



Life Health Insurance

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Practice Questions

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1. At what point must insurable interest exist for a life insurance policy to be valid?

- A. Only at the time the policy is applied for and issued
- B. Only at the time the insured dies
- C. Continuously for the life of the policy
- D. At every premium payment date

2. The primary purpose of an annuity is to:

- A. Provide a death benefit to beneficiaries
- B. Provide income that the annuitant cannot outlive
- C. Accumulate funds for a child's education
- D. Pay off a mortgage

3. A major medical health plan is designed primarily to cover:

- A. A broad range of medical expenses including hospital, surgical, and physician costs
- B. Only dental care
- C. Only prescription drugs
- D. Only accidental death

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4. In a disability income policy, the elimination period is:

- A. The period benefits are paid
- B. A waiting period after disability begins before benefits start
- C. The maximum benefit period
- D. The premium grace period



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5. The grace period in a life insurance policy is:

- A. The time to file a death claim
- B. A period after the due date during which a late premium can be paid without lapse
- C. The free-look period
- D. The contestable period

6. A key characteristic of group life insurance is that:

- A. Coverage is issued under a master contract to a sponsor such as an employer
- B. Each member is individually underwritten with a medical exam
- C. It always builds cash value
- D. It is only sold to one person

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7. Insurance contracts are said to be based on utmost good faith, meaning:

- A. Both parties rely on each other to disclose material facts honestly
- B. Only the insurer must be honest
- C. Only the insured must be honest
- D. Neither party owes any duty

8. Underwriting in insurance is the process of:

- A. Evaluating risk and deciding whether and how to insure an applicant
- B. Paying claims
- C. Collecting premiums only
- D. Designing marketing materials

9. Which relationship would NOT automatically support insurable interest in another person's life?

- A. A spouse insuring the other spouse
- B. A business insuring a key employee
- C. A person insuring a casual acquaintance
- D. A creditor insuring a debtor up to the loan amount

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10. The phase during which an annuity owner pays money into the contract is called the:

- A. Accumulation (pay-in) phase
- B. Annuitization (pay-out) phase
- C. Surrender phase
- D. Liquidation phase

11. A health insurance deductible is:

- A. The percentage the insurer pays
- B. The amount the insured must pay before the plan begins to pay
- C. A monthly premium
- D. The maximum the insurer will ever pay

12. The benefit period in a disability income policy refers to:

- A. The maximum length of time benefits will be paid for a disability
- B. The waiting period before benefits begin
- C. The grace period for premiums
- D. The free-look period

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13. The incontestability clause generally prevents the insurer from contesting a life policy for misstatements after it has been in force for:

- A. Two years during the insured's lifetime
- B. 30 days
- C. Ten years
- D. Six months

14. Under federal tax rules, employer-paid group term life coverage is tax-free to the employee up to a face amount of:

- A. \$25,000
- B. \$50,000
- C. \$100,000
- D. \$10,000



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15. A contract of adhesion means that:

- A. Both parties negotiate every term
- B. The insurer drafts the contract and the applicant accepts or rejects it as written
- C. The applicant writes the contract
- D. There is no contract

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16. Field underwriting performed by the producer involves:

- A. Setting reserves
- B. Gathering accurate application information and assessing apparent risk
- C. Paying death claims
- D. Pricing the entire product line

17. What is the defining characteristic of term life insurance?

- A. It always builds cash value
- B. It provides protection for a specified period with no cash value
- C. It guarantees a paid-up policy at age 65
- D. It pays dividends to the policyowner

18. A single premium immediate annuity begins income payments:

- A. Only at the annuitant's death
- B. After a 10-year waiting period
- C. After an accumulation phase of 20 years
- D. Generally within one payment interval of purchase

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19. Under an 80/20 coinsurance arrangement after the deductible is met, the insured pays:

- A. 80% of covered charges
- B. Nothing
- C. 20% of covered charges
- D. 100% up to the out-of-pocket maximum



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20. Under an own-occupation definition of total disability, an insured is considered disabled if unable to:

- A. Perform any job at all
- B. Work in any occupation for which trained
- C. Perform the duties of their own regular occupation
- D. Leave the house

21. To reinstate a lapsed life policy, the insurer typically requires:

- A. Only a phone call
- B. A new policy application
- C. Payment of back premiums with interest and proof of insurability
- D. Nothing

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22. For employer-provided group term life over \$50,000, the employee must:

- A. Pay tax on the full death benefit
- B. Pay nothing extra
- C. Include the IRS table cost of the excess coverage as taxable income
- D. Lose the coverage

23. An insurance contract is aleatory because:

- A. Both sides exchange equal dollar amounts
- B. Premiums equal benefits
- C. The values exchanged may be unequal and depend on an uncertain event
- D. It is always profitable for the insured

24. Part 1 of a life insurance application generally contains:

- A. Medical history only
- B. Investment objectives
- C. General information such as name, address, age, and beneficiary
- D. The death certificate

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25. A policyowner has annual renewable term insurance. What happens to the premium at each renewal?

- A. It stays level for life
- B. It decreases as the insured ages
- C. It is recalculated only every five years
- D. It increases because it is based on the insured's attained age

26. A deferred annuity differs from an immediate annuity in that it:

- A. Pays income immediately
- B. Delays the start of income payments to a future date
- C. Has no tax advantages
- D. Cannot be funded with a lump sum

27. A copayment in a health plan is:

- A. A percentage of the total bill
- B. The annual deductible
- C. The premium
- D. A flat dollar amount paid for a specific service, such as an office visit

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28. The any-occupation definition of total disability is generally:

- A. More restrictive, requiring inability to work in any suitable occupation
- B. More generous than own-occupation
- C. Identical to own-occupation
- D. Used only in life insurance

29. The free-look provision in a life policy allows the owner to:

- A. Borrow against the policy
- B. Change the insured
- C. Skip the first premium
- D. Examine the policy and return it for a full refund within a set number of days

30. The conversion privilege in group life insurance allows a departing employee to:

- A. Keep group coverage for free
- B. Receive cash
- C. Get a refund
- D. Convert to an individual policy without evidence of insurability within a set time



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Answer Key & Explanations

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1. A — Only at the time the policy is applied for and issued

In life insurance, insurable interest must exist at the inception of the contract. Unlike property insurance, it need not exist at the time of loss.

2. B — Provide income that the annuitant cannot outlive

An annuity is fundamentally a tool to liquidate a sum and provide income, often for life, protecting against the risk of outliving one's assets.

3. A — A broad range of medical expenses including hospital, surgical, and physician costs

Major medical provides comprehensive coverage for a wide range of healthcare expenses, typically subject to a deductible, coinsurance, and an out-of-pocket maximum.

4. B — A waiting period after disability begins before benefits start

The elimination period is the time after a disability begins before benefits become payable; longer elimination periods lower the premium.

5. B — A period after the due date during which a late premium can be paid without lapse

The grace period lets the owner pay an overdue premium and keep coverage in force; if the insured dies during it, the benefit is paid less the premium owed.

6. A — Coverage is issued under a master contract to a sponsor such as an employer

Group life is written under one master contract issued to the sponsor; members receive certificates and typically need no individual medical underwriting.

7. A — Both parties rely on each other to disclose material facts honestly

Utmost good faith requires both applicant and insurer to deal honestly and disclose all material facts; concealment or misrepresentation can void the contract.

8. A — Evaluating risk and deciding whether and how to insure an applicant

Underwriting is the risk-selection process: the insurer assesses the applicant's risk and decides to accept, decline, or rate the application and at what premium.

9. C — A person insuring a casual acquaintance

Insurable interest requires a financial or close-family relationship. A casual acquaintance creates neither love-and-affection nor a financial stake, so no insurable interest exists.

10. A — Accumulation (pay-in) phase

The accumulation phase is when premiums are paid in and the contract grows tax-deferred; the annuitization phase begins when income payments start.

11. B — The amount the insured must pay before the plan begins to pay

The deductible is the fixed amount an insured pays out-of-pocket each year before the insurer starts paying covered expenses.



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12. A — The maximum length of time benefits will be paid for a disability

The benefit period is the longest time benefits will be paid for a single covered disability, such as 2 years, 5 years, or to age 65.

13. A — Two years during the insured's lifetime

After the policy has been in force two years during the insured's life, the incontestability clause bars the insurer from denying a claim for misstatements, except certain fraud.

14. B — \$50,000

The cost of the first \$50,000 of employer-provided group term life is excluded from the employee's income; the imputed cost of coverage above \$50,000 is taxable.

15. B — The insurer drafts the contract and the applicant accepts or rejects it as written

Insurance is a contract of adhesion because the insurer writes it and the applicant cannot negotiate terms; ambiguities are therefore generally construed against the insurer.

16. B — Gathering accurate application information and assessing apparent risk

Field underwriting is the producer's role in collecting complete, accurate information and screening obvious risks before the application reaches the home-office underwriter.

17. B — It provides protection for a specified period with no cash value

Term life provides pure death-benefit protection for a stated term and ordinarily accumulates no cash value, making it the lowest-cost coverage per dollar of death benefit.

18. D — Generally within one payment interval of purchase

A SPIA is funded with one lump sum and begins paying income almost immediately (within one period), with no real accumulation phase.

19. C — 20% of covered charges

With 80/20 coinsurance, the insurer pays 80% and the insured pays the remaining 20% of covered charges until the out-of-pocket maximum is reached.

20. C — Perform the duties of their own regular occupation

The own-occupation definition pays if the insured cannot perform the duties of their specific occupation, even if able to work elsewhere; it is more favorable to the insured.

21. C — Payment of back premiums with interest and proof of insurability

Reinstatement usually requires paying overdue premiums plus interest, repaying or reinstating any loan, and providing evidence of insurability, within a set time.

22. C — Include the IRS table cost of the excess coverage as taxable income

Coverage above \$50,000 generates imputed income calculated from IRS Table I rates; that cost is added to the employee's taxable wages.

23. C — The values exchanged may be unequal and depend on an uncertain event

An aleatory contract involves an exchange of unequal amounts depending on chance; a small premium may yield a large benefit, or none, based on whether a loss occurs.

24. C — General information such as name, address, age, and beneficiary

Part 1 of the application covers general identifying information such as name, age, occupation, beneficiary,



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and coverage requested; Part 2 covers medical history.

25. D — It increases because it is based on the insured's attained age

Annual renewable term renews each year without evidence of insurability, but the premium rises because it is recalculated on the insured's higher attained age.

26. B — Delays the start of income payments to a future date

A deferred annuity postpones income payments, allowing the funds to accumulate tax-deferred until the owner elects to begin the payout phase.

27. D — A flat dollar amount paid for a specific service, such as an office visit

A copay is a fixed dollar amount the insured pays for a particular service, separate from coinsurance and the deductible.

28. A — More restrictive, requiring inability to work in any suitable occupation

The any-occupation standard is stricter: benefits are paid only if the insured cannot work in any reasonable occupation for which they are suited by education and experience.

29. D — Examine the policy and return it for a full refund within a set number of days

The free-look period lets the owner review the issued policy and cancel it for a full premium refund if unsatisfied.

30. D — Convert to an individual policy without evidence of insurability within a set time

On leaving the group, an employee may convert to an individual permanent policy at individual rates without proving insurability, usually within 31 days.



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