Life Insurance, Disability Income & Annuities
Exam Study Guide

This document contains all the questions that will included in the final exam, in the order that they will be asked. When you have studied the course materials, reviewed the questions in this document, and feel that you are ready to take the exam, return to the login page to take the online final exam.

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1) Insurance is a contract between an insurance company and a(n) _______ which provides for a money payment in case of covered loss, accident or death? _______?
   a) underwriter
   b) actuary
   c) person or group
   d) legal entity

2) All of the following are needs that might be created from an individual's death EXCEPT?
   a) Expenses created by final illness
   b) Burial and funeral expenses tax deductible
   c) Debts due at time of death
   d) Collateral for damages

3) If a person is seeking to replace income that would be lost because of a premature death, this is called the _____________ approach?
   a) Income Valuation
   b) Asset Value
   c) Estate Life Valuation
   d) Human Life Value

4) According to the text, for simplicity and ease of calculation, it has been said that, as a rule, individuals should carry life insurance equal to ____ times annual earnings?
   a) two or three
   b) three or four
   c) five or six
   d) seven or eight

5) A person is considered to have a(n) _____________ interest in another person's life if he or she can reasonably be expected to benefit economically from that person's continued life?
   a) money certain
   b) indeterminable
   c) executable
   d) insurable

6) The fact is there are only two basic forms of life insurance products?
   a) adjustable and universal
   b) fixed and variable
   c) term and permanent
   d) taxable or deductible
7) As a person's _________charge increases with age, so do term premium rates?
   a) morbidity
   b) mortality
   c) actuarial
   d) medical quotient

8) With this policy the premiums are based on a low-rate schedule. Under the terms of this policy the insured must demonstrate evidence of insurability, usually every one to five years?
   a) Decreasing Term
   b) Re-conversion Term
   c) Reentry Term
   d) Reversionary Term

9) It’s the oldest and the basic model on which other cash accumulation policy varieties are based. It’s known by many names except one of the following?
   a) Base Life
   b) Continuous Premium
   c) Whole Life
   d) Straight Life

10) A combination policy combines a whole life policy with a term policy. The more popular combination policies available today include all the following EXCEPT?
    a) Family Policy
    b) Family Protection
    c) Family Income
    d) Family Maintenance

11) This type of insurance is frequently called "Life Cycle" insurance because policy changes may be made to conform to different periods in the insured’s life. The policy owner can make all but one of the following adjustments as the situations warrants?
    a) Reduce or increase the amount of insurance
    b) Shorten or lengthen the period of benefit taxation payments
    c) Increase or decrease the premiums paid
    d) Lengthen or shorten the period for paying of premiums
12) ___________ insurance is an equity-based whole life product that offers the policy owner the potential of dramatic gain in the cash value as well as the possibility of loss?
   a) Universal Life
   b) Variable life
   c) Extra Ordinary Life
   d) Modified Life

13) A typical Suicide Clause states that the face amount of the policy will not be paid if the insured commits suicide within ____________ after the policy is issued?
   a) six months
   b) one year
   c) two years
   d) three years

14) This life insurance rider allows the insured to collect either all or a portion of their life insurance policy while they are alive?
   a) Accessible Death Benefit
   b) Articulated Death Benefit
   c) Anticipated Death Benefit
   d) Accelerated Death Benefit

15) The Cash Surrender Value usually does not consist of one of the following?
   a) Policy cash value
   b) Cash value of paid up additions
   c) Dividends
   d) Side Fund value

16) Lump sum, Proceeds and interest, Life income, and Joint life income are all part of ________________?
   a) Dividend Options
   b) Nonforfeiture Options
   c) Income Distribution Riders
   d) Settlement Options

17) Relative to Life Income options, the beneficiary will receive equal monthly payments for the life of the beneficiary. The amount of monthly payments depends on all but one of the following factors?
   a) Medical history of Insured
   b) Policy proceeds
   c) Number of years payments are to be made
   d) Policyowner’s gender
18) Here is a very simple formula that indicates how these factors affect premium costs?
   a) Death claims + interest earned - other expenses = premium to be charged
   b) Death claims - other expenses - interest earned = premium to be charged
   c) Death claims + other expenses + interest earned = premium to be charged
   d) Death claims + other expenses - interest earned = premium to be charged

19) Bill is age 30 and buys a life insurance policy on June 29th. His next birthday is December 31st. In most cases, Bill’s insurance age would be ________?
   a) 32
   b) 31
   c) 30½
   d) 30

20) The growth of a life policy cash value accumulates on a ________basis?
   a) taxable
   b) semi taxable
   c) tax-deductible
   d) tax-free

21) Jim surrenders his $50,000 face amount life policy. He paid in $1,000 for 10 years. His cash surrender value is $9000. At a 25% income tax bracket, how much income tax must Jim pay?
   a) $10,000
   b) $2,250
   c) $250
   d) 0

22) Upon an insured's death, the amount of life insurance is part of the insured's gross estate for ________ purposes?
   a) state estate tax
   b) federal estate tax
   c) state income tax
   d) federal income tax

23) If person A sells their $10,000 life insurance policy to person B for $2,000 and person B agrees to pay the premiums, upon the death of person A person B would receive ________ and the amount of premiums B paid income tax free?
   a) $2,000
   b) $8,000
   c) $10,000
   d) $0
24) The human life value concept attempts to determine income that would be lost if the insured died prematurely. The amount of life insurance needed is equal to the____________________.
   a) future value of lost future earnings
   b) present value of lost future earnings
   c) present value of past earnings
   d) future value of past future earnings

25) The most important use of life insurance is to meet the financial needs that accompany a person's death, especially an untimely death. Generally, uses of life insurance include all the following EXCEPT?
   a) Personal Uses
   b) Long-Term Care Uses
   c) Charitable Uses
   d) Business Uses

26) A male U.S. worker at age 35 faces a one-in-five chance of a disability taking him off his job for or longer?
   a) 30 days
   b) 60 days
   c) 90 days
   d) 120 days

27) No state or federal laws require employers to offer coverage for long-term disability, typically defined as lasting for more than_____________?
   a) 3 months
   b) 6 months
   c) 12 months
   d) 24 months

28) All but one of these things is something to be aware of that may reduce your disability income benefits?
   a) Social Security
   b) Other Government Benefits
   c) Pension balances
   d) Taxes
29) Under some policies, you may be presumed to be fully disabled and entitled to full benefits, even if you can still perform some or all of your regular job duties.?
   a) Preassertive Disability
   b) Assumptive Disability
   c) Presumptive Disability
   d) Residual Disability

30) For an additional premium, you may be able to add a provision that increases the benefit payout by a specific percentage, after each year of disability?
   a) Benefit-of-living adjustment (BOLA)
   b) Cost-of-living adjustment (COLA)
   c) Cost-of-disability adjustment (CODA)
   d) Cost-of-benefit adjustment (COBA)

31) The three “principal” contingencies common to all people involve all EXCEPT?
   a) premature death
   b) retirement
   c) education
   d) disability

32) A reasonable estimate would be that no more than Q8 of all employees have some form of short-term disability income protection which is provided by their employer?
   a) 20%
   b) 36%
   c) 40%
   d) 66%

33) Most long-term disability programs provide benefits limited to ____________ of earnings?
   e) 30% to 50%
   f) 50% to 70%
   g) 70% to 80%
   h) 90% to 100%

34) A ____________ is a one-time occurrence and usually applies only to disability resulting from a sickness?
   a) elimination period
   b) coordination period
   c) probationary period
   d) waiting period
35) Generally speaking, short-term disability income plans do not have a maximum benefit duration of (benefit payment period) of ________________?
   a) 13 weeks
   b) 26 weeks
   c) 48 weeks
   d) 52 weeks

36) The majority of short-term disability plans are ____________ contracts?
   a) conditional
   b) guaranteed renewable
   c) cancelable
   d) mandatory

37) Long-term disability income protection may arise from several sources including all below EXCEPT?
   a) individual and group long-term disability plans
   b) disability income provisions under individual annuities
   c) Workers' Compensation
   d) Social Security

38) Hypothetically, elimination periods in LTD programs may range anywhere from_____________?
   a) seven days to fourteen days
   b) fifteen days to thirty days
   c) thirty days to twelve months
   d) twelve months to eighteen months

39) Exclusions found in a long-term disability plan do not include which of the following?
   a) Disability resulting from obesity and diabetes
   b) Disabilities as a result of war or an act of war
   c) Intentionally self-inflicted injuries
   d) Disabilities as a result of mental illness

40) Employer contributions for employee's disability income insurance are ______________ to the employer as an ordinary, necessary business expense if the compensation is reasonable?
   a) not deductible
   b) fully deductible
   c) 50% deductible
   d) 75% deductible
41) The payment of benefits under an insured plan or salary continuation plan may or may not result in the receipt of taxable income depending on whether the plan is all, except one, of the following?
   a) fully contributory
   b) anti-contributory
   c) non-contributory
   d) partially contributory

42) Examples of associations eligible for insurance solicitation and coverage under "association plans" are all but one of the following?
   a) A state dental association
   b) An optometrist that is also a county official
   c) a national association of hat manufacturers
   d) a local association of advertising executives

43) A valid sick pay plan is in effect and a plan is considered valid if it is all of the following except one?
   a) Set up so that employee's rights are legally unenforceable
   b) In effect prior to an employee's disability
   c) Set up solely for employees
   d) Set up with the intention of maintaining it for a short period of time

44) LTD plans typically offset benefits received from other sources in order to insure that benefits do not come too close to the insured's take-home pay. Examples of these offsets do not include ____________?
   a) Social Security benefits
   b) Workers' Compensation benefits
   c) Benefits payable under a plan sponsored by the employer
   d) Stipends payable under a sales bonus plan of the employer.

45) Relative to Association Disability Income Plans, the underwriters and actuaries will be able to determine a rate and a product offering based on a specific level of participation if they are supplied with the appropriate criteria, such as ____________?
   a) the size of the association
   b) the ages and sex of the participants
   c) specific benefits being applied for
   d) the size of the underwriting company
46) Since, in a sole proprietorship, the individual and the business are one and the same, at the death of the sole proprietor the business ceases. At this point there are several options to consider except one of the following?
   a) The business may be passed on to heirs as a going concern
   b) The business may be liquidated and distributed to the heirs
   c) The business may be sold to an employee as a going concern
   d) The business may be passed on to a non-functional entity

47) Many of the problems that a sole proprietorship would experience due to disability can be handled by a personally owned ______________policy?
   a) disability income policy and a term life policy
   b) disability income policy and a whole life policy
   c) disability income policy and a medical expense policy
   d) disability income policy and a business overhead expense policy

48) In a DI Buyout policy, you will find that most insurance companies will not utilize an elimination period of less than ________________?
   a) 3 months
   b) 6 months
   c) 9 months
   d) 12 months

49) Advantages of the fixed price method in a buy-sell agreement does not include?
   a) There are no misunderstandings as to the purchase price
   b) The disabled person knows exactly what he or she will receive
   c) The non-disabled person knows how much insurance is needed
   d) The contract terms are complicated

50) Business overhead expense insurance is a relatively recent development which allows disabled professionals, proprietors, and in some instances, partners, to pay office expenses such as rent, utilities, and employee salaries for specified periods of time; usually a maximum of ________________months?
   a) six months
   b) nine months
   c) twelve months
   d) twenty-four
51) An annuity is an investment of money entitling a person to a series of ______ annual sums over a ______ period of time?
   a) small / long  
   b) exact / long  
   c) equal / stated  
   d) large / short

52) A variable annuity fluctuates in accordance with the ___________ of its investments?
   a) origin  
   b) performance  
   c) diversification  
   d) expense loads

53) Period Certain refers to an annuity payout for a specific amount(s) of ________?
   a) time  
   b) money  
   c) people  
   d) fund value

54) Loans from annuities are ___________ allowable?
   a) not  
   b) always  
   c) sometimes  
   d) annually

55) Guaranteed ____________ and guaranteed __________ options are characteristics of a fixed annuity?
   a) interest / income  
   b) rates / options  
   c) fees / income  
   d) interest / investment

56) IRS charges a penalty on annuity gain withdrawn prior to age ______?
   a) 59 ½  
   b) 65  
   c) 70 ½ s  
   d) 100
57) A(n) ____________Annuity is one that has a higher first year interest rate?
   a) index
   b) bonus
   c) variable
   d) fixed

58) The approach used in an index annuity in measuring the index change is the ________?
   a) cash value method
   b) account value method
   c) indexing method
   d) reserve method

59) Index-linked interest is decided by looking at the index value at various points during the term and using the highest index value as the basis for calculating gain in the __________ method?
   a) High Interest Mark
   b) High Level Mark
   c) High Water Mark
   d) High Indicator Mark

60) If a minimum index-linked interest rate is specified, it is generally _____ %?
   a) –10%
   b) –5%
   c) 0 
   d) 1%

61) The S&P 500 is an index which includes a representative sample of common stocks traded on all the following EXCEPT?
   a) NASDAQ
   b) National Stock Exchange
   c) American Stock Exchange
   d) New York Stock Exchange

62) ________________ on annuities have been particularly popular since 1994 when the Fed began decreasing rates at a rapid rate?
   a) Market Value Adjustments
   b) Bond Value Adjustments
   c) Stock Value Adjustments
   d) Composite Value Adjustments
63) The investment options in a variable annuity allow for ____________?
   a) Diversification
   b) multiplication
   c) interpolation
   d) consideration

64) Under IRS Code Section 72(s) non-qualified annuity contracts must allow ____________ to continue if the owner dies after beginning to withdraw money?
   a) deposits
   b) withdrawals
   c) surrender fees
   d) guaranteed interest

65) Annuitization is one of the __________used settlement options of a variable annuity contract?
   a) least
   b) most
   c) always
   d) never

66) Non-elective contributions to a TSA can be all of the following EXCEPT?
   a) Matching contributions
   b) Discretionary contributions
   c) Mandatory contributions
   d) Guaranteed contributions

67) All of the following must be met to take loans against a TSA EXCEPT?
   a) IRS Tax form 709
   b) Time period for repayments
   c) Amortization requirements
   d) Maximum loan guideline

68) What makes annuities different is the __________given them by the IRS?
   a) Investment edge
   b) Time frame
   c) Tax treatment
   d) Guarantees

69) MRD stands for ____________?
   a) Maximum required distribution
   b) Mortality required distribution
   c) Minimum required distribution
   d) Maximum rate distribution
70) An annuity can be distributed to a spouse if death occurs before 59½ and the 10% penalty ________ imposed?
   a) will be
   b) will not be
   c) might be
   d) on half will be

71) An IRS method of annuity distribution that is approved, but complex is the __________ method?
   a) Joint and survivor
   b) Amortization
   c) Life Only
   d) Period Certain

72) When the IRS provides a decision on how a specific situation will be handled, it issues a __________?
   a) Consolidated Letter Ruling
   b) Certified Letter Ruling
   c) Specific Letter Ruling
   d) Private Letter Ruling

73) If a cash gift to a charitable gift annuity donee is more than ________, the excess balance can be carried forward _______ years?
   a) 10%      3 years
   b) 30%      3 years
   c) 30%      5 years
   d) 50%      5 years

74) In reality, structured settlements are carried out through the use of a “__________”?
   a) Intermediary
   b) Non-qualified assignment
   c) Qualified assignment
   d) Court Appointee

75) The immediate income periods in a split annuity range from ____________?
   a) 1 to 5 years
   b) 3 to 20 years
   c) 5 to 50 years
   d) 10 to 20 years