



ATHENA FINANCIAL
& INSURANCE ASSOCIATES



Life & Health Pre-Licensing **PREP REVIEW**

*based on XCEL's study materials to support
licensing exam preparation.*

DISABILITY INCOME AND RELATED INSURANCE

1. Which type of business insurance is meant to cover the costs of continuing to do business while the owner is disabled?

Correct Answer: *"Business overhead expense policy". A form of business disability insurance that is designed to cover the actual costs of continuing to do business while an insured business owner is disabled is called a business overhead expense policy.*

2. Bryce purchased a disability income policy with a rider that guarantees him the option of purchasing additional amounts of coverage at predetermined times without requiring to provide evidence of insurability. What kind of rider is this?

Correct Answer: *"Guaranteed insurability rider". A guaranteed insurability rider guarantees the insured the option of purchasing additional amounts of disability income coverage at predetermined times without requiring the insured to provide evidence of insurability.*

3. A disability elimination period is best described as a

Correct Answer: *"time deductible". The best way to describe a disability elimination period is a "time deductible"*

4. Jonas has disability insurance through his employer. The employer pays 75% of the premium, and Jonas pays the other 25%. What is Jonas's tax liability for any benefits paid from the disability plan?

Correct Answer: *In this situation, the insured must pay taxes on 75% of the benefits received.*

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5. Tom has a rider on his disability income policy that guarantees the right to increase his benefits without a medical exam. What kind of rider is this?

Correct Answer: *"Guaranteed insurability rider". A guaranteed insurability rider guarantees the right to increase benefits without a medical exam.*

6. A policyowner suffers an injury that renders him incapable of performing one or more important job duties. Any decrease in income resulting from this injury would make him eligible for benefits under which provision?

Correct Answer: *In this situation, the policyowner would be eligible for benefits under a partial disability provision.*

7. What percentage of a participant's income are group long-term disability benefit amounts typically limited to?

Correct Answer: *"60%". Group long-term disability benefit amounts are usually limited to 60% of the participant's income.*

8. A rehabilitation benefit is intended to

Correct Answer: *"prepare the insured to return to employment". A rehabilitation benefit is designed to help prepare the insured to return to employment.*

9. Loss of income insurance provides

Correct Answer: *"an individual the means to replace wages". The primary purpose of loss of income insurance is to provide an individual a means to replace wages.*

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10. The factor used most often when underwriting a disability income policy is

Correct Answer: *When an insurer underwrites an individual for disability income coverage, the most commonly used factor is annual earnings.*

11. The waiting period for a disability insurance policy

Correct Answer: *"excludes payments for a short-term illness or injury". With regard to disability insurance, the waiting (elimination) period is to exclude payments for a short-term illness or injury.*

12. The waiver of premium does NOT include which provision?

Correct Answer: *"All future premiums are waived if the insured recovers from the disability". This is incorrect. All future premiums are NOT waived if the insured recovers from the disability.*

13. Typically, Long-Term Disability benefits are coordinated with which benefit plan?

Correct Answer: *"Social Security". In most cases, Long-Term Disability benefits are coordinated with Social Security benefits.*

14. What is the purpose of a Disability Income Benefit?

Correct Answer: *"Provide money for living expenses". A Disability Income Benefit is intended to provide cash payments for living expenses.*

15. Which clause defines total disability as being unable to perform the major duties of the insured's regular occupation?

Correct Answer: *"Own occupation clause". The own occupation clause states that insureds are totally disabled when they cannot perform the major duties of their regular occupation.*

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16. Which disability policy provision would address any concerns of the value of the benefits decreasing over time?

Correct Answer: *"Cost of living benefit". A cost of living benefit will address any concerns that the value of the benefits may decrease over time.*

17. What is the elimination period of an individual disability policy?

Correct Answer: *"Time period a disabled person must wait before benefits are paid". The elimination period of an individual disability insurance policy refers to the amount of time a disabled person must wait before benefits are paid.*

18. What is the primary factor that determines the benefits paid under a disability income policy?

Correct Answer: *The major factor in determining the benefit amount paid under a disability income policy is wages.*

19. An example of a presumptive disability would be

Correct Answer: *Deafness is an example of a presumptive disability.*

20. Coming from an insurance point of view, which of the following is the main risk associated with disability?

Correct Answer: *"Loss of income". From an insurance perspective, loss of income is the primary risk associated with disability.*

21. Frank is shopping for a disability income policy. Which of the following would have the HIGHEST premium?

Correct Answer: *"14 day waiting period / 10 year benefit period". The disability income policy with the lowest waiting period and longest benefit period would have the highest premium.*

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22. In what form do disability income policies typically pay benefits?

Correct Answer: "Periodic income". Disability policies typically pay benefits in the form of periodic income.

23. Tyler purchased a disability policy with a waiver of premium rider on April 1. He is disabled on May 1. On June 1, he receives proof of permanent and total disability, and submits a claim. He begins receiving benefits on June 15. When are his premiums waived?

Correct Answer: "May 1". Premiums are waived beginning at the date of disability.

24. Which of the following statements regarding Group Disability Income insurance is TRUE?

Correct Answer: Group Disability Income insurance provides benefits for nonoccupational illnesses and injuries. Occupational illnesses and injuries are typically covered by workers' compensation insurance.

25. Which type of disability would be less than total impairment and equal to permanent impairment?

Correct Answer: "Permanent partial disability". Permanent disability that is less than total impairment and equal to permanent impairment is the definition of permanent partial disability.

26. A disability income policy can prevent an insured from earning a higher income than if he/she were working by utilizing

Correct Answer: "benefit limits". To prevent an insured from earning a higher income than if he or she were working, disability income policies utilize benefit limits.

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27. A disability policyowner is injured and becomes totally disabled. The benefits pay for 2 years, starting from the date of the injury. What is this time period called?

Correct Answer: *"Benefit period". The time period used in this example is called the benefit period.*

28. Chris is an insured bricklayer who severed his left hand in an automobile accident. Although his primary duty cannot be performed, Chris is also a substitute high school teacher. He collects a full disability income check every month. How does his policy define total disability?

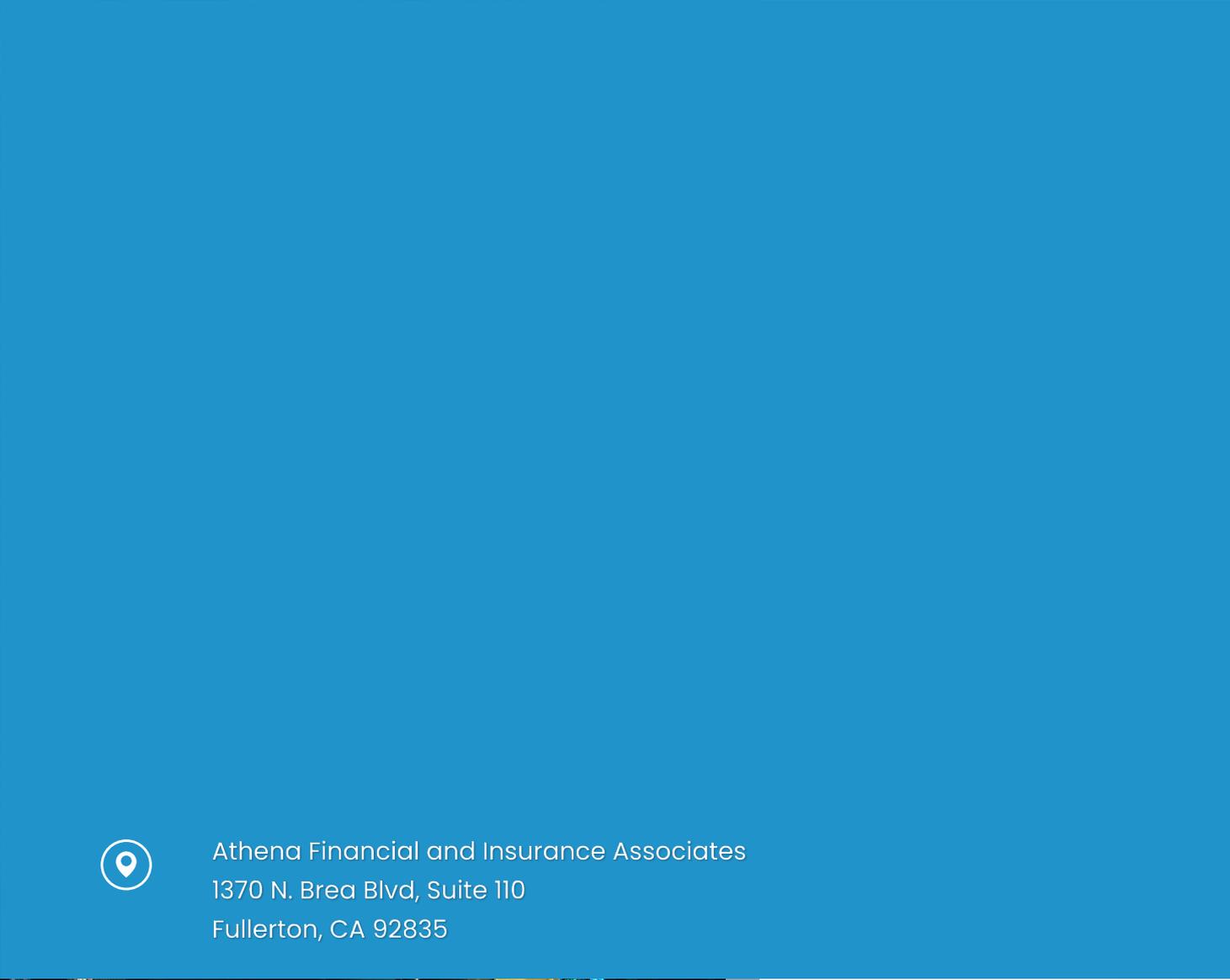
Correct Answer: *"Own occupation". The "own occupation" definition of total disability requires that the insured be unable to perform the insured's current occupation as a result of an accident or sickness.*

29. Claims payable to a Disability Income insured, even when the insured can continue to work, are the result of a

Correct Answer: *A presumptive disability provision specifies certain conditions that automatically qualify the insured for the full benefit because the severity of the conditions presumes the insured is totally disabled, even if the insured is able to work.*

30. Which of these would NOT be considered a presumptive disability?

Correct Answer: *"Loss of a leg or arm". The loss of ONE arm or a leg is NOT considered a presumptive disability.*



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