



ATHENA FINANCIAL
& INSURANCE ASSOCIATES



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

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

LIFE INSURANCE POLICIES

BUSINESS INCOME

1. A non-contributory health insurance plan helps the insurer avoid

Correct Answer: *"adverse selection". Because all eligible employees are usually covered, noncontributory plans are desirable from an underwriting standpoint because adverse selection is minimized.*

2. Tim is covered under a group plan and would like to change his group coverage to an individual policy with the same insurer because of employment termination. Which of these describes the change that will take place?

Correct Answer: *"Conversion". Conversion is when an insured individual changes his or her group insurance to an individual policy with the same insurer at the termination of employment.*

3. Under a group life policy, the insurer will issue an individual _____ to the policyowner for delivery to each person insured.

Correct Answer: *"certificate". The insurer will issue an individual certificate to the policyowner for delivery to each person insured under a group life policy.*

4. A type of group that has a constitution and bylaws and has been organized for purposes other than obtaining insurance is called a(n)

Correct Answer: *"association or labor group". Associations and labor groups have a constitution and bylaws. They are organized and maintained in good faith for purposes other than obtaining insurance.*

5. All of the following are characteristics of a Group Life Insurance Plan EXCEPT

Correct Answer: *"Individual underwriting". Group Life Insurance Plans are characterized by group underwriting, not individual.*

LIFE INSURANCE POLICIES

6. The conversion privilege under a group life plan allows an employee to convert to a(n)

Correct Answer: *"individual plan upon employment termination". Under group insurance, the conversion privilege allows an employee to convert to an individual plan upon termination of employment.*

7. Julie has a \$100,000 30-year mortgage on her new home. What type of life insurance could she purchase that is designed to pay off the loan balance if she dies within the 30-year period?

Correct Answer: *Decreasing term insurance is normally used to pay off a mortgage balance in the event of death of the insured.*

8. What does the Group Life underwriting risk selection process help protect insurance companies from?

Correct Answer: *"Adverse selection". Adverse selection is the tendency of less favorable insurance risks to seek or continue insurance to a greater extent than others.*

9. The least expensive option to pay off a 30-year mortgage balance would be

Correct Answer: *"decreasing term life". The least expensive option to pay off a 30-year mortgage balance would be decreasing term life.*

10. A life insurance policy that is subject to a contract interest rate is referred to as

Correct Answer: *"universal life". Universal life is subject to a contract interest rate or a current annual interest rate.*

11. Which of these factors would an insurer consider when determining whether to accept a group life plan?

Correct Answer: *"Average age". An insurer would consider the average age when determining whether to accept a group life plan.*

LIFE INSURANCE POLICIES

12. The premium for a Modified whole life policy is

Correct Answer: *"lower than the typical whole life policy during the first few years and then higher than typical for the remainder".*

Modified whole life policies are distinguished by premiums that are lower than typical whole life premiums during the first few years and then higher than typical thereafter.

13. The type of multiple protection coverage that pays on the death of the last person is called a(n)

Correct Answer: *Under a multiple protective policy, the policy that pays on the death of the last person is called a survivorship life policy.*

14. The type of policy which pays on the death of the last person is called

Correct Answer: *"survivorship life". A survivorship life policy pays on the death of the last person.*

15. An employee under a group insurance policy has the right to name a beneficiary and the right to

Correct Answer: *"convert to an individual policy in the event of employment termination". A person whose life is insured under a group insurance policy has the right to designate a beneficiary and the right to have an individual policy issued in the case of termination of employment.*

16. A business will typically use which type of life insurance to cover their employees?

Correct Answer: *A type of life insurance policy most commonly used by businesses for employees is a group policy.*

LIFE INSURANCE POLICIES

17. What does the word "level" in Level Term describe?

Correct Answer: *"The face amount". The word "level" in Level Term refers to the face amount.*

18. Converting a group plan to permanent life insurance requires

Correct Answer: *When converting from group to permanent life insurance, the conversion must be applied for within 31 days of termination.*

19. A renewable Term Life insurance policy allows the policyowner the right to renew the policy

Correct Answer: *"without producing proof of insurability". If Term Life insurance is renewable, the policyowner is purchasing the right to renew the policy without showing proof of insurability.*

20. A Modified Endowment Contract (MEC) is best described as

Correct Answer: *A Modified Endowment Contract (MEC) can be described as a life insurance contract that has accumulated cash values higher than the IRS allows.*

21. A Renewable Term Life insurance policy can be renewed

Correct Answer: *"at a predetermined date or age, regardless of the insured's health". Renewable Term Life insurance guarantees the policy can be renewed to a predetermined date or age, regardless of the insured's health status.*

22. A single premium cash value policy can be described as

Correct Answer: *"a policy that is paid up after only one payment". A single premium cash value policy is best described as a policy that is paid up after only one payment.*

LIFE INSURANCE POLICIES

23. The coverage, conditions, and limitations in the master policy of a group contract can be found in which document?

Correct Answer: *"Certificate of coverage and benefits". The certificate of coverage and benefits describes the coverage, conditions, and limitations found in the master policy of a group contract.*

24. An interest-sensitive life insurance policyowner may be able to withdraw the policy's cash value interest free. The provision that allows this is called

Correct Answer: *A partial surrender allows the interest-sensitive life policyholder to withdraw the policy's cash value interest-free.*

25. When a decreasing term policy is purchased, it contains a decreasing death benefit and

Correct Answer: *A decreasing term policy is issued with a decreasing death benefit and level premiums.*

26. Donald is the primary insured of a life insurance policy and adds a children's term rider. What is the advantage of adding this rider?

Correct Answer: *"Can be converted to permanent coverage without evidence of insurability". An advantage of a children's term rider is the ability to convert to permanent insurance without evidence of insurability.*

27. A spouse and child can be added to the primary insured's coverage as what kind of rider?

Correct Answer: *"Family term". A family term rider allows both spouse and child to be added to the primary insured's coverage.*

LIFE INSURANCE POLICIES

28. Index whole life insurance contains a securities component that acts as a(n)

Correct Answer: *The securities component of index whole life insurance is considered an effective hedge against inflation.*

29. Which of these riders will pay a death benefit if the insured's spouse dies?

Correct Answer: *A Family Term Insurance rider provides a death benefit if the spouse of the insured dies.*

30. Jonas is a whole life insurance policyowner and would like to add coverage for his two children. Which of the following products would allow him to accomplish this?

Correct Answer: *"Child term rider". A child term rider is level term insurance that can be added to an existing policy.*

31. Level premium permanent insurance accumulates a reserve that will eventually

Correct Answer: *"equal the face amount of the policy". Level premium permanent insurance accumulates a reserve that will eventually equal the face amount of the policy.*

32. Joe has a life insurance policy that has a face amount of \$300,000. After a number of years, the policy's cash value accumulates to \$50,000 and the face amount becomes \$350,000. What kind of policy is this?

Correct Answer: *"Universal Life policy". This is an example of a Universal Life policy.*

LIFE INSURANCE POLICIES

BUSINESS INCOME

Quarter 1 Quarter 2 Quarter 3 Quarter 4

33. Which of these would be the best example of a limited pay life insurance policy?

Correct Answer: "Whole life policy with premiums paid up after 20 years". A whole life insurance policy where the premiums are paid up after 20 years would be considered a limited pay life insurance policy.

34. Shawn, Mike, and Dave are brothers who have a \$100,000 "first to die" joint life policy covering all three of their lives. If Mike dies first, the policy proceeds

Correct Answer: "will no longer provide insurance protection". In this situation, if Mike dies first, the policy proceeds will no longer provide further insurance protection.

35. Karissa purchases a 10-year level term life insurance policy that has a death benefit of \$200,000. Which of these statements is true?

Correct Answer: "The face amount and premium will remain constant over the 10-year period". In this situation, the premium and the face amount will remain constant for the 10-year period.

36. Peter has a policy where 80% to 90% of the premium is invested in traditional fixed income securities and the remainder of the premium is invested in contracts tied to a stipulated stock index. What kind of policy is this?

Correct Answer: "Equity index whole life". The type of policy where 80% to 90% of the premium is invested in traditional fixed income securities and the remainder of the premium is invested in contracts tied to a stipulated stock index is equity index whole life.

LIFE INSURANCE POLICIES

37. Which policy feature makes a universal life policy different from a whole life policy?

Correct Answer: "A flexible premium schedule". The policy feature that makes universal life different from whole life insurance policies is its flexible premium schedule.

38. Shirley has a \$500,000 10-year non-renewable level term life policy. If she dies 15 years after the policy's inception date, how much will her beneficiary receive?

Correct Answer: "Nothing". Her beneficiary will receive nothing because the policy is valid for only 10 years.

39. Which type of life insurance offers flexible premiums, a flexible death benefit, and the choice of how the cash value will be invested?

Correct Answer: "Variable universal policy". A variable universal life policy has three key elements- flexible premium, death benefit, and the choice of how the cash value will be invested.

40. Reggie purchased a life insurance policy with a face amount of \$500,000. After 15 years, the cash value has accumulated to \$100,000 and the policy's face amount has become \$600,000. Which type of life insurance policy is this?

Correct Answer: "Universal life". A universal life policy pays a death claim in the amount of the death benefit plus the savings element.

41. Rob purchased a standard whole life policy with a \$500,000 death benefit when he was age 30. His insurance agent told him the policy would be paid up if he reached age 100. The present cash value of the policy equals \$250,000. Rob recently died at age 60. The death benefit would be

Correct Answer: In this situation, the death benefit would be the \$500,000 face amount.

LIFE INSURANCE POLICIES

42. What is a corridor in relation to a Universal Life insurance policy?

Correct Answer: *The corridor is the gap between a Universal Life policy's total death benefit and the policy's cash value.*

43. Variable life insurance and Universal life insurance are very similar. Which of these features are held exclusively by variable universal life insurance?

Correct Answer: *"Policyowner has the right to select the investment which will provide the greatest return". The right to select the investment which will provide the greatest return pertains only to variable universal life insurance.*

44. What is the automatic continuance of insurance coverage referred to as?

Correct Answer: *The automatic continuance of insurance coverage is called renewal.*

45. What types of life insurance are normally used for key employee indemnification?

Correct Answer: *"term, whole, and universal life insurance". The types of life insurance generally used to cover key employee indemnification are term, whole, and universal life insurance.*

46. Which type of multiple protection policy pays on the death of the last person?

Correct Answer: *"Survivorship life policy". A survivorship life policy pays on the death of the last person.*

LIFE INSURANCE BASICS

47. What happens to the coverage under a children's term rider when that child reaches a certain specified age?

Correct Answer: "Coverage is eliminated". When a child reaches a certain specified age under a children's term rider, he or she is eliminated from coverage.

48. A life insurance policy which contains cash values that vary according to its investment performance of stocks is called

Correct Answer: A Variable Whole Life policy has cash values that vary according to the investment performance of common stocks.

49. Which of the following policies does NOT build cash value?

Correct Answer: Term life insurance does not build cash value.

50. Which type of life insurance is normally associated with a Payor Benefit rider?

Correct Answer: "Juvenile insurance". A Payor Benefit rider waives the premium ONLY in connection with juvenile insurance.

51. Which of the following are the premium payments for a Universal life policy NOT used for?

Correct Answer: Premium payments for a Universal life policy are NOT used for separate account investments.

LIFE INSURANCE BASICS

52. Which of these is NOT subject to income taxation under a Modified Endowment Contract (MEC)?

Correct Answer: "Death benefit". The death benefit would NOT be subject to income tax under a Modified Endowment Contract (MEC).

53. A life insurance policy written on one contract for two people in which it is payable upon the first death is called

Correct Answer: "Joint". A joint life insurance policy covers the lives of two people and is payable upon the first death.

54. A limited payment whole life policy provide?

Correct Answer: "Lifetime protection". Premiums on limited payment whole life insurance are paid for a limited number of years, but the benefits last a lifetime.

55. A partial surrender is allowed in which of the following life policies?

Correct Answer: "Universal life". Universal life insurance policies will allow for a partial surrender.

56. A policyowner may change two policy features on what type of life insurance?

Correct Answer: "Adjustable Life". Adjustable Life allows the policyowner to change two policy features: premium and face amount.

57. A permanent life insurance policy where the policyowner pays premiums for a specified number of years is called a(n)

Correct Answer: A permanent life insurance policy where the policyowner pays premiums for a specified number of years is called a limited pay policy.

LIFE INSURANCE BASICS

58. All of these are characteristics of a universal life insurance policy EXCEPT

Correct Answer: "Fixed surrender value". A fixed surrender value is NOT a characteristic of a universal life insurance policy.

59. All of these statements concerning whole life insurance are false EXCEPT

Correct Answer: "When a whole life policy is surrendered, income taxes may be owed". Income taxes may be due when a whole life policy is surrendered. This statement is true.

60. A securities license is required for a life insurance producer to sell

Correct Answer: "variable life insurance". A life insurance producer needs to possess a securities license to sell variable annuities.

61. Decreasing term life insurance is often used to

Correct Answer: A common use for decreasing term life insurance is to cover a home mortgage.

62. All of these are valid options for an Adjustable Life Policy EXCEPT

Correct Answer: "A nonforfeiture option can be used to increase the death benefit". Increasing the death benefit by using one of the nonforfeiture options is not an option in an Adjustable Life Policy..

LIFE INSURANCE BASICS

63. How are survivorship life insurance policies helpful in estate planning?

Correct Answer: *"Provide funds to help pay taxes". Survivorship life insurance policies are useful in estate planning because they can provide money to pay taxes on assets.*

64. Pre-death distributions from a modified endowment contract (MEC) receive different tax treatment than other life insurance policies because

Correct Answer: *A modified endowment contract (MEC) receives different tax treatment on pre-death distributions than other life insurance policies because it tends to be an investment vehicle.*

65. Term insurance is appropriate for someone who

Correct Answer: *"seeks temporary protection and lower premiums". Term insurance is appropriate for individuals seeking temporary protection and lower premiums.*

66. The statement which best describes the relationship between the premiums of a whole life policy and the premium payment period is

Correct Answer: *With a whole life policy, the shorter the payment period, the higher the annual premium.*

67. Under a Modified Endowment Contract, what are the likely tax consequences?

Correct Answer: *The tax consequence of a Modified Endowment Contract is pre-death distributions are likely to become taxable.*

68. What kind of life insurance policy covers two or more people with the death benefit payable upon the last person's death?

Correct Answer: *"Last Survivor Life insurance". Coverage of two or more individuals with the death benefit payable upon the last person's death is a feature of last survivor insurance.*

LIFE INSURANCE POLICIES

69. Which of these describes the result of a modified endowment contract that failed to meet the seven-pay test?

Correct Answer: *"Pre-death distributions are typically taxable". Failing to meet the seven-pay test results in pre-death distributions likely to become taxable.*

70. Which type of life insurance policy pays the face amount at the end of the specified period if the insured is still alive?

Correct Answer: *Endowment policy". A type of life insurance policy which provides for the payment of the face amount at the end of the specified period if the insured is still alive is an endowment policy.*

71. A life insurance policy that contains a guaranteed interest rate with the chance to earn a rate that is higher than the guaranteed rate is called

Correct Answer: *Universal life has a guaranteed interest rate with the possibility to earn an interest rate that is higher than the guaranteed rate.*

72. A life insurance policy that has premiums fully paid up within a stated time period is called

Correct Answer: *Limited payment insurance is characterized by premiums that are fully paid up within a stated period, after which no further premiums are required.*



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