Life Insurance
Exam Practice Questions & Answers

180 multiple-choice questions with the answer key and full explanations

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How to use this question bank

- Work in sets of 20-30 questions. Mark your answers on paper before checking the key.
- The answer key at the back explains every correct answer - read the explanation even for questions you got right.
- Note the topic of every question you miss, then focus your handbook reading on those topics.
- For timed, exam-style practice, use the free interactive mock exams for your state at https://insuranceexampractice.com/free-mock-tests - no registration required.
- These questions cover the national content outline. Your state's exam also includes a state-law section - study it from your state's official candidate handbook.

Questions

1. What is the primary purpose of life insurance?

A. To provide financial protection to beneficiaries upon the insured's death
B. To protect against property damage
C. To pay for medical expenses
D. To accumulate wealth for retirement

2. Who is the 'insured' in a life insurance policy?

A. The insurance company
B. The person who receives the death benefit
C. The person whose life is covered by the policy
D. The person who pays the premiums

3. What is a 'premium' in life insurance?

A. The payment made to keep the policy in force
B. The cash value of the policy
C. The policy's face value
D. The death benefit amount

4. What does 'face amount' refer to in a life insurance policy?

A. The death benefit stated in the policy
B. The monthly premium cost
C. The policy's annual dividend
D. The cash surrender value

5. What is 'insurable interest' in life insurance?

A. A financial stake in the continued life of the insured
B. The interest rate on policy loans
C. The percentage of premium that goes to savings
D. The dividend interest earned on premiums

6. When must insurable interest exist for a life insurance policy to be valid?

A. At the time of application
B. Only at the time of death
C. Throughout the entire policy period
D. At the time of claim

7. What is the 'grace period' in a life insurance policy?

A. The time allowed to pay a premium after the due date without policy lapse
B. The time to file a claim after death
C. The period when the policy can be contested
D. The waiting period before coverage begins

8. What is the standard grace period for life insurance policies?

A. 60 days
B. 30-31 days
C. 15 days
D. 10 days

9. What type of life insurance provides coverage for a specific period of time?

A. Whole life insurance
B. Variable life insurance
C. Universal life insurance
D. Term life insurance

10. Which type of life insurance has a cash value component that grows over time?

A. Term life insurance
B. Annual renewable term
C. Decreasing term insurance
D. Whole life insurance

11. What is 'universal life insurance'?

A. Insurance valid in all countries
B. Insurance that covers multiple family members
C. A short-term policy with level premiums
D. A flexible permanent policy with adjustable premiums and death benefits

12. What distinguishes variable life insurance from whole life insurance?

A. Variable life has no death benefit
B. Variable life is only for term coverage
C. Variable life has no cash value
D. Variable life allows cash value to be invested in sub-accounts

13. What is 'decreasing term life insurance' typically used for?

A. Providing increasing death benefits
B. Building cash value
C. Retirement income
D. Covering a decreasing obligation like a mortgage

14. What is a 'convertible term' policy?

A. A policy that converts premiums to cash
B. A policy that changes beneficiaries automatically
C. A term policy that can be converted to permanent insurance without proof of insurability
D. A policy that converts to an annuity

15. What is the main difference between whole life and term life insurance?

A. Term life is more expensive
B. Whole life provides lifetime coverage and cash value; term is temporary with no cash value
C. Term life builds more cash value
D. Whole life only covers accidental death

16. What is 'renewable term insurance'?

A. A policy that renews beneficiary designations
B. A permanent policy with renewable features
C. A policy that renews cash value annually
D. A term policy that can be renewed without proof of insurability

17. What is the 'incontestability clause' in a life insurance policy?

A. A clause that prevents beneficiary changes
B. A provision about premium payments
C. A clause that prevents policy loans
D. A provision that limits the insurer's ability to void the policy after 2 years

18. What is the 'suicide clause' in a life insurance policy?

A. A provision about mental health coverage
B. A provision that excludes suicide as a covered cause of death for a specified period
C. A clause that doubles the death benefit for suicide
D. A clause that requires counseling

19. What is a 'policy loan' in life insurance?

A. A loan to the beneficiary
B. A loan to purchase a new policy
C. A bank loan for premium payments
D. A loan from the insurance company using the policy's cash value as collateral

20. What is the 'waiver of premium' rider?

A. A provision that waives premiums if the insured becomes disabled
B. A rider that waives the cash value
C. A clause that waives beneficiary requirements
D. A rider that waives the death benefit

21. What is an 'accelerated death benefit' rider?

A. A rider that speeds up premium payments
B. A rider that increases the death benefit faster
C. A provision for accidental death coverage
D. A provision allowing early access to death benefit if terminally ill

22. What does the 'guaranteed insurability rider' provide?

A. Guaranteed acceptance for beneficiaries
B. Guaranteed cash value growth
C. The right to purchase additional coverage at specified times without proof of insurability
D. Guaranteed low premiums for life

23. What is the 'accidental death benefit' rider?

A. A provision that pays an additional benefit if death results from an accident
B. A rider that covers medical expenses from accidents
C. A provision that waives premiums after an accident
D. A rider for disability from accidents

24. What is the 'free look period' in life insurance?

A. The time to review the policy and return it for a full refund
B. A period without premium payments
C. Time to look at competitors' policies
D. A period of free coverage

25. What is a 'primary beneficiary'?

A. The insurance company
B. The policy owner
C. The first person to apply for benefits
D. The person(s) first entitled to receive the death benefit

26. What is a 'contingent beneficiary'?

A. A temporary beneficiary designation
B. A beneficiary who receives partial benefits
C. A beneficiary who must meet certain conditions
D. A backup beneficiary who receives proceeds if the primary is deceased

27. What is a 'revocable beneficiary'?

A. A beneficiary that the policyowner can change at any time
B. A beneficiary with limited rights
C. A beneficiary that cannot be changed
D. A beneficiary who can revoke the policy

28. What is an 'irrevocable beneficiary'?

A. A beneficiary that cannot be changed without their written consent
B. A beneficiary who waives all rights
C. A beneficiary that can be changed easily
D. A beneficiary designated by the court

29. What is the 'lump sum' settlement option?

A. Paying the entire death benefit in one payment
B. Leaving the benefit on deposit with interest
C. Converting the benefit to an annuity
D. Paying the death benefit in installments

30. What is the 'interest only' settlement option?

A. The beneficiary receives only the policy's interest
B. The beneficiary pays interest to the insurer
C. The insurer holds the proceeds and pays only the interest to the beneficiary
D. A low-interest policy loan

31. What is a 'fixed period' settlement option?

A. The benefit is paid on a specific date only
B. The insurer pays the benefit over a fixed number of years
C. Payments continue for the beneficiary's lifetime
D. A one-time payment at a fixed date

32. What is a 'life income' settlement option?

A. A single payment for the beneficiary's lifetime needs
B. Payments until the insured's death
C. Periodic payments for the beneficiary's entire lifetime
D. Income from the policy's cash value

33. What is 'underwriting' in life insurance?

A. Paying claims
B. Selling insurance policies
C. Writing policy contracts
D. The process of evaluating and classifying risk to determine insurability and premium

34. What does 'standard risk' classification mean?

A. The applicant must pay extra premiums
B. The applicant qualifies for the lowest rates
C. The applicant presents average risk and qualifies for standard premium rates
D. The applicant is uninsurable

35. What is a 'substandard' or 'rated' policy?

A. A policy issued to higher-risk applicants with higher premiums
B. A policy that doesn't meet state standards
C. A discounted policy
D. A policy with below-average coverage

36. What is 'adverse selection' in insurance?

A. The tendency of higher-risk individuals to seek more insurance coverage
B. Selecting inappropriate beneficiaries
C. Poor investment selection
D. Selecting the wrong insurance company

37. What is a 'Medical Information Bureau (MIB)' report?

A. A medical research document
B. A database that shares medical information among insurers for underwriting
C. A hospital billing statement
D. A prescription drug list

38. What is 'preferred risk' classification?

A. A risk the company prefers not to insure
B. The first choice for coverage type
C. An applicant who presents lower-than-average risk and qualifies for lower premiums
D. The preferred method of risk assessment

39. Are life insurance death benefits generally taxable as income to beneficiaries?

A. No, death benefits are generally received income tax-free
B. Only if the benefit exceeds $100,000
C. Yes, they are fully taxable
D. Only for term life policies

40. How are cash value withdrawals from a life insurance policy taxed?

A. Tax-free up to basis (premiums paid), taxable above that
B. Taxed at a flat 15% rate
C. Never taxable
D. Always fully taxable

41. What is a 'Modified Endowment Contract' (MEC)?

A. A life policy that fails the 7-pay test and loses certain tax advantages
B. A special endorsement for policies
C. A policy that has been modified by the insurer
D. A policy modification for seniors

42. Are premiums paid for personal life insurance tax-deductible?

A. Yes, always fully deductible
B. Only if itemizing deductions
C. Only for term life policies
D. No, personal life insurance premiums are generally not tax-deductible

43. What is an annuity?

A. A short-term loan product
B. A contract that provides periodic income payments, often for retirement
C. A savings account at a bank
D. A type of term life insurance

44. What is a 'fixed annuity'?

A. An annuity with variable payments
B. An annuity that must be held for a fixed period
C. An annuity that cannot be changed
D. An annuity with guaranteed minimum interest rates and fixed payments

45. What is a 'variable annuity'?

A. An annuity that varies by state
B. An annuity with varying premium requirements
C. An annuity where payments vary based on investment performance
D. An annuity with variable surrender charges

46. What is the 'accumulation period' of an annuity?

A. When premiums are paid and the value grows before payout begins
B. The surrender charge period
C. When the annuity matures
D. When annuity payments are received

47. What is the 'annuitization' or 'payout period'?

A. When premiums are being paid
B. When the annuity contract converts to periodic income payments
C. When the policy is surrendered
D. When beneficiaries receive proceeds

48. What is a 'life annuity'?

A. An annuity owned for life
B. An annuity with life insurance benefits
C. An annuity that replaces life insurance
D. An annuity that provides income payments for the annuitant's lifetime

49. What is a 'period certain' annuity?

A. An annuity that must be held for a certain period
B. An annuity that guarantees payments for a specified period, regardless of survival
C. An annuity that begins at a certain time
D. An annuity with a certainty of high returns

50. What is 'twisting' in insurance?

A. A complex policy structure
B. A type of policy endorsement
C. Misrepresenting or making incomplete comparisons to induce a policyholder to lapse or switch policies
D. Combining multiple policies

51. What is 'churning' in insurance?

A. Rapidly processing applications
B. Quickly paying claims
C. Mixing different policy types
D. Excessive replacement of policies to generate commissions

52. What is 'rebating' in insurance?

A. Reducing coverage amounts
B. Discounting policies for seniors
C. Giving part of the premium or commission back to the insured as an inducement
D. Refunding premiums after a claim

53. What is 'misrepresentation' in insurance?

A. Making false or misleading statements to induce someone to buy insurance
B. A beneficiary representing themselves falsely
C. Representing a policy incorrectly in records
D. An agent representing multiple companies

54. What is a 'paid-up' life insurance policy?

A. A policy that has been cancelled for non-payment
B. A policy paid by an employer
C. A policy with premiums paid in advance
D. A policy that requires no further premium payments but remains in force

55. What is a 'reduced paid-up' nonforfeiture option?

A. Reducing the death benefit temporarily
B. A discounted policy for seniors
C. Reduced premium payments
D. Using cash value to purchase a smaller permanent policy with no future premiums

56. What is 'extended term' insurance?

A. Term insurance with extended coverage hours
B. Using cash value to purchase term insurance for the same face amount for a limited time
C. An extension of the grace period
D. A term policy that extends beyond the original term

57. What is 'group life insurance'?

A. Insurance for a group of policies
B. Life insurance provided to a group under a single master policy, typically by an employer
C. A policy owned by multiple people
D. Insurance that covers multiple deaths

58. What is 'key person' life insurance?

A. A policy that unlocks special benefits
B. Insurance for security personnel
C. A policy owned by a business on a key employee, with the business as beneficiary
D. Insurance for key executives' families

59. What is a 'buy-sell agreement' in life insurance?

A. An agreement between insurers
B. An agreement to buy and sell policies
C. An agreement funded by life insurance that facilitates business ownership transfer upon death
D. A sales contract for insurance agents

60. What is 'split-dollar' life insurance?

A. Insurance paid in installments
B. Coverage that is split upon divorce
C. An arrangement where the cost and benefits of a policy are shared between employer and employee
D. A policy split between two insurers

61. What is a 'waiver of premium' rider?

A. A rider that waives the death benefit
B. A rider that eliminates cash value
C. A rider that increases premiums
D. A rider that waives premium payments if the insured becomes totally disabled

62. What is the 'incontestability clause'?

A. A clause that eliminates contestable periods
B. A clause preventing the insurer from contesting claims after a specified period (usually 2 years)
C. A clause that makes policies immediately valid
D. A clause allowing the insurer to contest any claim

63. What is the 'grace period' in life insurance?

A. The time to file a claim after death
B. The time after a premium due date during which coverage continues
C. The waiting period before coverage begins
D. The time to convert term to permanent insurance

64. What is 'misrepresentation' in life insurance?

A. Making false statements on an insurance application
B. Accurately describing risk factors
C. Updating policy information
D. Changing beneficiaries

65. What does 'paid-up additions' mean?

A. Small amounts of permanent insurance purchased with dividends
B. Additional premiums owed
C. Taxes paid on policy gains
D. Commission payments

66. What is 'extended term insurance'?

A. A nonforfeiture option using cash value to purchase term insurance for the same face amount
B. Renewing term insurance at expiration
C. Lifetime term coverage
D. Extended premium payment periods

67. What is 'reduced paid-up insurance'?

A. Insurance with reduced premiums
B. Temporary coverage reduction
C. A nonforfeiture option using cash value to buy smaller permanent coverage with no future premiums
D. Discounted insurance rates

68. What is a 'guaranteed insurability' rider?

A. A rider allowing additional coverage purchases at specified dates without evidence of insurability
B. A guarantee of fixed premiums
C. Guaranteed acceptance by any insurer
D. A guarantee the policy will never lapse

69. What is an 'accelerated death benefit' rider?

A. Faster claim processing
B. Increased death benefits over time
C. Automatic premium increases
D. A rider allowing early access to death benefits if diagnosed with a terminal illness

70. What is 'cost of insurance' in universal life policies?

A. Agent commissions
B. The mortality charge deducted from cash value to pay for death benefit protection
C. The total premium paid
D. Policy administrative fees only

71. What is 'corridor test' in universal life?

A. A building code requirement
B. A test of agent knowledge
C. A test of policy terms
D. An IRS test ensuring minimum death benefit relative to cash value to qualify as life insurance

72. What is 'table rating' in life insurance?

A. Rating insurance companies
B. Rating policies on a table
C. A method of displaying policy options
D. A system of rating substandard risks with higher premiums

73. What is 'flat extra' premium?

A. Standard premium rates
B. A discount for healthy applicants
C. Premium for flat coverage amounts
D. An additional fixed premium for temporary or specific extra risks

74. What is a 'key person' life insurance policy?

A. A policy owned by a business on a valuable employee to protect against financial loss if they die
B. Insurance on company keys
C. A policy on the company president only
D. Insurance for locksmiths

75. What is a 'buy-sell agreement'?

A. An agreement to buy and sell merchandise
B. A legal arrangement for business ownership transfer, often funded by life insurance
C. An agreement between insurers
D. A sales contract for insurance

76. What is a 'cross-purchase' buy-sell plan?

A. A discount for multiple purchases
B. Cross-border insurance purchases
C. An arrangement where each business owner purchases life insurance on the other owners
D. Purchasing policies across companies

77. What is an 'entity' buy-sell plan?

A. A plan for corporate buyouts
B. A government insurance program
C. An arrangement where the business itself purchases life insurance on each owner
D. Insurance for multiple entities

78. What is 'split-dollar' life insurance?

A. A discount plan
B. Insurance priced in half dollars
C. Dividing a policy into smaller pieces
D. An arrangement where premium costs and benefits are shared between an employer and employee

79. What is 'group term life insurance'?

A. Insurance for student groups
B. A family policy
C. A single policy covering multiple people, typically employees, with term insurance
D. Multiple individual policies

80. What is 'contributory' group insurance?

A. Tax-deductible insurance
B. A plan where employees pay a portion of the premium
C. Insurance contributions to retirement
D. Insurance that contributes to charities

81. Which life insurance policy is designed to provide coverage for the insured's entire lifetime if premiums are paid as required?

A. Term life insurance
B. Whole life insurance
C. Credit life insurance
D. Accidental death insurance

82. Which type of life insurance usually provides protection for a specific number of years and does not build cash value?

A. Whole life
B. Variable life
C. Term life
D. Universal life

83. A client wants permanent life insurance with flexible premiums and adjustable death-benefit options. Which policy type is most closely associated with these features?

A. Straight whole life
B. Universal life
C. Decreasing term
D. Credit life

84. Which policy is commonly used when the death benefit should decrease over time, such as to help cover a mortgage balance?

A. Decreasing term life
B. Whole life
C. Variable universal life
D. Joint life

85. What makes variable life insurance different from traditional whole life insurance?

A. It never requires underwriting
B. Its cash value is tied to separate account investment performance
C. It can only be sold as group coverage
D. It has no death benefit

86. A policyowner wants lifetime protection, level premiums, and guaranteed cash value growth. Which policy best matches that goal?

A. Annual renewable term
B. Straight whole life
C. Decreasing term
D. Accidental death and dismemberment

87. Which life policy is written to cover two people and usually pays the death benefit after the first insured dies?

A. Joint life policy
B. Survivorship life policy
C. Family income policy
D. Group credit policy

88. A survivorship life policy is most commonly designed to pay the death benefit when:

A. the first insured dies
B. the second insured dies
C. either insured becomes disabled
D. the policy reaches one year

89. Credit life insurance is usually written to cover:

A. a borrower's outstanding debt
B. a business inventory loss
C. a homeowner's liability exposure
D. a hospital expense bill

90. Which policy feature is most typical of adjustable life insurance?

A. The policyowner may change coverage elements within policy limits
B. The policy has no premium requirement
C. The policy only covers accidental death
D. The policy cannot be changed after issue

91. What is the main purpose of a grace period in a life insurance policy?

A. To let the insurer delay all claim payments
B. To provide extra time to pay a premium after the due date
C. To cancel the policy immediately after a missed payment
D. To increase the policy face amount automatically

92. A life policy lapses because the premium was not paid. Which provision may allow the policyowner to restore coverage if requirements are met?

A. Incontestability provision
B. Reinstatement provision
C. Entire contract provision
D. Ownership provision

93. The entire contract provision generally says the life insurance contract consists of the policy and:

A. the insurer's advertising brochure
B. the completed application attached to the policy
C. any verbal promise made by the agent
D. the beneficiary's personal records

94. What does the incontestability provision generally limit?

A. The beneficiary's right to file a claim immediately
B. The insurer's ability to contest a policy after a stated period, except for limited issues
C. The policyowner's ability to change beneficiaries
D. The agent's ability to deliver the policy

95. If the insured's age was misstated on the application, what is the usual policy response?

A. The policy is automatically void
B. The death benefit is adjusted to the amount the premium would have purchased at the correct age
C. The beneficiary must repay all premiums
D. The agent becomes the beneficiary

96. Which nonforfeiture option uses the cash value to buy paid-up term insurance for the full face amount for a limited period?

A. Cash surrender
B. Reduced paid-up insurance
C. Extended term insurance
D. Interest-only settlement

97. Which nonforfeiture option provides a lower amount of permanent coverage with no further premium payments?

A. Reduced paid-up insurance
B. Extended term insurance
C. Automatic premium loan
D. Fixed-period settlement

98. What is the free-look period designed to let a new policyowner do?

A. Cancel the policy after review and receive a refund as required by policy or law
B. Skip all future premiums
C. Increase the death benefit without underwriting
D. Change the insured person without consent

99. Which provision helps prevent a life policy from lapsing by using policy cash value to pay overdue premiums?

A. Automatic premium loan
B. Spendthrift clause
C. Common disaster clause
D. Assignment clause

100. Which settlement option pays life insurance proceeds over a chosen number of years, with payments ending when that period ends?

A. Life income
B. Fixed-period option
C. Interest-only option
D. Lump-sum option

101. Who receives the death benefit when the insured dies, assuming the named person or entity is eligible and living?

A. The beneficiary
B. The underwriter
C. The producer
D. The reinsurer

102. What is the key difference between a revocable and irrevocable beneficiary?

A. Only a revocable beneficiary can receive money
B. An irrevocable beneficiary usually must consent to certain beneficiary changes
C. A revocable beneficiary owns the insurance company
D. An irrevocable beneficiary never receives a death benefit

103. What is the purpose of naming a contingent beneficiary?

A. To receive the benefit if the primary beneficiary cannot receive it
B. To pay the policy premium every month
C. To underwrite the application
D. To replace the insured after policy issue

104. A policyowner names three children as per stirpes beneficiaries. One child dies before the insured but has children. What is the usual effect of per stirpes wording?

A. The deceased child's share may pass to that child's descendants
B. The insurer keeps that share
C. The surviving beneficiaries always split the deceased child's share equally
D. The policy automatically lapses

105. Which party normally has the right to change a revocable beneficiary?

A. The policyowner
B. The producer
C. The primary beneficiary only
D. The exam vendor

106. What does policy assignment usually involve?

A. Transferring some or all ownership rights in the policy
B. Changing the insured person
C. Cancelling all beneficiaries
D. Increasing the mortality charge

107. A collateral assignment is most often used to:

A. make a lender the full owner of the insurer
B. secure a debt with policy rights as collateral
C. remove the insured from the policy
D. make the agent a beneficiary

108. The policyowner is the person who generally has the right to:

A. control policy rights such as beneficiary changes and assignments
B. guarantee the insurer's investment return
C. approve all state insurance laws
D. set the exam passing score

109. What is a rider in a life insurance policy?

A. An added provision that modifies or adds coverage
B. A person who reviews insurance exams
C. A required state tax form
D. A replacement for the beneficiary

110. Which rider commonly waives premiums if the insured becomes totally disabled according to the rider terms?

A. Waiver of premium rider
B. Guaranteed insurability rider
C. Accidental death benefit rider
D. Term conversion rider

111. What does a guaranteed insurability rider usually allow?

A. Purchase of additional coverage at specified times without new proof of insurability
B. Cancellation of coverage without notice
C. Automatic payment of all claims twice
D. Conversion of health insurance into auto insurance

112. An accidental death benefit rider generally pays an additional benefit when death results from:

A. a covered accident
B. any illness after retirement
C. nonpayment of premium
D. policy surrender

113. Which rider is designed to provide part of the death benefit early if the insured has a qualifying terminal illness?

A. Accelerated death benefit rider
B. Return of premium rider
C. Payor benefit rider
D. Cost of living rider

114. A payor benefit rider is most commonly used on a juvenile life policy to:

A. waive premiums if the adult payor dies or becomes disabled
B. increase the child's driving coverage
C. make the insurer the beneficiary
D. remove all underwriting requirements

115. What does a term rider added to a permanent life policy usually provide?

A. Additional temporary life insurance protection
B. A guaranteed annuity payout
C. Coverage for property damage
D. A refund of all taxes paid

116. A cost-of-living rider is intended to help the policy benefit keep pace with:

A. inflation
B. the insurer's office rent
C. the producer's commission schedule
D. the beneficiary's tax filing date

117. In life insurance, what is the insurer doing when it reviews an applicant before deciding whether to issue a policy?

A. The process of evaluating risk before issuing coverage
B. The process of paying claims after death only
C. The process of printing marketing brochures
D. The process of setting state exam dates

118. Which item is commonly used by life insurers during underwriting?

A. Application information and health history
B. A beneficiary's favorite investment account
C. The producer's personal opinion only
D. The state capital city

119. What does insurable interest generally require at policy issue?

A. A valid financial or personal interest in the continued life of the insured
B. A guaranteed investment profit
C. A state exam appointment
D. A promise that no beneficiary will be named

120. A stranger with no relationship to the insured applies for a policy on the insured's life for speculative gain. What principle is most directly violated?

A. Insurable interest
B. Subrogation
C. Coinsurance
D. Arbitration

121. A premium is best described as:

A. the payment required to keep insurance coverage in force
B. the amount paid only to the beneficiary
C. the insurer's office address
D. the exam score report

122. Which risk classification usually receives a lower premium because the applicant presents better-than-average mortality risk?

A. Preferred
B. Substandard
C. Declined
D. Rated-up only

123. A substandard life insurance risk is most likely to receive:

A. a higher premium or rating because of increased risk
B. a guaranteed free policy
C. no underwriting review
D. a lower premium than preferred risks

124. Why must a producer avoid altering an applicant's answers without proper authorization?

A. Application accuracy is important to underwriting and contract validity
B. It makes the policy automatically tax-free
C. It guarantees a higher commission
D. It changes the state exam vendor

125. What is the primary purpose of an annuity?

A. To provide income, often during retirement
B. To insure a house against fire
C. To pay a death benefit only after accidental death
D. To replace auto liability coverage

126. During the accumulation period of a deferred annuity, the owner is primarily:

A. building value before income payments begin
B. receiving workers compensation benefits
C. filing a property claim
D. changing the insured every month

127. What happens during the annuitization or payout phase?

A. The accumulated value is converted into a stream of income payments
B. The policy automatically becomes homeowners insurance
C. The insurer stops all payments permanently
D. The beneficiary must pass an insurance exam

128. Which annuity payout option generally provides payments for as long as the annuitant lives, with no guarantee to beneficiaries after death?

A. Life-only option
B. Fixed-period option
C. Refund life option
D. Joint-and-survivor option

129. What is a surrender charge in an annuity?

A. A fee that may apply when funds are withdrawn during a stated early period
B. A tax paid only by the producer
C. A guaranteed increase in payout
D. A fee charged only after death claims

130. What distinguishes an immediate annuity from a deferred annuity?

A. An immediate annuity generally begins income payments soon after purchase
B. An immediate annuity can only be used for property insurance
C. A deferred annuity never pays income
D. A deferred annuity has no accumulation period

131. For federal income tax purposes, life insurance death benefits paid in a lump sum to a beneficiary are generally:

A. received income tax-free
B. always taxed as ordinary income
C. taxed only if the insured was under age 65
D. paid only after a probate court approves the insurer

132. Which part of a life insurance settlement option may be taxable to the beneficiary?

A. Interest earned on retained proceeds
B. The beneficiary designation itself
C. The policy number
D. The producer's appointment

133. Cash value growth inside a permanent life insurance policy is generally taxed:

A. on a tax-deferred basis while it remains in the policy
B. every week as payroll income
C. only when the producer renews a license
D. at the same rate as property insurance claims

134. A policyowner withdraws more than the cost basis from a life insurance policy. The excess is generally treated as:

A. taxable income
B. a new death benefit
C. a premium discount
D. an automatic beneficiary change

135. Life insurance policy loans are generally:

A. not taxable when taken, if the policy remains in force
B. always taxable in full immediately
C. illegal in all permanent policies
D. paid by the beneficiary only

136. Premiums paid for an individual life insurance policy are generally:

A. not deductible as a personal expense
B. fully deductible by every policyowner
C. treated as state exam fees
D. deducted only by the beneficiary

137. If a life insurance policy is surrendered for more than the policyowner's cost basis, the gain is generally:

A. taxable as ordinary income
B. ignored for all tax purposes
C. paid to the producer
D. converted into auto insurance

138. Which phrase best describes the tax treatment of qualified retirement annuity contributions?

A. They may receive special tax treatment under retirement-plan rules
B. They are always treated exactly like homeowners claims
C. They never have any tax rules
D. They automatically avoid all future taxes

139. A modified endowment contract, or MEC, is important because it can change:

A. the tax treatment of distributions from the policy
B. the insured's date of birth
C. the name of the state insurance department
D. the type of property covered by the policy

140. Which statement about estate taxation and life insurance is the safest general exam concept?

A. Ownership and incidents of ownership can affect whether proceeds are included in an estate
B. Life insurance is never considered in any estate situation
C. Only the producer decides estate tax treatment
D. Estate tax rules apply only to term insurance

141. Group life insurance is typically issued under:

A. a master policy issued to the group sponsor
B. a separate policy mailed to each beneficiary only
C. a homeowners policy form
D. a court order after the insured dies

142. In employer group life insurance, the individual covered employee usually receives:

A. a certificate of insurance
B. the original master policy
C. the insurer's corporate charter
D. a state exam outline

143. **Group underwriting usually focuses most on:**

A. the group as a whole
B. only one employee's favorite hobby
C. the beneficiary's credit card limit
D. the producer's continuing education record

144. **A contributory group life plan means:**

A. covered members pay part or all of the premium
B. the employer pays nothing and no one is insured
C. the insurer pays the employee's salary
D. only retirees may enroll

145. **A noncontributory group life plan usually requires:**

A. the employer or sponsor to pay the premium
B. each employee to pass an individual medical exam
C. beneficiaries to pay the premium after death
D. coverage to be converted to auto insurance

146. **The conversion privilege in group life insurance usually allows a departing employee to:**

A. convert group coverage to an individual policy without proving insurability
B. force the employer to keep paying the premium forever
C. convert life insurance into workers compensation
D. change the state exam vendor

147. **Why do group life plans often have eligibility rules?**

A. To define who can participate and help control adverse selection
B. To eliminate the need for any premium payment
C. To make every beneficiary the employer
D. To replace policy provisions with verbal promises

148. **In many employer group life plans, coverage amounts are commonly based on:**

A. salary, job class, or a flat benefit schedule
B. the employee's favorite beneficiary
C. the producer's commute distance
D. the number of claims paid by the auto insurer

149. **A key advantage of group life insurance for employees is that it often provides:**

A. basic coverage at a lower or employer-supported cost
B. unlimited investment returns with no risk
C. property coverage for every employee's home
D. automatic licensing as an insurance producer

150. **Which risk is group life eligibility and participation design intended to reduce?**

A. Adverse selection
B. Subrogation
C. Depreciation
D. Salvage

151. A buy-sell agreement funded with life insurance is commonly used to:

A. help transfer a deceased owner's business interest
B. insure a building against flood damage
C. replace an employee's health deductible
D. schedule a licensing examination

152. Key person life insurance is designed to protect a business from:

A. financial loss caused by the death of an important employee or owner
B. losses from every customer complaint
C. damage to company vehicles only
D. a producer's failure to renew a personal license

153. In a typical key person policy, who is usually the policyowner and beneficiary?

A. The business
B. The employee's neighbor
C. The state insurance department
D. The exam vendor

154. A cross-purchase buy-sell plan usually involves:

A. business owners buying policies on each other
B. the business buying auto insurance for all customers
C. an insurer purchasing the state exam vendor
D. a beneficiary buying the master group policy

155. An entity-purchase buy-sell plan usually means:

A. the business owns policies on the owners and buys the deceased owner's interest
B. each customer owns the company's insurance policies
C. the producer owns all business assets
D. the state pays the death benefit

156. Which business use of life insurance helps provide benefits to selected executives?

A. Executive bonus arrangement
B. Subrogation clause
C. Coinsurance provision
D. No-fault auto plan

157. Business continuation planning with life insurance is mainly concerned with:

A. providing funds after an owner's or key person's death
B. guaranteeing property values will rise
C. setting health insurance deductibles
D. avoiding all business regulations

158. Why is insurable interest important in business life insurance?

A. The business must have a legitimate interest in the insured person's continued life
B. It guarantees every policy is tax-free forever
C. It replaces the need for an application
D. It makes the policy automatically noncancelable

159. Which situation best fits key person life insurance?

A. A company buys coverage on a founder whose death would harm business operations
B. A tenant buys renters insurance on furniture
C. A driver buys auto liability coverage
D. A homeowner buys flood insurance from a separate program

160. Which document usually controls how ownership interests are transferred in a buy-sell arrangement?

A. The buy-sell agreement
B. The producer's business card
C. The beneficiary's driver's license
D. The insurer's advertising flyer

161. A settlement option determines:

A. how life insurance proceeds are paid to a beneficiary
B. which state administers the licensing exam
C. whether a home has replacement cost coverage
D. how a producer's commission is reported to the insurer

162. Under the interest-only settlement option, the insurer generally:

A. holds the proceeds and pays interest to the beneficiary
B. pays the entire proceeds only to the producer
C. cancels the beneficiary designation
D. converts the policy to homeowners insurance

163. A fixed-period settlement option pays proceeds:

A. over a selected period of time
B. only if the beneficiary passes an exam
C. only as a single lump sum
D. until the insurer changes its logo

164. A fixed-amount settlement option pays:

A. a selected dollar amount at regular intervals until funds are exhausted
B. a payment only on the insured's birthday
C. the same benefit to every state resident
D. only interest and never principal

165. Which settlement option is most directly tied to the beneficiary's lifetime?

A. Life income option
B. Fixed-period option
C. Interest-only option
D. Lump-sum option only

166. Nonforfeiture options are important because they protect:

A. the policyowner's equity in a permanent life policy if premiums stop
B. the producer's right to change the beneficiary
C. the insurer from ever paying claims
D. the exam vendor's scheduling calendar

167. The cash surrender nonforfeiture option generally allows the policyowner to:

A. receive the policy's available cash value and end the policy
B. keep full coverage forever without cost
C. make the beneficiary pay the premium
D. convert life insurance to auto insurance

168. The reduced paid-up nonforfeiture option generally uses cash value to buy:

A. a smaller amount of fully paid-up life insurance
B. a larger policy requiring higher future premiums
C. a health insurance deductible
D. a producer's license renewal

169. The extended term nonforfeiture option generally uses cash value to provide:

A. term insurance for the original face amount for a limited period
B. a permanent policy with a larger face amount forever
C. an annuity that starts immediately for all beneficiaries
D. property liability coverage

170. Which option usually provides immediate access to the policy's available cash value but ends the life coverage?

A. Cash surrender
B. Reduced paid-up insurance
C. Extended term insurance
D. Automatic premium loan

171. Insurance replacement rules are mainly intended to protect consumers from:

A. unsuitable or misleading policy changes
B. receiving a policy illustration
C. having a beneficiary named
D. paying premiums by check

172. A producer recommends replacing a life policy but fails to discuss surrender charges and new contestability periods. What is the concern?

A. The recommendation may be misleading or unsuitable
B. The policy automatically becomes group insurance
C. The beneficiary becomes the insurer
D. The exam vendor must approve the sale

173. Twisting generally refers to:

A. using misleading information to induce a policy replacement
B. correctly explaining policy options
C. paying a premium before the due date
D. choosing a contingent beneficiary

174. Rebating is generally best described as:

A. offering an unlawful inducement not stated in the policy
B. explaining a rider clearly
C. naming a beneficiary
D. submitting an application to underwriting

175. A producer's ethical duty when explaining a life policy is to:

A. present material information accurately and fairly
B. guarantee every policy will make money
C. hide exclusions until after delivery
D. promise state approval of every claim

176. When replacing existing coverage, why is the new contestability period important?

A. The new policy may start a new period during which misstatements can be contested
B. It guarantees the death benefit doubles
C. It eliminates all premium payments
D. It makes the old policy continue forever

177. Which action is most consistent with fair life insurance sales practice?

A. Comparing old and new coverage honestly before recommending replacement
B. Telling every client to cancel existing coverage immediately
C. Ignoring the client's needs and budget
D. Promising approval before underwriting

178. Which statement is a red flag for misrepresentation?

A. This policy is guaranteed to solve every financial problem with no risk or cost
B. This policy has premiums, conditions, and limitations
C. You should review the policy carefully when delivered
D. The insurer will review your application before issuing coverage

179. A buyer's guide or policy summary is used to help the applicant:

A. understand important policy features and compare coverage
B. avoid reading the policy forever
C. replace the application signature
D. choose the state exam center

180. Why should a producer document important client conversations and recommendations?

A. Documentation helps show what was discussed and why a recommendation was made
B. Documentation replaces the need for honest communication
C. Documentation guarantees every claim is paid
D. Documentation changes the beneficiary automatically

Answer Key & Explanations

1. Answer: A

To provide financial protection to beneficiaries upon the insured's death

The primary purpose of life insurance is to provide financial protection to beneficiaries (such as family members) when the insured person dies. While some policies have cash value components, the core function is death benefit protection.

2. Answer: C

The person whose life is covered by the policy

The insured is the person whose life is covered by the insurance policy. Upon their death, the death benefit is paid to the beneficiary.

3. Answer: A

The payment made to keep the policy in force

A premium is the amount paid by the policyholder to the insurance company to keep the policy in force. Premiums can be paid monthly, quarterly, semi-annually, or annually.

4. Answer: A

The death benefit stated in the policy

The face amount (also called face value) is the death benefit amount stated in the policy that will be paid to beneficiaries upon the insured's death.

5. Answer: A

A financial stake in the continued life of the insured

Insurable interest means having a financial stake in the continued life of the insured. It must exist at the time of policy application to prevent insurance from being used for speculation or harm.

6. Answer: A

At the time of application

Insurable interest must exist at the time of application (inception of the policy). It does not need to continue throughout the policy period or at the time of death.

7. Answer: A

The time allowed to pay a premium after the due date without policy lapse

The grace period (typically 30-31 days) is the time after a premium due date during which the premium can be paid without the policy lapsing. Coverage continues during this period.

8. Answer: B

30-31 days

The standard grace period for life insurance policies is 30-31 days. During this time, the policy remains in force even if the premium hasn't been paid.

9. Answer: D

Term life insurance

Term life insurance provides coverage for a specific period (term) such as 10, 20, or 30 years. If the insured dies during the term, beneficiaries receive the death benefit. If the term expires and the insured is still alive, coverage ends.

10. Answer: D

Whole life insurance

Whole life insurance is a permanent policy that includes both a death benefit and a cash value component that grows over time at a guaranteed rate. Term insurance does not have cash value.

11. Answer: D

A flexible permanent policy with adjustable premiums and death benefits

Universal life insurance is a type of permanent life insurance that offers flexibility in premium payments and death benefit amounts. It also has a cash value component that earns interest.

12. Answer: D
Variable life allows cash value to be invested in sub-accounts
Variable life insurance allows the policyholder to invest the cash value in various sub-accounts (similar to mutual funds). This means both cash value and death benefit can fluctuate based on investment performance.

13. Answer: D
Covering a decreasing obligation like a mortgage
Decreasing term life insurance has a death benefit that decreases over time. It's commonly used to cover debts that decrease over time, such as a mortgage balance.

14. Answer: C
A term policy that can be converted to permanent insurance without proof of insurability
A convertible term policy allows the policyholder to convert their term coverage to a permanent policy (like whole life) without providing evidence of insurability. This protects the insured if their health declines.

15. Answer: B
Whole life provides lifetime coverage and cash value; term is temporary with no cash value
Whole life insurance provides permanent coverage for the insured's entire life and accumulates cash value. Term life provides temporary coverage for a specific period and has no cash value component.

16. Answer: D
A term policy that can be renewed without proof of insurability
Renewable term insurance allows the policyholder to renew the policy at the end of the term without providing evidence of insurability. Premiums typically increase with each renewal based on the insured's attained age.

17. Answer: D
A provision that limits the insurer's ability to void the policy after 2 years
The incontestability clause states that after a policy has been in force for a specified period (usually 2 years), the insurer cannot contest the policy's validity based on misstatements in the application, except for fraud.

18. Answer: B
A provision that excludes suicide as a covered cause of death for a specified period
The suicide clause states that if the insured commits suicide within a specified period (usually 2 years from policy issue), the death benefit will not be paid. Instead, premiums paid are typically returned.

19. Answer: D
A loan from the insurance company using the policy's cash value as collateral
A policy loan allows the policyholder to borrow money from the insurance company using the policy's cash value as collateral. Interest is charged on the loan, and unpaid loans reduce the death benefit.

20. Answer: A
A provision that waives premiums if the insured becomes disabled
The waiver of premium rider allows premium payments to be waived if the insured becomes totally disabled for a specified period. The policy remains in force without premium payments during the disability.

21. Answer: D
A provision allowing early access to death benefit if terminally ill
An accelerated death benefit rider allows the insured to receive a portion of the death benefit early if diagnosed with a terminal illness. This provides funds for medical expenses or other needs while still living.

22. Answer: C
The right to purchase additional coverage at specified times without proof of insurability
The guaranteed insurability rider (also called guaranteed purchase option) allows the insured to purchase additional coverage at specified future dates or events without having to prove insurability again.

23. Answer: A
A provision that pays an additional benefit if death results from an accident
The accidental death benefit rider (sometimes called 'double indemnity') pays an additional death benefit, often equal to the face amount, if the insured dies as a result of an accident.

24. Answer: A
The time to review the policy and return it for a full refund
The free look period (typically 10-30 days depending on state) allows the policyholder to review the policy after delivery. If unsatisfied, they can return the policy for a full refund of premiums paid.

25. Answer: D
The person(s) first entitled to receive the death benefit
The primary beneficiary is the person(s) first entitled to receive the death benefit proceeds. If the primary beneficiary is deceased or cannot be located, proceeds go to the contingent beneficiary.

26. Answer: D
A backup beneficiary who receives proceeds if the primary is deceased
A contingent (or secondary) beneficiary receives the death benefit proceeds if the primary beneficiary predeceases the insured or is otherwise unable to receive the benefit.

27. Answer: A
A beneficiary that the policyowner can change at any time
A revocable beneficiary can be changed by the policyowner at any time without the beneficiary's consent. This is the most common type of beneficiary designation.

28. Answer: A
A beneficiary that cannot be changed without their written consent
An irrevocable beneficiary has a vested interest in the policy and cannot be changed without their written consent. This limits the policyowner's flexibility in making policy changes.

29. Answer: A
Paying the entire death benefit in one payment
The lump sum settlement option pays the entire death benefit to the beneficiary in one single payment. This is the most common and straightforward settlement option.

30. Answer: C
The insurer holds the proceeds and pays only the interest to the beneficiary
Under the interest only option, the insurance company retains the death benefit principal and pays the beneficiary only the interest earned. The beneficiary can later choose how to receive the principal.

31. Answer: B
The insurer pays the benefit over a fixed number of years
The fixed period (installments for a fixed period) settlement option pays the death benefit in equal installments over a specified number of years until the principal and interest are exhausted.

32. Answer: C
Periodic payments for the beneficiary's entire lifetime
The life income settlement option provides periodic payments to the beneficiary for their entire lifetime. The payment amount depends on the death benefit amount and the beneficiary's age.

33. Answer: D
The process of evaluating and classifying risk to determine insurability and premium
Underwriting is the process by which insurance companies evaluate applications, assess risk factors, determine if coverage will be offered, and set appropriate premium rates.

34. Answer: C
The applicant presents average risk and qualifies for standard premium rates
Standard risk classification means the applicant presents an average level of risk and qualifies for standard (normal) premium rates. They are neither preferred (better than average) nor substandard (higher risk).

35. Answer: A
A policy issued to higher-risk applicants with higher premiums
A substandard (or rated) policy is issued to applicants who present higher-than-average risk due to health conditions, occupation, or lifestyle. They pay higher premiums to compensate for the increased risk.

36. Answer: A

The tendency of higher-risk individuals to seek more insurance coverage

Adverse selection is the tendency for people who represent higher risks (poor health, dangerous occupations) to seek insurance more often than those with lower risks. Underwriting helps counteract this tendency.

37. Answer: B

A database that shares medical information among insurers for underwriting

The MIB is a cooperative database used by insurers to share coded medical information about insurance applicants. It helps detect fraud and ensures accurate underwriting across the industry.

38. Answer: C

An applicant who presents lower-than-average risk and qualifies for lower premiums

Preferred risk classification is given to applicants who present better-than-average risk factors (excellent health, non-smoker, healthy lifestyle). They qualify for lower premium rates.

39. Answer: A

No, death benefits are generally received income tax-free

Life insurance death benefits paid to beneficiaries are generally received income tax-free. This is one of the key tax advantages of life insurance.

40. Answer: A

Tax-free up to basis (premiums paid), taxable above that

Cash value withdrawals are taxed on a FIFO (First-In, First-Out) basis. Withdrawals up to the total premiums paid (basis) are tax-free. Amounts exceeding basis are taxed as ordinary income.

41. Answer: A

A life policy that fails the 7-pay test and loses certain tax advantages

A MEC is a life insurance policy that has been funded too quickly (fails the 7-pay test) and loses some tax advantages. Withdrawals and loans from MECs may be subject to ordinary income tax and a 10% penalty if taken before age 59½.

42. Answer: D

No, personal life insurance premiums are generally not tax-deductible

Premiums paid for personal life insurance are generally not tax-deductible. However, premiums paid by employers for group life insurance (up to $50,000 coverage) are deductible as a business expense.

43. Answer: B

A contract that provides periodic income payments, often for retirement

An annuity is a contract between an individual and an insurance company where the individual pays premiums and the insurer provides periodic income payments, typically for retirement.

44. Answer: D

An annuity with guaranteed minimum interest rates and fixed payments

A fixed annuity provides a guaranteed minimum interest rate during the accumulation phase and fixed periodic payments during the payout phase. The insurance company bears the investment risk.

45. Answer: C

An annuity where payments vary based on investment performance

A variable annuity allows the owner to invest in sub-accounts (similar to mutual funds). The accumulation value and income payments vary based on investment performance. The owner bears the investment risk.

46. Answer: A

When premiums are paid and the value grows before payout begins

The accumulation period (also called pay-in period) is when the annuity owner pays premiums and the account value grows through interest or investment returns before income payments begin.

47. Answer: B

When the annuity contract converts to periodic income payments

Annuitization is when the accumulated value is converted into periodic income payments. Once annuitized, the contract typically cannot be reversed or surrendered for cash value.

48. Answer: D
An annuity that provides income payments for the annuitant's lifetime
A life annuity (straight life) provides income payments for as long as the annuitant lives. Payments stop at death, regardless of how much has been paid out or how much remains in the account.

49. Answer: B
An annuity that guarantees payments for a specified period, regardless of survival
A period certain annuity guarantees payments for a specified number of years. If the annuitant dies before the period ends, payments continue to a beneficiary until the period is complete.

50. Answer: C
Misrepresenting or making incomplete comparisons to induce a policyholder to lapse or switch policies
Twisting is an illegal practice where an agent misrepresents or makes misleading comparisons to induce a policyholder to cancel an existing policy and purchase a new one, often for the agent's commission benefit.

51. Answer: D
Excessive replacement of policies to generate commissions
Churning is the unethical and often illegal practice of an agent inducing excessive policy replacements primarily to generate commissions, rather than for the client's benefit.

52. Answer: C
Giving part of the premium or commission back to the insured as an inducement
Rebating is the illegal practice of returning part of the premium or agent's commission to the policyholder as an inducement to purchase insurance. This is prohibited in most states.

53. Answer: A
Making false or misleading statements to induce someone to buy insurance
Misrepresentation is making false, deceptive, or misleading statements, either oral or written, to induce someone to purchase, lapse, or change an insurance policy. This is illegal and unethical.

54. Answer: D
A policy that requires no further premium payments but remains in force
A paid-up policy is one for which no more premium payments are required, but the policy remains in force with its death benefit intact. This can result from using dividends or cash value to pay premiums.

55. Answer: D
Using cash value to purchase a smaller permanent policy with no future premiums
The reduced paid-up option allows the policyholder to use the cash value to purchase a smaller permanent life insurance policy with no future premium payments required.

56. Answer: B
Using cash value to purchase term insurance for the same face amount for a limited time
Extended term is a nonforfeiture option that uses the policy's cash value to purchase term insurance for the original face amount for as long as the cash value will allow.

57. Answer: B
Life insurance provided to a group under a single master policy, typically by an employer
Group life insurance covers multiple individuals under a single master policy, typically provided by employers. It usually offers term coverage and may be convertible to individual policies upon leaving the group.

58. Answer: C
A policy owned by a business on a key employee, with the business as beneficiary
Key person (key man) life insurance is purchased by a business on the life of a key employee, with the business as beneficiary. It protects the business against financial loss if that person dies.

59. Answer: C
An agreement funded by life insurance that facilitates business ownership transfer upon death
A buy-sell agreement is a legally binding contract, often funded by life insurance, that allows surviving business owners to purchase a deceased owner's share of the business at a predetermined price.

60. Answer: C

An arrangement where the cost and benefits of a policy are shared between employer and employee

Split-dollar life insurance is an arrangement where the premium costs and policy benefits are shared between an employer and employee (or other parties) according to a specified agreement.

61. Answer: D

A rider that waives premium payments if the insured becomes totally disabled

A waiver of premium rider allows the policyholder to stop paying premiums while keeping the policy in force if they become totally disabled. The insurance company effectively pays the premiums during the disability period.

62. Answer: B

A clause preventing the insurer from contesting claims after a specified period (usually 2 years)

The incontestability clause prevents the insurer from voiding the policy or denying claims based on misstatements in the application after the policy has been in force for a specified period, typically two years.

63. Answer: B

The time after a premium due date during which coverage continues

The grace period is typically 30-31 days after a premium due date during which the policy remains in force even if payment hasn't been received. If the insured dies during this period, the death benefit is paid minus the unpaid premium.

64. Answer: A

Making false statements on an insurance application

Misrepresentation is providing false or misleading information on an insurance application. If material to the risk, it can be grounds for the insurer to void the policy within the contestability period.

65. Answer: A

Small amounts of permanent insurance purchased with dividends

Paid-up additions are small amounts of single-premium whole life insurance purchased with policy dividends. They increase the policy's death benefit and cash value without additional out-of-pocket premiums.

66. Answer: A

A nonforfeiture option using cash value to purchase term insurance for the same face amount

Extended term insurance is a nonforfeiture option where the policy's cash value is used to purchase term insurance for the original face amount. The length of coverage depends on the available cash value.

67. Answer: C

A nonforfeiture option using cash value to buy smaller permanent coverage with no future premiums

Reduced paid-up insurance is a nonforfeiture option that uses the policy's cash value as a single premium to purchase a smaller amount of permanent insurance, requiring no future premium payments.

68. Answer: A

A rider allowing additional coverage purchases at specified dates without evidence of insurability

A guaranteed insurability rider allows the policyholder to purchase additional coverage at specified future dates (like age milestones) without providing evidence of insurability, regardless of health changes.

69. Answer: D

A rider allowing early access to death benefits if diagnosed with a terminal illness

An accelerated death benefit rider allows a portion of the death benefit to be paid early if the insured is diagnosed with a terminal illness with a specified life expectancy, typically 12-24 months or less.

70. Answer: B

The mortality charge deducted from cash value to pay for death benefit protection

The cost of insurance (COI) is the mortality charge deducted monthly from the policy's cash value to pay for the death benefit protection. It increases as the insured ages.

71. Answer: D

An IRS test ensuring minimum death benefit relative to cash value to qualify as life insurance

The corridor test is an IRS requirement that the death benefit must exceed cash value by a minimum percentage that varies by age. This ensures the policy qualifies as life insurance for tax purposes.

72. Answer: D

A system of rating substandard risks with higher premiums

Table rating is a method of classifying substandard risks where each 'table' or 'letter' represents a percentage increase in mortality risk and premium. Higher tables mean greater risk and higher premiums.

73. Answer: D

An additional fixed premium for temporary or specific extra risks

A flat extra premium is an additional fixed dollar amount added to the standard premium to cover specific hazards, often for a limited period. It's commonly used for occupational or avocational risks.

74. Answer: A

A policy owned by a business on a valuable employee to protect against financial loss if they die

Key person insurance is a life insurance policy purchased by a business on the life of an employee whose death would cause significant financial hardship. The company is the beneficiary and receives the death benefit.

75. Answer: B

A legal arrangement for business ownership transfer, often funded by life insurance

A buy-sell agreement is a legally binding contract that outlines how a business owner's share will be transferred upon death, disability, or retirement. Life insurance often funds these arrangements to ensure liquidity.

76. Answer: C

An arrangement where each business owner purchases life insurance on the other owners

In a cross-purchase plan, each business owner buys life insurance policies on the lives of the other owners. Upon an owner's death, the surviving owners use the death benefits to purchase the deceased's share.

77. Answer: C

An arrangement where the business itself purchases life insurance on each owner

In an entity purchase (or stock redemption) plan, the business purchases life insurance on each owner. Upon an owner's death, the business uses the death benefit to buy the deceased's ownership interest.

78. Answer: D

An arrangement where premium costs and benefits are shared between an employer and employee

Split-dollar is an arrangement where the premium payments, cash values, and death benefits of a life insurance policy are split between an employer and employee according to a specified agreement.

79. Answer: C

A single policy covering multiple people, typically employees, with term insurance

Group term life insurance is a single policy issued to an employer or organization that covers multiple individuals, typically employees. It provides term coverage usually based on salary multiples.

80. Answer: B

A plan where employees pay a portion of the premium

Contributory group insurance is a plan where employees pay part of the premium, typically through payroll deduction. This contrasts with noncontributory plans where the employer pays the entire premium.

81. Answer: B

Whole life insurance

Whole life insurance is permanent coverage. It is designed to remain in force for the insured's lifetime as long as required premiums are paid.

82. Answer: C

Term life

Term life insurance provides temporary protection for a selected term. It generally has no cash value feature.

83. Answer: B
Universal life
Universal life insurance is known for premium flexibility and adjustable death-benefit features, subject to policy rules and sufficient policy values.

84. Answer: A
Decreasing term life
Decreasing term life provides a death benefit that declines over the policy period. It is often used for needs that shrink over time.

85. Answer: B
Its cash value is tied to separate account investment performance
Variable life policies place cash value in separate accounts. The value can rise or fall based on investment performance, so securities rules may also apply.

86. Answer: B
Straight whole life
Straight whole life is designed for lifetime coverage with level premiums and guaranteed cash value accumulation under the policy contract.

87. Answer: A
Joint life policy
A joint life policy covers two or more insureds and commonly pays when the first insured dies. Survivorship life usually pays after the second death.

88. Answer: B
the second insured dies
Survivorship life, also called second-to-die life, generally pays after the last surviving insured dies.

89. Answer: A
a borrower's outstanding debt
Credit life is designed to pay off or reduce a borrower's covered debt if the insured borrower dies.

90. Answer: A
The policyowner may change coverage elements within policy limits
Adjustable life allows certain changes, such as premium amount, face amount, or protection period, within insurer and policy guidelines.

91. Answer: B
To provide extra time to pay a premium after the due date
The grace period gives the policyowner limited extra time to pay a premium while coverage usually remains in force.

92. Answer: B
Reinstatement provision
The reinstatement provision may allow a lapsed policy to be restored if the policyowner meets the insurer's conditions, such as proof of insurability and payment of overdue amounts.

93. Answer: B
the completed application attached to the policy
The entire contract is generally made up of the policy and the attached application, limiting what can be used as part of the contract.

94. Answer: B
The insurer's ability to contest a policy after a stated period, except for limited issues
After the contestable period ends, the insurer is generally limited in its ability to challenge the policy, except for issues allowed by law or policy terms.

95. Answer: B
The death benefit is adjusted to the amount the premium would have purchased at the correct age
The misstatement of age provision commonly adjusts benefits to match what the paid premium would have purchased at the insured's correct age.

96. Answer: C
Extended term insurance
Extended term insurance uses available cash value to keep the full face amount in force as term coverage for a limited time.

97. Answer: A
Reduced paid-up insurance
Reduced paid-up insurance uses cash value to buy a smaller amount of fully paid permanent insurance.

98. Answer: A
Cancel the policy after review and receive a refund as required by policy or law
The free-look period gives the policyowner time to review the policy after delivery and cancel for a refund according to applicable rules.

99. Answer: A
Automatic premium loan
An automatic premium loan provision can use available cash value to pay premiums and keep the policy in force, if the provision is included and conditions are met.

100. Answer: B
Fixed-period option
The fixed-period settlement option pays proceeds over a specified period. Payments stop when the selected period is complete.

101. Answer: A
The beneficiary
The beneficiary is the person or entity designated to receive policy proceeds when the insured dies.

102. Answer: B
An irrevocable beneficiary usually must consent to certain beneficiary changes
A revocable beneficiary can usually be changed by the policyowner. An irrevocable beneficiary generally has rights that require consent for certain changes.

103. Answer: A
To receive the benefit if the primary beneficiary cannot receive it
A contingent beneficiary is next in line to receive proceeds if the primary beneficiary dies before the insured or cannot receive the benefit.

104. Answer: A
The deceased child's share may pass to that child's descendants
Per stirpes wording generally allows a deceased beneficiary's share to pass down to that beneficiary's descendants.

105. Answer: A
The policyowner
The policyowner generally controls ownership rights, including changing a revocable beneficiary, subject to policy rules.

106. Answer: A
Transferring some or all ownership rights in the policy
An assignment transfers policy ownership rights, either fully or partially, to another party, depending on the assignment type.

107. Answer: B
secure a debt with policy rights as collateral
A collateral assignment gives a creditor limited rights in the policy as security for a debt. Rights usually end when the debt is satisfied.

108. Answer: A
control policy rights such as beneficiary changes and assignments
The policyowner owns the contract and generally controls rights such as changing beneficiaries, assigning the policy, and selecting options.

109. Answer: A
An added provision that modifies or adds coverage
A rider is an added policy provision that changes, limits, or adds benefits to the base policy.

110. Answer: A
Waiver of premium rider
A waiver of premium rider can waive required premiums during a qualifying disability, subject to policy definitions and waiting periods.

111. Answer: A
Purchase of additional coverage at specified times without new proof of insurability
A guaranteed insurability rider lets the insured buy additional coverage at certain option dates or events without proving insurability again.

112. Answer: A
a covered accident
An accidental death benefit rider pays an extra amount if death results from a covered accident and rider conditions are satisfied.

113. Answer: A
Accelerated death benefit rider
An accelerated death benefit rider may allow early access to a portion of the death benefit when the insured meets the rider's qualifying condition, such as terminal illness.

114. Answer: A
waive premiums if the adult payor dies or becomes disabled
A payor benefit rider can waive premiums on a juvenile policy if the adult responsible for paying premiums dies or becomes disabled, as defined by the rider.

115. Answer: A
Additional temporary life insurance protection
A term rider adds temporary life insurance coverage to the base permanent policy, often for a specific person or time period.

116. Answer: A
inflation
A cost-of-living rider can increase coverage based on an inflation measure or policy formula, helping reduce the effect of rising costs.

117. Answer: A
The process of evaluating risk before issuing coverage
Underwriting is the insurer's risk-evaluation process. It helps determine whether to issue coverage and at what premium classification.

118. Answer: A
Application information and health history
Life underwriting commonly considers application answers, health history, medical information, lifestyle factors, and other allowed risk information.

119. Answer: A
A valid financial or personal interest in the continued life of the insured
Insurable interest means the policyowner must have a recognized interest in the insured's continued life when the policy is issued.

120. Answer: A
Insurable interest
Life insurance generally requires insurable interest at policy inception. A purely speculative policy on a stranger's life conflicts with that requirement.

121. Answer: A
the payment required to keep insurance coverage in force
The premium is the payment charged by the insurer for coverage under the policy.

122. Answer: A
Preferred
A preferred risk classification is generally used for applicants who meet favorable underwriting standards and may qualify for lower premiums.

123. Answer: A
a higher premium or rating because of increased risk
Substandard applicants present higher-than-standard risk and may be rated, charged an extra premium, or declined depending on underwriting guidelines.

124. Answer: A
Application accuracy is important to underwriting and contract validity
Accurate application information is essential because the insurer relies on it for underwriting. Unauthorized changes can create serious compliance and validity issues.

125. Answer: A
To provide income, often during retirement
An annuity is primarily designed to accumulate funds and/or provide income, often for retirement planning.

126. Answer: A
building value before income payments begin
The accumulation period is the time when money is paid into the annuity and value builds before the payout phase begins.

127. Answer: A
The accumulated value is converted into a stream of income payments
During annuitization, the annuity value is converted into scheduled income payments according to the selected payout option.

128. Answer: A
Life-only option
A life-only option usually pays the highest lifetime income because payments stop at the annuitant's death and no refund or survivor payment is guaranteed.

129. Answer: A
A fee that may apply when funds are withdrawn during a stated early period
A surrender charge is a contractual charge that may apply if the owner withdraws money or surrenders the annuity during the surrender period.

130. Answer: A
An immediate annuity generally begins income payments soon after purchase
An immediate annuity is designed to start income payments soon after it is purchased. A deferred annuity delays payouts until a later date.

131. Answer: A
received income tax-free
Life insurance death benefits are generally received income tax-free when paid as a lump sum to a named beneficiary. Interest paid with the proceeds may be taxable.

132. Answer: A

Interest earned on retained proceeds

The death benefit itself is generally income tax-free, but interest credited while proceeds are held by the insurer is generally taxable as interest income.

133. Answer: A

on a tax-deferred basis while it remains in the policy

Cash value in a permanent life policy generally grows tax-deferred while it remains inside the contract, subject to tax rules and policy treatment.

134. Answer: A

taxable income

Withdrawals up to basis are generally a return of premium, but amounts above basis may be taxable. Candidates should remember tax treatment can vary by product and transaction.

135. Answer: A

not taxable when taken, if the policy remains in force

Policy loans are generally not taxable when taken if the policy stays in force, but unpaid loans can reduce benefits and may create tax issues if the policy lapses or is surrendered.

136. Answer: A

not deductible as a personal expense

Individual life insurance premiums are generally not deductible as a personal expense. Business and employee benefit situations may have separate rules.

137. Answer: A

taxable as ordinary income

When a policy is surrendered, any amount received above the policyowner's cost basis is generally taxable as ordinary income.

138. Answer: A

They may receive special tax treatment under retirement-plan rules

Qualified annuities are connected to retirement-plan rules and may receive special tax treatment. Taxes usually apply when distributions are taken, depending on the arrangement.

139. Answer: A

the tax treatment of distributions from the policy

A MEC is a life insurance contract that fails certain funding tests. Distributions from a MEC can be taxed less favorably than distributions from a non-MEC policy.

140. Answer: A

Ownership and incidents of ownership can affect whether proceeds are included in an estate

For estate-tax concepts, ownership and incidents of ownership are important. Exam candidates should know that tax results depend on policy ownership and applicable law.

141. Answer: A

a master policy issued to the group sponsor

Group life insurance is commonly issued as a master policy to an employer or other eligible group sponsor, with certificates provided to covered members.

142. Answer: A

a certificate of insurance

The employer or sponsor holds the master policy. Covered employees generally receive certificates explaining their coverage.

143. Answer: A

the group as a whole

Group underwriting evaluates the group characteristics, participation, eligibility, and overall risk rather than fully underwriting each person in the same way as individual coverage.

144. Answer: A
covered members pay part or all of the premium
In a contributory plan, employees or members contribute toward the premium. Participation requirements often help prevent adverse selection.

145. Answer: A
the employer or sponsor to pay the premium
In a noncontributory group plan, the employer or sponsor pays the premium. These plans often require all eligible members to be covered.

146. Answer: A
convert group coverage to an individual policy without proving insurability
A conversion privilege allows eligible individuals who lose group coverage to convert to an individual policy, often without evidence of insurability, within a limited time.

147. Answer: A
To define who can participate and help control adverse selection
Eligibility rules help define the covered class and support fair administration. They also reduce the chance that only high-risk individuals join.

148. Answer: A
salary, job class, or a flat benefit schedule
Group life benefits often use a schedule such as a flat amount, a multiple of salary, or a class-based amount to avoid unfair discrimination.

149. Answer: A
basic coverage at a lower or employer-supported cost
Group life coverage can provide convenient basic protection, often with employer support and simplified enrollment compared with individual underwriting.

150. Answer: A
Adverse selection
Participation and eligibility rules help prevent adverse selection, where people most likely to need coverage are disproportionately the ones who enroll.

151. Answer: A
help transfer a deceased owner's business interest
Life insurance can fund a buy-sell agreement by providing money to purchase a deceased owner's business interest according to the agreement.

152. Answer: A
financial loss caused by the death of an important employee or owner
Key person insurance helps a business manage the financial impact of losing a person whose skills, relationships, or leadership are important to operations.

153. Answer: A
The business
In a key person arrangement, the business commonly owns the policy, pays the premium, and receives the proceeds if the key person dies.

154. Answer: A
business owners buying policies on each other
In a cross-purchase plan, each owner typically owns a policy on the other owner or owners, providing funds to buy the deceased owner's interest.

155. Answer: A
the business owns policies on the owners and buys the deceased owner's interest
In an entity-purchase arrangement, the business is commonly the policyowner and uses proceeds to redeem or purchase the deceased owner's interest.

156. Answer: A

Executive bonus arrangement

An executive bonus arrangement uses life insurance as part of compensation for selected employees or executives, subject to tax and employment rules.

157. Answer: A

providing funds after an owner's or key person's death

Business continuation planning uses life insurance to create liquidity when a death could disrupt ownership, operations, or financial stability.

158. Answer: A

The business must have a legitimate interest in the insured person's continued life

A business must have a legitimate financial interest in the insured person's continued life, especially for key person or business-continuation coverage.

159. Answer: A

A company buys coverage on a founder whose death would harm business operations

Key person coverage is appropriate when the death of a founder, owner, executive, or specialized employee could create financial loss for the business.

160. Answer: A

The buy-sell agreement

The buy-sell agreement sets the rules for transfer and valuation. Life insurance is often used to fund the obligations created by that agreement.

161. Answer: A

how life insurance proceeds are paid to a beneficiary

Settlement options describe ways policy proceeds can be paid, such as lump sum, interest only, fixed period, fixed amount, or life income options.

162. Answer: A

holds the proceeds and pays interest to the beneficiary

With an interest-only option, the insurer holds the principal proceeds for a period and pays interest according to the settlement arrangement.

163. Answer: A

over a selected period of time

The fixed-period option pays proceeds over a stated number of years. Payment size depends on the amount, interest, and selected period.

164. Answer: A

a selected dollar amount at regular intervals until funds are exhausted

Under a fixed-amount option, the beneficiary receives a chosen dollar amount periodically until the proceeds and interest are exhausted.

165. Answer: A

Life income option

A life income option provides payments based on the lifetime of the payee, with variations that may include period-certain or refund features.

166. Answer: A

the policyowner's equity in a permanent life policy if premiums stop

Nonforfeiture options help the policyowner use accumulated cash value if a permanent life policy lapses or is surrendered.

167. Answer: A

receive the policy's available cash value and end the policy

Cash surrender allows the policyowner to receive the available cash value, less any charges or loans, and terminate the policy.

168. Answer: A
a smaller amount of fully paid-up life insurance
Reduced paid-up insurance uses available cash value as a single premium to purchase a smaller permanent policy with no further premium payments required.

169. Answer: A
term insurance for the original face amount for a limited period
Extended term insurance uses cash value to buy term coverage, usually for the original face amount, for as long as the cash value will support.

170. Answer: A
Cash surrender
Cash surrender ends the policy and pays the available cash value. Reduced paid-up and extended term continue some form of coverage.

171. Answer: A
unsuitable or misleading policy changes
Replacement rules help ensure consumers understand the consequences of replacing existing coverage, including surrender charges, new contestability periods, and loss of benefits.

172. Answer: A
The recommendation may be misleading or unsuitable
A replacement recommendation should fairly explain material disadvantages and advantages. Omitting important consequences can make the recommendation misleading.

173. Answer: A
using misleading information to induce a policy replacement
Twisting is commonly used to describe misleading or deceptive conduct that induces a policyowner to replace or change coverage improperly.

174. Answer: A
offering an unlawful inducement not stated in the policy
Rebating generally involves offering something of value not specified in the policy as an inducement to buy insurance, where prohibited by law.

175. Answer: A
present material information accurately and fairly
Producers should present coverage, limitations, costs, and suitability factors honestly so applicants can make informed decisions.

176. Answer: A
The new policy may start a new period during which misstatements can be contested
A replacement may create a new contestability period under the new policy. This is an important consumer consideration before replacing coverage.

177. Answer: A
Comparing old and new coverage honestly before recommending replacement
A fair replacement discussion compares benefits, costs, limitations, charges, and underwriting consequences before the client makes a decision.

178. Answer: A
This policy is guaranteed to solve every financial problem with no risk or cost
Overbroad guarantees and statements that hide costs, risks, or limitations are red flags. Producers must not misrepresent policy benefits or terms.

179. Answer: A
understand important policy features and compare coverage
Consumer disclosure materials such as a buyer's guide or policy summary help applicants understand and compare life insurance features, costs, and limitations.

180. Answer: A

Documentation helps show what was discussed and why a recommendation was made

Good documentation supports compliance and helps show the basis for recommendations, disclosures, and client decisions.

Ready for exam conditions?