



ATHENA FINANCIAL
& INSURANCE ASSOCIATES



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

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

LIFE INSURANCE BASICS

BUSINESS INCOME

1. What would be an expense factor in an insurance program?

Correct Answer: "Mortality costs". Mortality costs are considered an expense factor in an insurance program.

2. Where would policy proceeds be paid if both the insured and primary beneficiary were killed in the same accident?

Correct Answer: "contingent beneficiary". If the insured and the primary beneficiary are killed in the same accident, the policy proceeds will be paid to the contingent beneficiary of the insured.

3. Which of the following enables a life policy to be replaced with another life policy and results in the postponement of the tax consequence?

Correct Answer: "Section 1035 exchange". A Section 1035 Exchange enables a life policy to be replaced with another life policy and results in the postponement of the tax consequence.

4. A beneficiary change can occur

Correct Answer: "normally at any time during the policy term". A beneficiary change can occur normally at any time during the policy term.

5. A beneficiary has just received a claim payment for a life insurance policy. Which of the following is TRUE regarding the federal income tax liability owed?

Correct Answer: "No federal income tax is owed on life insurance proceeds". There is no federal income tax on life insurance proceeds if you receive the proceeds under a life insurance contract as a beneficiary.

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6. A tax-free Section 1035 Exchange of a life insurance policy to a different policy is permitted if it occurs

Correct Answer: *The Internal Revenue Code (IRC) enables a tax-free Section 1035 Exchange of a life insurance policy to a different policy if it occurs from insurer to insurer and the policyowner does not receive any cash.*

7. All of these are settlement options for life insurance policies EXCEPT

Correct Answer: *Extended term". The extended term option is a nonforfeiture option, not a settlement option.*

8. An example of naming a beneficiary by class would be

Correct Answer: *To the children born of my union with Ned Jackson" is an example of naming a beneficiary by class.*

9. Naming a contingent beneficiary as "all surviving children" is described by which term?

Correct Answer: *Class designation". "All surviving children" is an example of naming a beneficiary by class designation.*

10. Proceeds from a life insurance policy are protected from the beneficiary's creditors by which clause?

Correct Answer: *"spendthrift trust clause". The clause in a life insurance policy protecting its proceeds from the beneficiary's creditors is referred to as the spendthrift trust clause.*

11. What happens to the total amount of premium paid for an insurance policy when the payment frequency increases?

Correct Answer: *As the premium payment frequency increases, the total amount of premium paid for an insurance policy increases.*

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12. A life insurance claim which involves a per capita distribution of policy proceeds would be payable to the

Correct Answer: *"named living primary beneficiaries". "Per capita" is a method of life insurance distribution using total number of individuals. This means that all living members that are identified in the life insurance policy will receive an equal amount of the life insurance proceeds. Using per capita distribution means that if one of the beneficiaries becomes deceased before the insured, then the other beneficiaries will simply have their share increased accordingly.*

13. A policyowner is prohibited from making any changes to the policy without the beneficiary's written consent under which beneficiary designation?

Correct Answer: *"Irrevocable beneficiary". An irrevocable beneficiary designation prohibits the policyowner from making any changes to the policy without the beneficiary's written consent.*

14. How does life insurance create an immediate estate?

Correct Answer: *An immediate estate can be created because the face amount may be available to the beneficiary after the first premium is paid.*

15. Insurance premium is determined by each of the following factors EXCEPT

Correct Answer: *"Liquidity". All of these are factors which determine insurance premiums EXCEPT "Liquidity".*

16. Level premium term life insurance policies

Correct Answer: *"have premiums that are averaged over the policy period". The policyowner pays more in the early years for protection to help cover the cost in later years, which allows the premiums to remain level throughout the life of the policy.*

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17. Purchasing a life insurance policy in order to avoid the forced sale of assets upon death is called

Correct Answer: *"estate conservation". Estate conservation involves purchasing life insurance to avoid the forced sale of assets upon death.*

18. Sharon is the policyowner of a \$50,000 life insurance policy. Her son, Mike, is the beneficiary. If Sharon MUST obtain Mike's signature in order to change the beneficiary, what kind of beneficiary designation is this?

Correct Answer: *"Irrevocable". An irrevocable beneficiary designation requires the beneficiary's signature.*

19. Tonya has replaced her whole life policy with an annuity without incurring a tax penalty. This transaction is called a(n)

Correct Answer: *"1035 Exchange". A 1035 tax free Exchange is the IRS tax code that allows for the rollover of a non-qualified annuity (or transfer of a life insurance policy) to a new annuity or life policy of equal or greater value.*

20. A policyowner can receive a percentage payment of the death benefits prior to death by using what kind of contract?

Correct Answer: *"Viatical settlement agreement". Viatical settlement agreements typically include a percentage payment of the death benefits to the policyowner prior to the death of the insured.*

21. A policyowner can receive an immediate payment before the insured dies by using a(n)

Correct Answer: *A viatical settlement contract is a transaction that involves an immediate payment to the policyowner prior to the death of the insured.*

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22. What is created after policy proceeds are obtained in a lump sum and then immediately invested?

Correct Answer: *Policy proceeds can be obtained in a lump sum and invested to create an estate.*

23. If the beneficiary dies from the same accident as the insured individual, the insurer will proceed as if

Correct Answer: *"the insured outlived the beneficiary". A common disaster provision states that if the beneficiary dies from the same accident as the insured individual, the insurer will proceed as if the insured outlived the beneficiary. This allows the proceeds to go to the contingent beneficiary.*

24. Which of these factors help determine an insured's life insurance premium?

Correct Answer: *"avocation (hobby)". Life insurance premiums are determined by several factors pertaining to the insured, such as age, occupation, and avocation (hobby).*

25. Over the course of a year, which premium payment mode is most expensive?

Correct Answer: *"Monthly". The monthly payment mode is the most expensive over the course of a year.*

26. The premium payment mode that results in the highest overall cost would be

Correct Answer: *"monthly". A monthly premium mode will result in the highest overall cost.*

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27. Which of these ensures that proceeds of a life insurance policy will be free from attachment or seizure by the beneficiary's creditors?

Correct Answer: "Spendthrift Clause". A Spendthrift Clause is a statement in a settlement agreement that indicates that the proceeds of the policy will be free from attachment or seizure by the beneficiary's creditors.

28. Which of these is affected by the frequency of an insurance policy's premium payments?

Correct Answer: "Cost". The frequency of insurance premium payments affects the policy's cost.

29. Which of these is considered a major tax advantage of life insurance?

Correct Answer: "Income tax is typically not owed on proceeds paid directly to a beneficiary". One of the major tax advantages of life insurance is that the beneficiary generally does not pay income tax on the proceeds.

30. Which of these premium payment frequencies is not typically available to a policyowner?

Correct Answer: "Bi-weekly". A bi-weekly payment mode is normally not an option to policyowners.

31. Which settlement option involves having the proceeds remain with the insurer and earnings paid on a monthly basis to the beneficiary?

Correct Answer: The settlement option that allows proceeds to remain with the insurer and earnings to be paid to the beneficiary on a monthly basis is called interest only.

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32. Which type of beneficiary should be named if the insured wants to give explicit directions on how the policy proceeds should be paid?

Correct Answer: "Individual". An individual beneficiary designation would be most appropriate in this situation.

33. Elizabeth is the beneficiary of a life insurance policy. She is receiving the death benefit in payments of \$10,000 per month until the principal and interest has been paid out. Which option was chosen?

Correct Answer: The fixed amount installment option pays a fixed death benefit in specified installment amounts until the principal and interest are exhausted.

34. How is the cost of a policy affected when a policyowner pays premiums more frequently?

Correct Answer: "Increases". The cost of a policy increases when an insured pays premiums more frequently.

35. Mortality is calculated by using a large risk pool of

Correct Answer: Mortality is based on a large risk pool of people and time.

36. Pat is insured with a life insurance policy and Karen is his primary beneficiary. They are both involved in an automobile accident where Pat dies instantly and Karen dies 5 days later. Which policy provision will protect the rights of the contingent beneficiary to receive the policy benefits?

Correct Answer: "Common disaster clause". With a common disaster provision, a policyowner can be sure that if both the insured and the primary beneficiary die within a short period of time, the death benefits will be paid to the contingent beneficiary.

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37. What does a life insurance policy guarantee to the stated beneficiary upon the death of the insured?

Correct Answer: "Specified amount of money". Life insurance guarantees to the beneficiary a specified sum of money in the event of the insured's death.

38. What is the primary feature of a viatical settlement?

Correct Answer: "Reduced death benefit prepayment". The primary feature of a viatical settlement is the prepayment of a reduced death benefit.

39. Craig purchased a life insurance policy for enabling his heirs to pay estate taxes. What is this called?

Correct Answer: "Estate conservation". When individuals purchase life insurance to enable their heirs to pay estate taxes, this is called estate conservation.

40. When calculating the amount of life insurance needed for an income earner, what has to be determined when using the Needs Approach?

Correct Answer: "The family's financial objectives if the income earner were to die or become disabled". When using the needs approach to determine the amount of life insurance needed for the income earner, it is necessary to determine the family's financial objectives in the event of the death or disability of the income earner.

41. Which of these factors is NOT taken into account when determining an applicant's life insurance needs?

Correct Answer: "automobile". In the process of determining an applicant's life insurance needs, an insurance producer takes into account all of these factors EXCEPT an applicant's automobile.

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42. Which of these is a method of determining the level of funds required for ongoing support in the event of the breadwinner's death?

Correct Answer: "Human life value". The human life value calculator helps you assess the financial loss your family would incur if you were to die today.

43. All of the following are considered appropriate uses of life insurance for business purposes EXCEPT

Correct Answer: "Protecting the business by covering entry level employees with life insurance". Covering entry level employees with life insurance to protect the business is not an appropriate business use.

44. All of the following are examples of a Business Continuation Plan EXCEPT

Correct Answer: "Deferred Compensation". Deferred Compensation is NOT an example of a Business Continuation Plan.

45. Which approach predicts a person's earning potential and determines how much of that amount would be devoted to dependents?

Correct Answer: "Human life value approach". The human life value approach predicts an individual's future earning potential and determines how much of that amount would be devoted to dependents.

46. An insurance producer is often responsible for field underwriting during the application process. All of these are possible field underwriting roles EXCEPT

Correct Answer: "providing commission information to the applicant". All of these are field underwriting roles an insurance producer may perform EXCEPT "providing commission information to the applicant".

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47. Field underwriting performed by the producer involves

Correct Answer: "completing the application and collecting initial premium". Field underwriting performed by the producer involves completing the application and collecting initial premium. Other duties include, but are not limited to, providing disclosure information to the applicant and policy delivery.

48. In which of the following relationships would there NOT be an insurable interest?

Correct Answer: An insurable interest does not exist between a business owner and a business customer.

49. Preferred risk policies with reduced premiums are issued by insurance companies because the insured has

Correct Answer: "better than average mortality or morbidity experience". Insurers issue preferred risk policies with reduced premiums with the expectation of better than normal mortality or morbidity experience.

50. Signatures for an insurance application MUST be obtained by the producer from all of the following sources EXCEPT

Correct Answer: "the beneficiary". The beneficiary is not required to sign an insurance application.

51. The principle of insurable interest, in regards to a life insurance contract, is accurately described in which statement?

Correct Answer: "Insurable interest can be based on the love and affection of individuals related by blood or law". Individuals related closely by blood or law have an insurable interest based on love and affection.

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52. Underwriters can acquire information from all of the following sources EXCEPT

Correct Answer: *Underwriters can acquire information from all of these sources EXCEPT genetic testing.*

53. What guarantees that the statements supplied by an insurance applicant are true?

Correct Answer: *A warranty is considered a statement of fact or something guaranteed to be true. Breach of warranties can be considered grounds for voiding the policy.*

54. What happens when an insurance policy is backdated?

Correct Answer: *"The policy's effective date is earlier than the present". Backdating on an insurance policy is the practice of making the policy effective on an earlier date than the present.*

55. What is involved when a life insurance policy has been backdated?

Correct Answer: *"Making the policy effective on an earlier date than the present". Backdating on a life insurance policy is the practice of making the policy effective on an earlier date than the present.*

56. What would happen if a life insurance applicant is given a conditional receipt from an insurance agent and then dies the next day?

Correct Answer: *"Claim will be paid if application is approved". In this situation, the claim will be paid if the application is approved.*

57. Which of the following describes a person who is NOT acceptable by an insurer at standard rates because of health history, occupation, or hobbies?

Correct Answer: *"Substandard risk". An individual who is not acceptable by an insurer at standard rates because of health history, occupation, or hobbies is called a substandard risk.*

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58. Which of the following signatures is not required on an individual insurance application?

Correct Answer: "Insurer". On an individual insurance application, the insurer's signature is not required.

59. Which of the following statements is CORRECT regarding an individual applying for life or health insurance?

Correct Answer: "The applicant's medical history may be analyzed and reported". To apply for a life or health insurance policy, an applicant's medical history may be reviewed and reported.

60. Which of the following would be a valid reason why a policy premium would be higher than the standard premium?

Correct Answer: "The insured does not meet established underwriting requirements". Sometimes, policy premiums are higher than the standard premium because the insured does not meet certain underwriting requirements.

61. An applicant's character and personal habits can be obtained for underwriting purposes from which source?

Correct Answer: "Investigative consumer report". An investigative consumer report is a detailed report that contains information on a consumer's character, general reputation, personal characteristics, or mode of living and is obtained through personal interviews with neighbors, friends, or associates of the consumer.

62. An individual most likely will have an insurable interest in insuring a person's life if

Correct Answer: An individual most likely will have an insurable interest in insuring a person's life if an economic interest exists for the continuance of the insured's life.

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63. Which of these is likely to occur when life or health insurance is being applied for?

Correct Answer: "Medical history from the insured may be reviewed and reported". To apply for a life or health insurance policy, the insured individual's medical history may be reviewed and reported.

64. An insurance applicant with a below-average likelihood of loss is typically considered to be a

Correct Answer: "preferred risk". A proposed insured whose likelihood of loss is significantly less than the average is classified as preferred risk.

65. An insurer has a right to screen applicants for HIV in which of the following ways?

Correct Answer: "Blood test for HIV". An insurer can require a blood test for HIV.

66. Which of the following does a life insurance policy summary normally include?

Correct Answer: "The policy's cash value". A life insurance policy summary typically includes the cash values of the policy.

67. Which of these is NOT considered to be a risk factor in life insurance underwriting?

Correct Answer: "Number of children". All of these are considered risk factors in life underwriting criteria EXCEPT number of children.

68. How many months can a life insurance policy normally be backdated from the date of application?

Correct Answer: "6". A life insurance policy can typically be backdated up to 6 months from the date of the written insurance application. Ohio is an exception and only allows up to 3 months.

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69. When does a life insurance policy typically become effective?

Correct Answer: "When initial premium is collected and policy is issued". A life insurance policy most often becomes effective when the premium is collected and policy is issued.

70. Which of the following is a requirement for ANY change in an insurance application?

Correct Answer: Any changes in an insurance application **MUST** be initialed by the applicant.

71. Which of the following pertains to the analysis of an applicant's personal information and determining whether insurance should be issued or declined?

Correct Answer: "Underwriting". The analysis of information pertaining to an applicant that was obtained from various sources and the determination of whether the insurance should be issued or declined is called underwriting.

72. Which of the following would be considered an underwriting duty of an agent?

Correct Answer: "Completing all applications and collecting initial premiums". An agent's underwriting duties include completing all applications and collecting initial premiums.

73. Which of these is considered to be a document that describes the critical segments of a life insurance policy?

Correct Answer: A document that specifies the critical segments of an insured's life insurance policy is known as a policy summary.

74. Which scenario would most life insurance policies exclude coverage for?

Correct Answer: "An individual who has a hobby racing cars once a month". Most life insurance policies exclude coverage for a loss arising from an auto enthusiast racing automobiles as a hobby.

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75. All of these are typically sources of underwriting information for life or health insurance EXCEPT

Correct Answer: *A disclosure authorization response is not considered a source of underwriting information.*

76. An applicant intentionally lying to an insurance company on an application in order to obtain a cheaper premium is an example of

Correct Answer: *"fraud". A deliberate lie by an insured to the insurance company in order to obtain a lower premium is an example of fraud.*

77. An insurance company needs to obtain personal information from a third party concerning an applicant. Which law do all insurers and their producers need to comply with?

Correct Answer: *"Fair Credit Reporting Act". To protect the rights of consumers for whom an inspection or credit report has been requested, Congress enacted the Fair Credit Reporting Act in 1970.*

78. An underwriter's primary responsibility to an insurer is to protect against

Correct Answer: *"adverse selection". One of the main responsibilities of an underwriter is to protect the insurer against adverse selection.*

79. In regards to a life insurance contract, which of the following statements is NOT true regarding the concept of insurable interest?

Correct Answer: *"Insurable interest can be established sufficiently by sentimental attachment alone". All of these statements on insurable interest in a life insurance contract are true EXCEPT "Insurable interest can be established sufficiently by sentimental attachment alone".*

80. Statements made by an insurance applicant on an application are considered to be

Correct Answer: *"representations". The proposed insured's statements on a life insurance application are considered to be representations.*

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81. Upon policy delivery, which of the following must a producer have an applicant sign if no initial premium was collected with the life insurance application?

Correct Answer: "statement of good health". In this situation, the producer must have the applicant sign a statement of good health when delivering the policy.

82. What is the purpose of the Medical Information Bureau (MIB)?

Correct Answer: "To help underwriters evaluate risk". The Medical Information Bureau (MIB) was formed for the purpose of aiding underwriters in evaluating risk.

83. All of these are considered key factors in underwriting life insurance EXCEPT

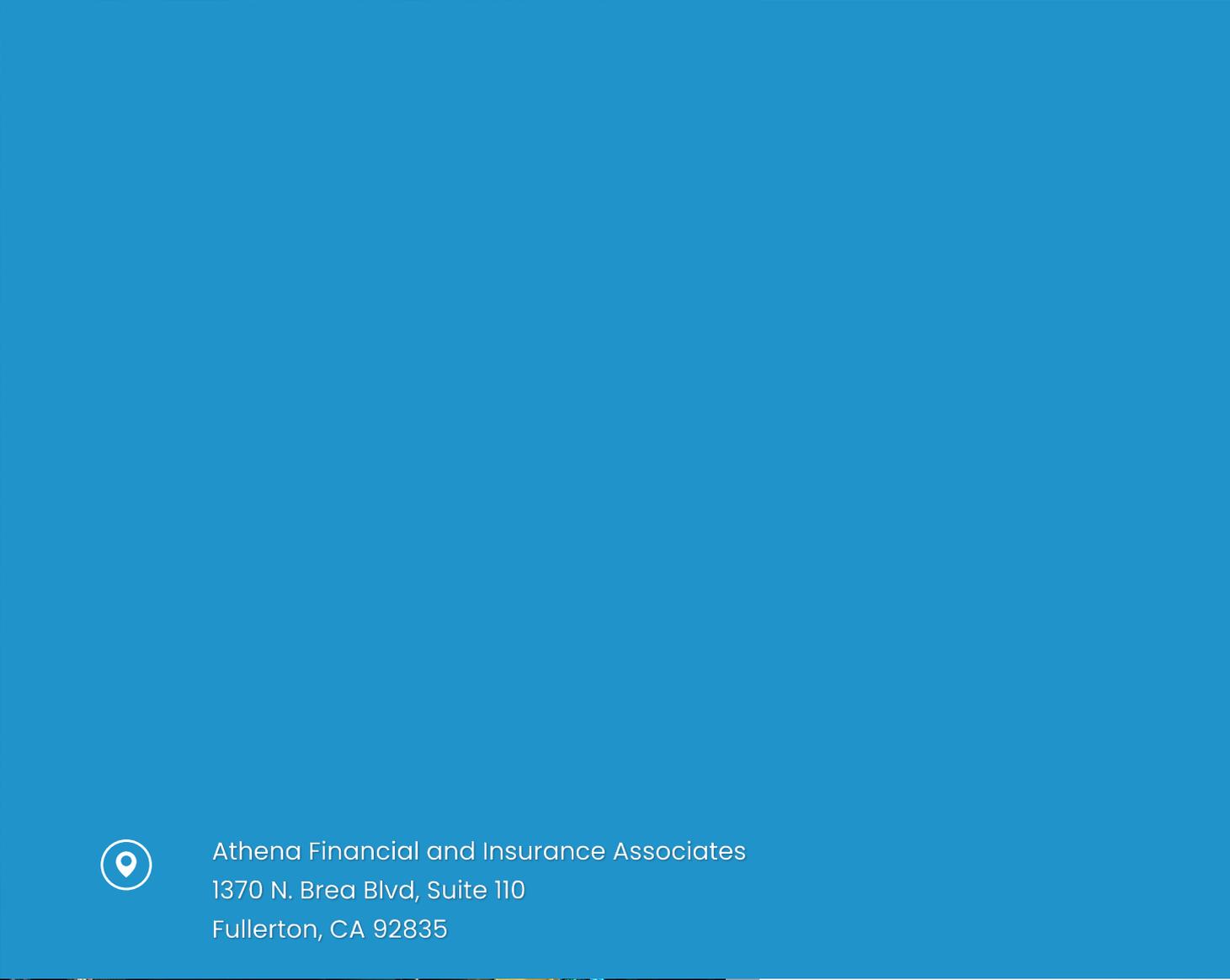
Correct Answer: "Marital status". Marital status is not a key factor in underwriting life insurance.

84. All of these are considered sources of information that can assist an underwriter in determining whether or not to accept a risk EXCEPT

Correct Answer: "National Association of Insurance Underwriters". The National Association of Insurance Underwriters is NOT a source of information that may aid an underwriter in determining whether to underwrite a risk.

85. An attending physician's statement would be appropriate for which life insurance purpose?

Correct Answer: "At the request of the insurer to assist in the underwriting decision". An attending physician's statement is done at the request of the insurer when it could affect the underwriting decision, but with the consent of the applicant.



Athena Financial and Insurance Associates
1370 N. Brea Blvd, Suite 110
Fullerton, CA 92835

