



ATHENA FINANCIAL  
& INSURANCE ASSOCIATES



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

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

# LIFE INSURANCE POLICY PROVISIONS, OPTIONS AND RIDERS

**1. A life insurance policy normally contains a provision that restricts coverage in the event of death under all of the following situations EXCEPT**

**Correct Answer:** "fare-paying passenger". A policy may contain provisions excluding or restricting coverage as specified in the event of death under all of these situations EXCEPT a fare-paying passenger.

**2. A policyowner may exercise which of these dividend options that uses the dividend to pay all or part of the next premium due?**

**Correct Answer:** The reduction of premium dividend option allows a policyowner to use the dividend to pay all or part of the next premium due on the policy.

**3. A provision that allows a policyowner to withdraw a policy's cash value interest free is a(n)**

**Correct Answer:** "partial surrender". A partial surrender allows the policyowner to withdraw the policy's cash value interest free.

**4. Which of these is NOT a characteristic of the Accelerated Death Benefit option?**

**Correct Answer:** "The benefit can be offered as a rider at a specific extra cost or may be at no cost ". Accelerated Death Benefit options are offered with NO increase in premium.

**5. Which of these is NOT considered to be a common life insurance nonforfeiture option?**

**Correct Answer:** All of these are common life insurance nonforfeiture options EXCEPT a life income annuity.

# LIFE INSURANCE POLICY PROVISIONS, OPTIONS AND RIDERS

**6. Which type of rider will waive the premium on a child's life insurance policy if the parent paying the premium dies?**

**Correct Answer:** *"Payor benefit". A payor benefit will waive the premium on a juvenile life insurance policy if the parent paying the premium dies.*

**7. A provision that allows a policyowner to temporarily give up ownership rights to secure a loan is called a(n)**

**Correct Answer:** *A collateral assignment provision allows a person to temporarily give up a portion of their ownership rights to secure a loan.*

**8. A waiver of premium rider allows an insured to waive premium payments if the insured is**

**Correct Answer:** *"completely and permanently disabled". Under a waiver of premium rider, the company waives the right to receive a premium if the insured individual is permanently and completely disabled.*

**9. A whole life policy option where extended term insurance is selected is called a(n)**

**Correct Answer:** *"nonforfeiture option". A nonforfeiture provision in a whole life policy that uses cash value to purchase term insurance equal to the existing amount of life insurance is called the extended term option.*

# LIFE INSURANCE POLICY PROVISIONS, OPTIONS AND RIDERS

**10. All of the following are considered to be nonforfeiture options available to a policyowner EXCEPT**

**Correct Answer:** "Reduction of Premium". All of these are nonforfeiture options EXCEPT Reduction of Premium.

**11. All of these are standard exclusions found in a life insurance policy EXCEPT**

**Correct Answer:** "disability". Disability is not one of the standard exclusions found in life insurance policies.

**12. An endorsement found in an insurance plan which modifies the provisions of the policy is called a(n)**

**Correct Answer:** "rider". An endorsement found in an insurance plan which modifies the provisions of the policy is called a rider.

**13. A whole life insurance policy accumulates cash value that becomes**

**Correct Answer:** The accumulated cash value of a whole life insurance policy becomes the policy loan value upon which the insured may borrow.

**14. If an insured's age on a life insurance policy has been misstated, what is the insurer's liability if the insured dies?**

**Correct Answer:** "A prorated death benefit based on the amount of insurance the insured's premiums would have been if purchased at the correct age". In this situation, the insurer must pay a prorated amount of the policy based on the amount of insurance the insured's premiums would have been if purchased at the correct age.

# LIFE INSURANCE POLICY PROVISIONS, OPTIONS AND RIDERS

**15. All of these are common exclusions to a life insurance policy EXCEPT**

**Correct Answer:** "accidental death". Accidental death is not a common exclusion to a life insurance policy.

**16. James is the insured on a life insurance policy where his age was misstated on the application. Which of the following is CORRECT regarding the death benefit amount?**

**Correct Answer:** "The death benefit paid will be what the premium would have purchased at the correct age". Under the Misstatement of Age provision, the amount paid will be what the premium would have purchased at the correct age.

**17. Kurt is an active duty serviceman who was recently killed in an accident while home on leave. Which military service exclusion clause would pay upon his death?**

**Correct Answer:** "results clause" states the insurer is excused from paying the amount only if the death is a result of war.

**18. An insured individual and the policy's beneficiary die from the same accident. The common disaster provision states the insurer will continue 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.

# LIFE INSURANCE POLICY PROVISIONS, OPTIONS AND RIDERS

**19. Barbara's policy includes a rider which allows her to purchase additional insurance at specific dates or events without evidence of insurability. This rider is called a(n)**

**Correct Answer:** *"Guaranteed insurability rider". A guaranteed insurability rider allows for the insured to purchase additional insurance at specific dates or events without evidence of insurability.*

**20. If an insured dies during the grace period with no premiums paid**

**Correct Answer:** *"the policy would be payable, minus the premium amount". If the insured dies during the grace period and premiums have NOT been paid, the policy would be payable, less the premium amount.*

**21. In what part of an insurance policy are policy benefits found?**

**Correct Answer:** *"Declarations". Essentially, the insurance declaration page is like a quick guide to the insurance policy, providing all of the basic information the policyholder needs to know.*

**22. Matt is applying for life insurance and requests a double indemnity rider. A double indemnity benefit will be payable to Matt's beneficiary if Matt**

**Correct Answer:** *"dies instantly from a car accident". Matt's beneficiary will be provided with the double indemnity rider if Matt dies instantly from a car accident.*

# LIFE INSURANCE POLICY PROVISIONS, OPTIONS AND RIDERS

**23. Joanne has a \$100,000 whole life policy with an accumulated \$25,000 of cash value. She would like to borrow \$15,000 against the cash value. Which of the following statements is TRUE?**

**Correct Answer:** *"Net death benefit will be reduced if the loan is not repaid". If the loan is not repaid, the net death benefit will be reduced by the outstanding loan balance.*

**24. The double indemnity provision in a life insurance policy pertains to an insured's death caused by a(n)**

**Correct Answer:** *"accident". A life insurance policy's double indemnity provision would apply when the policyowner's death occurs due to an accident.*

**25. Life insurance policies will normally pay for losses arising from**

**Correct Answer:** *Life insurance policies routinely cover losses arising from commercial aviation.*

**26. The suicide clause of a life insurance policy states that if an insured commits suicide within a stated period from the policy's inception, the insurer will only be liable for a return of premiums paid**

**Correct Answer:** *"minus indebtedness and without interest". The suicide clause of a life insurance policy states that if an insured commits suicide within a stated period from the policy's inception, the insurer will only be liable for a return of premiums paid minus indebtedness and without interest.*

# LIFE INSURANCE POLICY PROVISIONS, OPTIONS AND RIDERS

**27. Ownership of a life insurance policy may be temporarily transferred with a(n)**

**Correct Answer:** "collateral assignment". An owner of a life insurance policy may transfer ownership temporarily with a collateral assignment.

**28. Under a life insurance policy, what does the insuring clause state?**

**Correct Answer:** "The insurer's obligation to pay a death benefit upon an approved death claim". While a life policy is in force, the insuring clause states the insurer's obligation is to pay the death benefit to the beneficiary when a death claim is approved.

**29. Which dividend option would an insurer invest the policyowner's money and add any interest earnings as the dividends accrue?**

**Correct Answer:** "Accumulation at Interest Option". The Accumulation at Interest Option invests the policyowner's money and adds interest earnings to the initial amount of the dividends.

**30. What is the name of the provision which states that a copy of the application must be attached to the policy when issued?**

**Correct Answer:** "Entire Contract". The provision that the policy and a copy of an application is endorsed upon or attached to the policy when issued is the entire contract provision.

**31. Which of the following is a reinstatement condition?**

**Correct Answer:** "Proof of insurability". One of the conditions required for an insurance policy reinstatement is proof of insurability.

# LIFE INSURANCE POLICY PROVISIONS, OPTIONS AND RIDERS

**32. Which of the following is considered to be an alternative to a life settlement?**

**Correct Answer:** "Accelerated death benefit rider". An alternative to a life settlement is an accelerated death benefit rider.

**33. Which of these is NOT considered to be a nonforfeiture option in a whole life insurance policy?**

**Correct Answer:** "Interest only". In a whole life insurance policy, all of these are nonforfeiture options EXCEPT interest only.

**34. Which situation accurately describes a reduced paid-up nonforfeiture option?**

**Correct Answer:** "Policy has a decreased face amount". With a reduced paid-up nonforfeiture option, the policy will have a decreased face amount.

**35. What is the purpose for having an accelerated death benefit on a life insurance policy?**

**Correct Answer:** An accelerated death benefit allows for cash advances to be paid against the death benefit if the insured becomes terminally ill.

**36. A life insurance policyowner was injured in an automobile accident which results in a total and permanent disability. Which rider would pay a monthly amount because of this disability?**

**Correct Answer:** "Disability income rider". The rider which pays a life insurance policyowner a monthly amount in the event of total and permanent disability is called a disability income rider.

# LIFE INSURANCE POLICY PROVISIONS, OPTIONS AND RIDERS

**37. Which of the following protects a policyowner from a misrepresentation caused by an innocent mistake?**

**Correct Answer:** *"Incontestable clause". A clause that protects a policyowner from a misrepresentation caused by his or her own innocent mistake is an incontestable clause.*

**38. A life insurance rider that allows an individual to purchase insurance as they grow older, regardless of insurability, is called a(n)**

**Correct Answer:** *A guaranteed insurability rider is designed to permit young individuals to be able to purchase additional insurance as they grow older, regardless of insurability.*

**39. A rider that assures premiums will be paid on a juvenile policy until the child reaches a specific age is called a(n)**

**Correct Answer:** *"payor rider". A payor rider assures the premiums will be paid on a juvenile policy until the insured child reaches a specific age.*

**40. Which of these is considered to be a Living Benefit option in a life insurance policy?**

**Correct Answer:** *"Accelerated death benefit". The accelerated death benefit is considered to be a Living Benefit option in a life insurance policy.*

**41. All of the following riders can increase the death benefit amount EXCEPT**

**Correct Answer:** *All of the following riders can increase the death benefit amount EXCEPT the Waiver of Premium.*

# LIFE INSURANCE POLICY PROVISIONS, OPTIONS AND RIDERS

**42. A guaranteed issue insurance policy has no**

**Correct Answer:** "medical underwriting". A guaranteed issue policy refers to an insurance policy with no medical underwriting.

**43. All of these are valid policy dividend options for a life insurance policyowner EXCEPT**

**Correct Answer:** "accumulate without interest". Policyowner dividends normally accumulate WITH interest.

**44. An error was made on Mary's life insurance application. Which of the following areas do errors commonly occur on applications and for which the incontestable clause does NOT apply?**

**Correct Answer:** The incontestable clause does not apply to the misstatement of age provision.

**45. A life insurance policyowner does NOT have the right to**

**Correct Answer:** A policyowner may not revoke an absolute assignment.

**46. In order to activate the reinstatement clause of a lapsed life insurance policy, the insured MUST**

**Correct Answer:** In order to activate the reinstatement clause of a lapsed life insurance policy, the insured must provide evidence of insurability to the insurer.

# LIFE INSURANCE POLICY PROVISIONS, OPTIONS AND RIDERS

**47. A provision in a whole life policy that allows a policyowner to terminate the policy in return for a reduced paid-up policy of the same type is called a(n)**

**Correct Answer:** *"nonforfeiture provision". A nonforfeiture provision in a cash value life insurance policy allows a policyowner to terminate the policy in return for a reduced paid-up policy of the same type.*

**48. Loans obtained by a policyowner against the cash value of a life insurance policy**

**Correct Answer:** *"would not be treated as taxable income". Loans may generally be obtained against the cash value of a personal life insurance policy and are not treated as taxable income.*

**49. An insurer will accept a premium from the insured and continue the coverage in full force as though it was NOT late during which time period?**

**Correct Answer:** *The grace period is the amount of time an insurer continues coverage in full force and will accept the premium from the insured as though it was NOT late.*

**50. Pat owns a 20-pay life policy with a paid-up dividend option. Which of the following statements is true?**

**Correct Answer:** *"The policy may be paid up early by using policy dividends". In this situation, the insured may pay up the policy early by using policy dividends.*

# LIFE INSURANCE POLICY PROVISIONS, OPTIONS AND RIDERS

**51. Dorian exercised a nonforfeiture option by using his life policy's cash value to purchase an extended term insurance option. When the term insurance expires,**

**Correct Answer:** *"the protection ends". When the term insurance expires in an extended term option, there is no more protection.*

**52. The automatic premium loan provision authorizes an insurer to withdraw from a policy's cash value the amount of**

**Correct Answer:** *"past due premiums that have not been paid by the end of the grace period". In a life insurance cash value policy, the automatic premium loan provision authorizes the insurance company to withdraw from the policy's cash values the amount of premiums due if the premium has not been paid by the end of the grace period.*

**53. Of the following dividend options, which of these is taxable?**

**Correct Answer:** *"Accumulation at interest". The accumulation at interest is a taxable dividend option.*

**54. The two major actions required for a policyholder to comply with the Reinstatement Clause are**

**Correct Answer:** *Two important actions usually required for the policyholder to satisfy the conditions of the Reinstatement Clause would be to provide evidence of insurability and pay past due premiums.*

**55. Ron has a life insurance policy with a face value of \$100,000 and a cost of living rider. If the consumer price index has gone up 4%, how much may Ron increase the face value of the policy?**

**Correct Answer:** *In this situation, Ron may increase the face value of his policy by \$4,000.  $\$100,000 \times .04 = \$4,000$ .*

# LIFE INSURANCE POLICY PROVISIONS, OPTIONS AND RIDERS

**56. What is an insurer required to do when faced with an error made under the Misstatement of Age provision?**

**Correct Answer:** "Pay age-corrected benefits". Under the Misstatement of Age Provision, when done in error, an insurer must pay age-corrected benefits.

**58. The free-look provision gives the policyowner**

**Correct Answer:** Within a specified number of days, a free-look provision gives the policyholder the right to return the policy for a full refund.

**59. What is an insurance policy's grace period?**

**Correct Answer:** "Period of time after the premium is due but the policy remains in force". The grace period is a period of time after the premium is due but the policy remains in force.

**60. Which of these would limit a company's liability to provide insurance coverage?**

**Correct Answer:** "Exclusion". An exclusion is a condition which limits the company's liability to provide coverage.

**61. Which of the following is NOT part of an insurance contract?**

**Correct Answer:** Certificate of Authority". The Certificate of Authority allows an insurer to conduct business in a state. It is not part of an insurance contract.



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