent
13. A worker dies while he is credited with six quarters of the last 13 quarter period. What status does the worker have under social security?
- a) Partially insured
 - b) Disability insured
 - c) Currently insured
 - d) Fully insured
14. A return of premium rider is a rider that:
- a) Returns insurance premiums if the insured surrenders the policy at any time after the third policy year
 - b) Waives the policy premium while the insured is totally disabled
 - c) Provides for the periodic return of a percentage of the premiums that have been paid if the insured becomes and remains disabled
 - d) Permits the policy owner to receive a full refund of premium if the policy is returned during the first 90 days after delivery

15. An agent's appointment with an insurer will be discontinued if all of the following circumstances exist, except:
- a) The agent quits working for the insurer
 - b) The insurer files a notice to terminate the appointment
 - c) Another insurer submits an employment application
 - d) The agent's insurance license expires
16. Social Security provides protection against the financial consequences of all of the following, except:
- a) Premature death
 - b) Disability
 - c) Poor investments
 - d) Retirement
17. Which retirement plan utilizes non-deductible contributions?
- a) Simplified employee pension plan
 - b) Roth IRAs
 - c) Profit-sharing plan
 - d) Tax-sheltered annuity
18. All of the occurrences listed below are examples of an insurable event as defined by the CA Insurance Code, except:
- a) An insured suffers a financial loss in the state lottery
 - b) A guest is injured by a fall from the insured's deck
 - c) An insured is sued for unintentional slander of another person
 - d) An insured is admitted to the hospital for delivery of a newborn
19. The social security normal retirement age depends upon:
- a) The number of quarters of coverage
 - b) The number of years of employment
 - c) The worker's year of birth
 - d) The worker's average annual earnings
20. The complete transfer by the existing owner of all rights in an insurance policy to another person is:
- a) Absolute assignment
 - b) Endowment
 - c) Collateral assignment
 - d) Non-forfeiture
21. Which retirement plan was designed for employees of public school systems?
- a) TSA
 - b) IRA
 - c) 401(k)
 - d) Keogh
22. Which settlement option allows only the death benefit earnings to be paid to the beneficiary?
- a) Interest option
 - b) Cash option
 - c) Fixed period option
 - d) Fixed amount option

23. All of the following apply to the life insurance cost-of-living rider, except:
- a) There is an additional premium for the additional coverage
 - b) No evidence of insurability is required for the annual increases in coverage
 - c) The insured receives an automatic increase in the policy's death benefit when there is an increase in the cost of living index
 - d) The face value of the policy raises or lowers as the cost of living index increases or decreases
24. The social security blackout period ends when the surviving spouse reaches the age of:
- a) 55
 - b) 60
 - c) 62
 - d) 65
25. Retirement benefits under social security are available only for workers who are:
- a) Medicare insured
 - b) Currently insured
 - c) Disability insured
 - d) Fully insured
26. In which plans do employers make specific contributions to an employee's retirement account?
- a) Defined contribution plans
 - b) Individual retirement accounts
 - c) Defined benefit plans
 - d) Keogh plans
27. In a seven year vesting schedule, what percentage of employer contributions must be vested after seven years of service?
- a) 40%
 - b) 60%
 - c) 80%
 - d) 100%
28. A representation in an insurance contract qualifies as which of the following?
- a) An express warranty
 - b) An implied warranty
 - c) An amendment
 - d) A policy provision
29. A policy holder stops making payments on a 20-pay life policy and converts the cash surrender value to extended term insurance. All of the following statements are true, except:
- a) The extended term coverage will stay in force for a specified period of time, and then coverage will cease
 - b) No further premium payments are required
 - c) The term policy will have the same loan value as the original policy
 - d) The extended term insurance will be for the same face amount as the 20-pay life policy

Practice Exam 7

59. What is it called when an insurer uses higher rates based solely on religion, race, or ethnic group?
- a) Categorizing
 - b) Unfair discrimination
 - c) Social injustice
 - d) Redlining
60. A policy owner has the right to change all of the following, except:
- a) The beneficiary
 - b) The payment mode
 - c) The dividend schedule
 - d) The dividend option
61. When must insurance records for insurance agents and insurance brokers be made available to the Insurance Commissioner?
- a) One month after policy issuance
 - b) At all times
 - c) Within 30 days of a written request by the Commissioner
 - d) Annually, and submitted with the proper paperwork
62. In a reinsurance agreement, the insurance company that transfers its loss exposure to another insurer is called:
- a) Primary insurer
 - b) Reinsurer
 - c) Captive insurer
 - d) Secondary insurer
63. Which type of insurance policy provides a death benefit that matches the projected outstanding debt on an individual's home?
- a) Family protection
 - b) Level term
 - c) Mortgage protection
 - d) Joint life
64. What do we call the process whereby insurers decide which customers to insure, and what coverage to offer?
- a) Underwriting
 - b) Rate making
 - c) Marketing
 - d) Adverse selection
65. Which of the following is the best definition of premium?
- a) The amount the insured pays per unit of coverage
 - b) Money the insured pays the insurer to obtain the benefits in the policy
 - c) Money the insurer pays the insured to obtain the benefits in the policy
 - d) Bonus paid by an agent to convince an insured to buy a policy
66. If an insurer pays an insured \$25,000 in lost wages, \$45,000 for physicians visits and hospital costs, and \$15,000 for physical therapy treatments, and later discovers that the claim was fraudulent, the insured may be fined as much as:
- a) \$25,000
 - b) \$60,000
 - c) \$85,000
 - d) \$170,000

67. What rule is used to determine the importance of a representation?
- a) The materiality of concealment
 - b) That of aleatory contracts
 - c) The insurable interest standard
 - d) The law of adhesion
68. An agent must submit all of the following to the insurer, except:
- a) A copy of all printed communications used for the presentation
 - b) A copy of the signed replacement notice, if replacement is involved
 - c) A statement signed by the applicant as to whether replacement of existing life insurance is involved in the transaction
 - d) A signed statement as to whether or not the agent knows a replacement is involved in the transaction
69. What is the difference between a conditional premium receipt and a binding premium receipt?
- a) The applicant must be insurable in order to have coverage only under the binding receipt
 - b) Only a conditional receipt always provides insurance that is effective from the date the receipt is given
 - c) Only a binding receipt always provides insurance that is effective from the date the receipt is given
 - d) Premiums must be paid to receive only a conditional receipt
70. After a life insurance policy has been in effect for two years, what prevents it from being rescinded by the insurer?
- a) The incontestability clause
 - b) The reinstatement clause
 - c) The grace period provision
 - d) The right to return provision
71. The Blackout Period starts when the youngest child reaches the age of:
- a) 25
 - b) 30
 - c) 21
 - d) 16
72. A person responsible for collecting premium payments in addition to paying claims is which of the following?
- a) An Administrator
 - b) An Adjuster
 - c) An Analyst
 - d) An Agent
73. In relation to the frequency of premium payments paid by the insured, which of the following statements is true concerning the total of premium paid by the end of the year:
- a) Assumes the premium will be paid at the end of the year, if paid earlier a discount will result
 - b) Is greater if paid semi-annually rather than annually
 - c) Is less if paid quarterly rather than semi-annually
 - d) Is the same regardless of frequency of payment

The following are examples of test areas that may be found on the Life Only exam but are *not* Life Only educational objectives:

74. A disability income policy covers injuries suffered by an insured on or off the job is called?
- a) An occupational policy
 - b) A non-occupational policy
 - c) A wraparound policy
 - d) Twenty-four-hour policy
75. Which two are Activities of Daily Living?
- a) Eating and dressing
 - b) Speaking and incontinence
 - c) Sleeping and walking
 - d) Bathing and hearing
76. Medicare Part A, begins automatically at age:
- a) 55
 - b) 60
 - c) 62
 - d) 65
77. The insured's policy has a deductible that is applied between the exhaustion of basic plan limits and the commencement of excess coverage. This is called a:
- a) Family deductible
 - b) Per cause deductible
 - c) Corridor deductible
 - d) Stop-loss limit
78. A waiting period between the onset of disability and the time when benefits begin is the:
- a) Elimination Period
 - b) Incontestable Period
 - c) Probationary Period
 - d) Grace Period

**PRACTICE EXAM 7
ANSWERS**

1. (A) Replacement laws are designed to protect the consumer.
2. (B) The agent's failure is not an underwriting decision.
3. (D) Insurability must be proven if the individual joins the group after the enrollment or eligibility period. During the enrollment or eligibility period, there is no medical examination required. (In California, insurers do ask medical questions to determine the nature and extent of any preexisting conditions.)
4. (B) A fiduciary is a person entrusted with the funds or property of another (e.g. premiums).
5. (B) The exposure units are the persons or items exposed to the risk of loss.
6. (D) The rights of ownership have been totally and permanently granted to another party, in this case to the viatical settlement company.
7. (B) This conversion right gives a certificate holder the ability to covert group life or group health insurance to an individual policy without a physical examination to furnish evidence of insurability. Usually, this must be done within 31 days of termination of employment.
8. (A) Revenue accumulating in a qualified retirement plan grows income tax deferred.
9. (C) The policy is the written agreement which puts insurance coverage into effect.
10. (B) This is a true statement concerning the non-forfeiture option in an ordinary life policy. The length of the term policy depends on the size of the cash value and the attained age of the insured.
11. (D) Defined Benefit (DB) plans usually have an agreed early distribution date (often age 55) which allows the employee to take a reduced amount of benefits as an annuity without penalty. Otherwise, early distributions are generally not permitted in DB plans. Defined Contribution plans have a 10% penalty for withdrawals before age 59½ except for allowed distributions.
12. (B) Statement of fact. All other records must be kept by the agent.
13. (C) To be "currently insured" the worker must have at least six quarters of coverage earned during a 13 quarter period which ends with the calendar quarter in which the covered person died, became eligible for retirement benefits, or became disabled.
14. (C) The periodic return of premiums also applies if the insured has not made a claim for a specified period of time.
15. (C) Choices a), b) and d) are all ways in which an agent's appointment with an insurer will be discontinued. Choice c) is not relevant.
16. (C) If you make a poor investment, there is no insurance that can be helpful.
17. (B) Roth IRAs feature non-deductible contributions and tax free distributions.
18. (A) Gambling is an uninsurable speculative risk.
19. (C) Social Security retirement benefits begin at specified ages and are therefore dependant on date of birth.
20. (A) When assigning all rights in an insurance policy to another person, it is absolute. When assigning the designation of a policy's death benefit or its cash surrender value to a creditor as security for a loan, it is known as Collateral Assignment.
21. (A) Tax Sheltered Accounts (TSAs) are designed for non-profit organizations
22. (A) Earnings on the death benefit = interest.
23. (D) The face value will not decrease in deflationary periods.

Exam 7 Answers

- 24. (B) 60 is the minimum age for a widow/widowers benefit. It is not the same as the minimum retirement age (62).
- 25. (D) Statement of fact.
- 26. (A) The phrase "specific contributions" is key.
- 27. (D) Under a seven year, or graded, vesting schedule the employee is 0% vested in the first year, 0% in the second year, 20% in the third year, 40% in the fourth year, 60% in the fifth year, 80% in the sixth year and 100% in the seventh year of service.
- 28. (B) Statement of fact (for exam purposes).
- 29. (C) No loan is available because Extended Term has no cash values.
- 30. (B) Statement of fact.
- 31. (A) The question assumes medical conditions are revealed.
- 32. (D) Preferred is best from the insurer's perspective.
- 33. (C) Definition.
- 34. (B) Cease and desist is the usual minimum for violations.
- 35. (B) The beneficiary will receive the death benefit as a single sum payment instead of installments.
- 36. (D) Demutualization is often done in order to raise new sources of capital to compete in the financial services arena.
- 37. (B) Definition.
- 38. (C) Also called an "interest only" option.
- 39. (B) A fiduciary is a person in a position of (primarily) financial trust.
- 40. (C) Statement of fact.
- 41. (C) Definition.
- 42. (D) ERISA standards apply to employer-based plans with employee participants and beneficiaries.
- 43. (B) "Extended term" is a non-forfeiture option.
- 44. (B) The beneficiary is not necessarily a party to the contract.
- 45. (B) Definition.
- 46. (A) The insured must consent to the release of their personal information.
- 47. (A) Definition.
- 48. (C) MIB stores medical information for underwriting purposes.
- 49. (D) Representations can be made or changed at the time of, or before issuance of, the policy.
- 50. (*) Answers (A) and (B) are untrue statements and are therefore correct answers. *This is an error on the state exam itself (nobody's perfect!).* The answer that the state examiners are most likely to be looking for is (A) since it is probable that they intended each answer to start with "Ernest."
- 51. (D) See number 46, above.
- 52. (A) Substandard is least insurable from insurer's perspective therefore more expensive.
- 53. (C) Contributory vs. Non-contributory.
- 54. (B) Time when no benefits are paid to the surviving spouse.
- 55. (A) There are a total of five standard dividend options.
- 56. (A) Member insurers financially support the MIB.
- 57. (A) Statement of fact.
- 58. (D) Selling = Marketing.
- 59. (B) i.e. discrimination without adequate cause.
- 60. (C) The frequency of dividend payments is under the control of the insurer.
- 61. (B) Commissioner has the right to request and inspect any record at any time.
- 62. (A) a.k.a. the "ceding" company.
- 63. (C) Key is "debt on an individual's home."
- 64. (A) Underwriters decide who to insure.

Exam 7 Answers

- 65. (B) Definition.
- 66. (D) Imprisonment and/or \$150,000 or twice the dollar amount of fraud, whichever is greater.
- 67. (A) Definition.
- 68. (A) Statement of fact.
- 69. (C) Conditional receipts are only binding if the applicant is insurable.
- 70. (A) Statement of fact.
- 71. (C) The usual age is 18 or 19 if still in school according to Social Security, but 21 is the closest of these choices.
- 72. (A) Statement of fact.
- 73. (B) The more frequently that premium is paid, the more that is paid overall.
- 74. (A) Question specifies "Disability Income" hence "occupational" not 24-Hour Coverage which is classed with Worker's Compensation.
- 75. (A) Under a long term care contract, there are six "activities of daily living" that will trigger care and benefits payments. Both of these qualify. The other four are: mobility (within the home), toiletry, bathing, and transferring (moving from one place to another within, or outside of, the home).
- 76. (D) Statement of fact.
- 77. (C) This is a type of major medical deductible amount which acts as a corridor (or bridge) between benefits under a basic health insurance plan and benefits under a major medical insurance plan.
- 78. (A) Statement of fact.

30. Which non-forfeiture option uses an existing policy's cash value to purchase a paid-up policy with a lower face value than the original policy?
- a) Extended paid-up insurance option
 - b) Reduced paid-up insurance option
 - c) Cash surrender value option
 - d) Extended term option
31. What is required when an applicant reveals conditions that require more information?
- a) Physical examination
 - b) Attending physician's statement
 - c) Investigative consumer report
 - d) Agent's report
32. Which risk classification carries the lowest premium?
- a) Endowed
 - b) Substandard
 - c) Standard
 - d) Preferred
33. Which statement best describes a life insurance policy dividend?
- a) It is somewhat larger in a non-participating whole life policy than in a comparable participating policy
 - b) It is the interest paid to the policy owner on the cash value of a permanent insurance policy
 - c) It is the distribution of excess of funds accumulated by the insurer on participating policies
 - d) It is a stockholders return on his investment in the company
34. If a person was in violation of Section 770 of the CA Insurance Code, what action would the insurance Commissioner most likely take if the violation dealt with loans on the security of real or personal property?
- a) Require the violator to complete an approved ethics course before soliciting in the state of California again
 - b) Issue a cease and desist order for a violation of more than one transaction
 - c) Charge the violator with a felony with a six month maximum jail sentence per violation
 - d) Issue a fine of \$205,000 per violation
35. If no other method of payment is selected, which of the following is the automatic mode of settlement for life insurance policy proceeds?
- a) Extended term insurance
 - b) Lump-sum settlement in cash
 - c) Life income
 - d) Paid-up policy
36. The process whereby a mutual insurer becomes a stock company is called:
- a) Reorganization
 - b) Stock split
 - c) Stock buyout
 - d) Demutualization

37. Any situation that presents the possibility of a loss is known as:
- a) A covered loss
 - b) A loss exposure
 - c) Risk potential
 - d) Consideration
38. Which settlement option allows only the death benefit earnings to be paid to the beneficiary?
- a) Cash option
 - b) Fixed amount option
 - c) Interest option
 - d) Fixed period option
39. An agent acting as an insurance agent, broker, solicitor, life-only agent, or bail agent acts in which capacity when handling premiums or return premiums for an insured?
- a) Legal representative
 - b) Fiduciary
 - c) Managing general agent
 - d) Natural person
40. According to state law, what size print must be used for the licensee's license number on all price quotes, business cards, and printed material?
- a) There are no requirements for the license no. to be printed on any printed material
 - b) Larger print than any other printed information on the material
 - c) The same size print as the licensee's phone number, fax number or address
 - d) Small print at the bottom of the material
41. Which non-forfeiture option uses cash surrender values to purchase paid-up term insurance for the full face amount of the policy?
- a) Extended paid-up insurance
 - b) Reduced term insurance
 - c) Extended term insurance
 - d) Reduced paid-up insurance
42. According to Employee Retirement Income Security Act of 1974 (ERISA) fiduciary standards, benefit plans are operated for:
- a) Plan sponsors and beneficiaries
 - b) Plan participants and employees
 - c) Plan sponsors and employees
 - d) Plan participants and beneficiaries
43. Life insurance settlement options include all of the following, except:
- a) Interest option
 - b) Extended term option
 - c) Fixed amount option
 - d) Fixed period option

44. A life insurance application is important for all of the following reasons, except:
- a) Statements made in the application are required to be true to the best of the applicant's knowledge
 - b) The beneficiary must sign the application before the insurer will issue the policy
 - c) The application contains essential information about the applicant
 - d) The application becomes a part of the policy, if a copy is attached
45. The price of insurance for each exposure unit is called the:
- a) Premium
 - b) Rate
 - c) Adjustment factor
 - d) Package price
46. To authorize the release of an attending physician's report, the applicant must:
- a) Sign a consent form
 - b) Send a letter to the physician
 - c) Furnish the name of the physician
 - d) Submit to a physical examination
47. Yearly probabilities of death are shown in:
- a) Mortality tables
 - b) Morbidity tables
 - c) Policy illustrations
 - d) Policy summaries
48. Members of the Medical Information Bureau are required to report:
- a) The names of all patients treated by member physicians
 - b) The cause of death when death benefits are paid
 - c) Medical impairments found during the underwriting process
 - d) Amounts of insurance applied for by all applicants
49. When referring to an insurance contract, when must a representation be made?
- a) Either at the time of or after policy issuance
 - b) Only after a policy is issued
 - c) Only before a policy is issued
 - d) Either at the time of or before policy issuance
50. Frank and Ernest are 25 year old identical twins. They are both in excellent health. Both buy life policies that have \$500 annual premiums. Frank buys a 5-year renewable term policy. Ernest buys a whole life policy. Which statement is not true?*
- a) Ernest's whole life policy will have a larger death benefit if he dies during the first five years
 - b) Frank has the option of using his cash value to purchase a reduced amount of paid-up whole life insurance
 - c) Ernest's whole life policy will develop a larger cash value
 - d) Ernest's whole life premium will remain the same. Frank's premium will increase every five years

* See explanation at the end of the workbook.

51. The request for an attending physician's report must be accompanied by a copy of the:
- a) Policy illustration
 - b) Signed application
 - c) Underwriting criteria
 - d) Signed authorization
52. Which life insurance classification carries the highest premium?
- a) Substandard
 - b) Standard
 - c) Endowed
 - d) Preferred
53. A group insurance plan is contributory when the:
- a) 3rd party administrator collects part of the premium
 - b) Employer pays all of the premium
 - c) Employee pays part of the premium
 - d) Service provider collects part of the premium
54. Whose benefits are affected by the blackout period?
- a) The surviving children
 - b) The surviving spouse
 - c) The disabled worker
 - d) The fully insured worker
55. Which of the following is not an option for the use of the policy dividends?
- a) Fund the addition of monthly income payments
 - b) Purchase a one-year term addition
 - c) Purchase paid-up additions
 - d) Reduce the current premium
56. Who are owners/members of the Medical Information Bureau?
- a) Life insurance companies
 - b) Physicians
 - c) Hospitals
 - d) Health insurance companies
57. After the deductible, what portion does a patient pay for covered expenses under Medicare Part B?
- a) 20%
 - b) 50%
 - c) 80%
 - d) 100%
58. Which of the following functions is best defined as an insurance company's identifying and selling to potential customers?
- a) Rate making
 - b) Underwriting
 - c) Claims handling
 - d) Marketing