

Directions: Please answer the following 33 questions designed to test your knowledge of insurance operations in the areas of life and health insurance underwriting, policy contract development, annuities and optional benefits. Each question is worth 3 points (one point will be awarded for properly affixing one's name to the answer sheet). Choose the best possible response to those that have been provided

1. When purchasing life insurance a policyholder needs to show insurable interest at:
(a) the time of loss (b) at the inception of the policy (c) at both the time of loss and the inception of the policy (d) when premiums are paid (e) whenever there is a change of beneficiary
2. Which of the following legal elements must exist for a life insurance policy to come into existence:
(a) An offer and acceptance of the policy with legal purpose (b) payment of consideration in the form of a premium (c) Completion of the transaction by competent parties
(a) all of the above
(b) only a and b
3. In order to reinstate a policy that has been permitted to lapse, the insured must:
(a) pay all past due premiums plus interest
(b) give evidence of insurability
(c) reinstate the policy within 5 years
(d) pay or reinstate any indebtedness under the policy
(e) All of the above
4. The primary regulator of insurance company operations from the standpoint of setting legal reserves and reviewing statutory statements is the:
(a) FDIC (b) 50 State Insurance Commissioners (c) U.S. Dept of the Treasury
(d) HUD (e) Office of Homeland Security
5. Those insurance specialists who determine insurance premiums, policyholder reserves and certify as to adequacy of insurer reserves to meet policyholder liabilities are called:
(a) actuaries (b) underwriters (c) reservists (d) chief financial officers
(e) Enron accountants
6. Your mother now age 65 has \$100,000 to invest in a monthly annuity which particular annuity would provide the greatest monthly income per dollar of investment:
(a) a cash refund annuity (b) a whole life annuity (c) a 15 year certain and life annuity (d) a 20 year certain and life annuity (e) a joint and survivor annuity with your mother age 65 and you age 25

7. A woman who has taught music all her life and has no close relatives or friends should buy which type of annuity? (assume the woman wants to maximize annuity income)
- (a) A Joint and Last Survivor Annuity
 - (b) A Whole Life Annuity
 - (c) A Cash Refund Annuity
 - (d) Fifteen Years Certain and Life Annuity
 - (e) A Twenty Years Certain and Life Annuity
8. An example of a flexible-premium life insurance plan is:
- (a) A whole life policy
 - (b) a term insurance policy
 - (c) an endowment life insurance policy
 - (d) a universal life insurance policy
 - (e) none of these
9. Which of the following is a need for cash rather than a need for income?
- (a) Estate clearance fund
 - (b) Readjustment period
 - (c) dependency period
 - (d) Life Income to a spouse
 - (e) none of these
10. Which of the following is essentially a deferred annuity with life insurance protection?
- (a) Endowment at age 65
 - (b) Modified whole life policy
 - (c) Jumping juvenile policy
 - (d) Retirement income policy
 - (e) Industrial insurance policy
11. The chance of being disabled is:
- (a) Less than the chance of death at any age
 - (b) Greater than the chance of death during working years
 - (c) About the same as the chance of death
 - (d) Less than the chance of death during the middle years
 - (e) about the same as the chance of accidental death
12. The life insurance principle that requires the insurer and the insured provide accurate information and live up to all elements of the insurance contract is the principle of:
- (a) unreasonable expectations
 - (b) utmost good faith
 - (c) contract adhesion
 - (d) reasonable expectations
 - (e) promissory warranty
13. A misstatement of age by an applicant for life insurance:
- (a) voids the policy if discovered during the contestability period
 - (b) makes the policy voidable at the option of the insurer if discovered during the contestability period
 - (c) would require the insurer refund all paid-in premiums immediately
 - (d) changes the amount of insurance to the amount which the premium paid would have purchased at the correct age
 - (e) none of these

14. A good health insurance policy will: (a) pay all of the small medical charges that crop up with any illness (b) have a sizeable deductible (c) have high policy limits providing coverage for large dollar loss (d) Both a and b (e) both b and c
15. Price discrimination occurs when: (a) buyers prefer one firm's products over those of its rivals (b) a single firm can produce multiple products or services at lower costs than can multiple firms (c) a firm offers effectively identical products at different prices to different groups (d) an insurer's average cost of production decreases with increasing production (e) buyers prefer one of a firm's products over those of its rivals
16. Economies of scale exist in the insurance market when: (a) an insurer's average cost of production falls with increasing production (b) an insurer's average cost of production increases with increasing production (c) an insurer's average cost of production decreases with decreasing production (d) an insurer's marginal cost of production is less than the average cost of sales (e) an insurer's marginal cost of production increases with decreasing sales.
17. The actual amount of pure life insurance protection which is the difference between the policy reserve at a given point and the face amount of insurance is called:
- (a) The policy's net reserve
 - (b) The cash surrender value
 - (c) The net amount at risk
 - (d) The net asset value
 - (e) The cash savings value
18. The Red Baron has a \$25,000 whole life policy with double indemnity for accidental death. The light plane he is in crash lands on Clear Lake. He is uninjured. He successfully swims to shore, goes home and promptly has a heart attack and dies. His insurer will pay his beneficiary: (a) All of his paid-in premiums (b) \$25,000 (c) \$50,000 (d) \$50,000 plus all the paid-in premiums (e) nothing, because the Red Baron died of natural causes

19. Group Insurance is characterized by how many of the following:
- I. Coverage of many people under a single insurance contract.
 - II. Low-cost wholesale protection
 - III. Considerable individual protection
- (a) I only (b) II only (c) I and II (d) II and III (e) I, II and III
20. A _____ policy guarantees that the life insurance contract will not lapse as long as the policyholder at least pays a stipulated minimum premium.
- (a) no lapse guarantee (b) lapse supported (c) 7 pay policy
(d) adjusted premium life (e) current assumption whole life
21. A contract which provides for payment of the face amount plus a stated monthly amount for 20 years from the death of the insured is called:
- (a) A family income policy (b) A family protection policy
(c) A family maintenance policy (d) A guaranteed benefit plan (e) none of these
22. Life insurance contracts that allow policy values to vary either favorably or unfavorably based on an insurer's anticipated future experience are:
- (a) Retrospective insurance reserve policies
(b) Nonparticipating policies
(c) Reversionary insurance policies
(d) Current assumption policies
(e) Modified term life insurance policies
23. Premiums paid in the US for individual disability income or life insurance policies are:
- (a) tax exempt for income tax purposes (b) taxable income on federal returns
(c) considered a personal expense and are not tax deductible for income tax purposes
(d) considered business expenses and are tax deductible for income tax purposes
(e) considered to be tax-qualified expenditures for purposes of retirement saving
24. The financial planning process utilizes which of the following elements:
- (a) assembling relevant quantitative and qualitative information
(b) establishing objectives and analyzing information related to the financial plan
(c) developing and implementing a plan, monitoring it and revising the plan when necessary
(d) all of the above
(e) only (a) and (c)

25. Gross rates are life insurance rates calculated to recognize:
- (a) The probability of an insured event occurring
 - (b) Time value of money
 - (c) Financial strength of the insurer
 - (d) The net rate plus a loading for expenses, contingencies, profits and taxes
 - (e) The cash surrender value of the policy less any paid-up additions
26. Hospital expense coverage is written: (a) only on an indemnity basis (b) only on a valued basis (c) only on a service basis (d) on a service basis, indemnity basis, or cash payment basis (e) none of these
27. A method whereby an insurer may borrow additional capital through the sale and purchase of its insurance by another insurer is called: (a) Reversionary Life Insurance Sales (b) Reinsurance (c) Sale/Leaseback Insurance (d) Stop Loss Insurance Lending (e) Reverse Re-Capitalization
28. A representative of the insurance company who determines whether and on what terms to issue a requested insurance policy is called: (a) an insurance agent (b) an insurance claims specialist (c) an underwriter (d) an independent agent (e) none of the above
29. The calculation of life and health insurance rates and values requires all of the following information EXCEPT: (a) Probability of the insured event occurring (b) Time Value of Money (c) The benefits promised (d) Loadings to cover expenses, taxes, profits and contingencies (e) The financial strength of the insurer
30. A table that shows the yearly probabilities and/or information related to loss of health for individuals is: (a) A mortality table (b) An annuity table (c) A morbidity table (d) A Commissioner's Ordinary Life Table (e) A US Select Life Table
31. A type of life insurance company that pays dividends to policyholders is a:
- (a) participating insurer
 - (b) non-participating insurer
 - (c) stock insurer
 - (d) Lloyd's insurer
 - (e) reinsurer

32. A type of annuity that pays benefits to an annuitant for a set period of time and then makes continued payments based on survivorship is called a:
- (a) joint and survivor annuity
 - (b) joint and 2/3's annuity
 - (c) reversionary annuity
 - (d) annuity certain and life
 - (e) retirement annuity
33. The financial accounting statement filed with the state insurance commissioner that focuses on the extent of insurer assets in relationship to policyholder reserves is called:
- (a) a GAAP accounting statement
 - (b) a statutory statement
 - (c) a reserve adjusted GAAP accounting statement
 - (d) a asset adjusted GAAP statement
 - (e) a net asset adjusted reserve statement

Answer Key: 1. A 2. D 3. E 4. B 5. A 6. B 7. B 8. D 9. A 10. D
11. B 12. B 13. D 14. E 15. C 16. A 17. C 18. B 19. C 20. B 21. C
22. D 23. C 24. D 25. D 26. D 27. B 28. C 29. E 30. C 31. A
32. D 33. B