

These questions are designed to test your understanding of insurance operations within the context of life and health insurance. Each question is given equal weight. Choose the best possible answer from the responses that are available.

1. 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
  
2. The level premium method:
  - a. Involves overpaying during the early years of the contract
  - b. Provides lifetime protection
  - c. Requires development of a legal reserve
  - d. Has cash value as a by-product of savings in the policy
  - e. All of the above
  
3. All of the following are true about the yearly renewable term method except:
  - a. The premium represents each insured's share of the cost of mortality
  - b. Term premiums increase as one gets older
  - c. The premiums tend to increase at an increasing rate
  - d. It is a practical means of affording lifetime protection
  - e. None of the above
  
4. 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. Joint and last survivor
  - b. Whole life
  - c. Cash refund
  - d. Fifteen years certain and life
  - e. Twenty years certain and life
  
5. A 20-payment life insurance policy differs from a 20-year endowment in how many of the following respects? I. The amount payable in the event that death occurs within the 20-year period II. The amount payable to the insured if he is alive at the end of 20 years III The number of premiums paid
  - a. I only
  - b. II only
  - c. I and II
  - d. I and III
  - e. I, II and III

6. If a beneficiary's designation is irrevocable?
  - a. It can not be changed without the consent of the beneficiary
  - b. All rights revert back to the policyowner if the irrevocable beneficiary predeceases the insured
  - c. Both a and b
  - d. Neither a nor b
7. X has a \$25,000 whole life policy with double indemnity for accidental death. The light plane he is in crash lands on a lake. He is uninjured. He attempts to swim to shore and, fatally miscalculating the distance, drowns. His insurer will pay the beneficiary:
  - a. All of the premiums paid
  - b. \$25,000
  - c. \$50,000
  - d. \$50,000 plus all the premiums paid
  - e. none of the above
8. Problems with having minor children as beneficiaries can be solved by:
  - a. Appointing a guardian of the property of minor children in your will
  - b. Having the proceeds payable to a trust set up in the child's name
  - c. Either a or b
  - d. Neither a nor b
9. The most desirable continuance provisions with the life insurance contract from the consumer's point of view are found in a health insurance policy that is:
  - a. Cancelable
  - b. Optionally renewable
  - c. Conditionally renewable
  - d. Non-cancelable, guaranteed renewable
  - e. None of the above
10. Blue Shield plans are:
  - a. Nonprofit associations
  - b. Strongly supported and controlled by local physicians and their state medical societies
  - c. Prepayment plans that provide coverage primarily for fees of physicians and surgeons
  - d. All of the above
  - e. None of the above
11. Critics of HMOs stress which of the following as disadvantages of this form of health care delivery system?
  - a. They are expensive to form
  - b. You give up freedom of choice of physician
  - c. They lack the personal touch of a single doctor/patient relationship
  - d. All of the above
  - e. None of the above

12. A good health insurance policy will:
- Pay all of the small medical charges that crop up with any illness
  - Have a sizable deductible
  - Have high policy limits providing coverage for large dollar loss
  - Both a and b
  - Both b and c
13. Group insurance is characterized by how many of the following? I. Coverage of many people under a single contract. II. Low-cost wholesale protection III. Considerable individual underwriting
- I only
  - II only
  - I and II
  - II and III
  - I, II and III
14. A group for life insurance must be of at least a minimum size because:
- It will diminish the impact of one substandard life on results
  - It will spread out the fixed costs of issuing and administering the policy
  - Both a and b
  - Neither a nor b
15. A misstatement of age by an applicant for life insurance:
- voids the policy if discovered during the contestability period
  - Makes the policy voidable at the option of the insurer if discovered during the contestability period
  - Would require that the insurer refund all paid-in premiums immediately
  - Changes the amount of insurance to the amount which the premium paid would have purchased at the correct age
  - None of the above
16. In order to reinstate a policy that has been permitted to lapse, the insured must:
- pay all past due premiums plus interest
  - give evidence of insurability
  - reinstate the policy within 5 years
  - pay or reinstate any indebtedness under the policy
  - All of the above
17. Jones dies leaving a \$100,000 life insurance policy to his son. The son elects to take the \$100,000 over a 10-year period and receives \$11,130 per year. What part of this payment is taxable as income to the son?
- None of it – the payments are tax-free
  - \$11,130 per year – all of it is taxable
  - \$1,130 per year
  - \$130 per year
  - only the \$100,000 which may be spread over the 10 year period during which is received

18. The joint and survivor settlement option in the life insurance contract provides:
- An income to 2 people until the first dies, with payments ceasing at that time
  - An income to 2 people which continues to a survivor after the death of one of them
  - A greater monthly income than a straight life annuity
  - The highest monthly benefit of any annuity
  - None of the above
19. The disability waiver of premium provision:
- Is a statutory requirement in all states
  - Normally includes a waiting period before which benefits begin
  - Is automatically included in all endowment policies
  - Is automatically included on all annuities
  - None of the above
20. If dividends paid under a participating (mutual) life insurance contract are used to purchase paid-up additions to the contract:
- Future premiums will be higher than if such an election had not been made
  - Future premiums will be lower than if such an election had not been made
  - Future dividends will be higher than if such an election had not been made
  - Future dividends will be lower than if such an election had not been made
  - None of the above
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 family income policy
  - A family protection policy
  - A family maintenance policy
  - A guaranteed benefit policy
  - None of the above
22. Under the retirement income policy:
- The cash value equals the face of the policy at age 65
  - The cash value is slightly less than the face of the policy at age 65
  - The cash value exceeds the face of the policy at age 65
  - The cash value may be more or less than the face of the policy depending on the age of the insured at date of issue
  - None of the above
23. Which of the following is essentially a deferred annuity with life insurance protection?
- Endowment at age 65
  - Modified whole life policy
  - Jumping juvenile policy
  - Retirement income policy
  - Industrial insurance policy

24. 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
25. 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 the above
26. Which of the following is an advantage the buyer of life and health insurance?
- a. Assists in the development of Savings
  - b. Provides a safe and profitable investment
  - c. Helps with estate preservation
  - d. All of the above
  - e. Only A and C
27. What comparable advantages do insurers provide that are similar to financial Intermediaries?
- a. Reduction of transaction costs
  - b. Creation of liquidity
  - c. Economies of scale
  - d. All of the above
  - e. Only A and B
28. Which of the following is Not deemed to be a primary factor affecting life and health insurance consumption?
- a. Income
  - b. Inflation
  - c. Interest Rates
  - d. Market Concentration
  - e. Price
29. Insurance penetration is the ratio of yearly direct premiums written to?
- a. Life insurance premiums received
  - b. Property/Casualty premiums received
  - c. Gross Domestic Product
  - d. Net Asset Value
  - e. Capital and Surplus

30. From an *economic* perspective insurance is:
- A loss control mechanism whereby an individual pays an unknown sum to be indemnified against large uncertain losses.
  - A financial intermediation function by which individuals exposed to specified risks of loss contribute to a pool from which covered losses are paid.
  - A financial agreement whereby an individual pays a large certain amount called the contingent premium to be indemnified against small uncertain losses.
  - A risk avoidance mechanism whereby an individual avoids having to share in losses covered under contract
  - A risk assumption mechanism whereby the insured assumes large uncertain loss by paying a small certain premium to the insurer.
31. From a *legal* perspective, insurance is an agreement:
- Whereby the policyholder pays a stipulated amount called the premium to the insurer, in return for which the insurer agrees to pay a defined amount to the policyholder should a covered event occur.
  - That allows the policyholder to pay a small certain amount called the premium, in order to be insured against small certain losses.
  - Whereby the policyholder may pay a variable premium in order to be indemnified against small variable losses
  - That allows the insured to pay a fixed premium to be insured against small certain losses.
  - Whereby the insured assumes a large uncertain loss by paying a small certain amount called the premium.
32. Under life insurance policies, the person to whom the payment is made upon the insured's death is called the:
- Annuitant
  - Beneficiary
  - Insured
  - Contingent claims representative
  - None of the above
33. An insurance contract that promises to pay the insured a periodic payment based on survival is called:
- Life Insurance
  - Health Insurance
  - A Life Annuity
  - Homeowner's Insurance
  - Life Settlement Insurance

34. Which of the following represent various categories of life and health insurance
- Group insurance
  - Ordinary insurance
  - Credit insurance
  - All of the above
  - Only a and c
35. Which of the following *are not necessary* for a perfectly competitive insurance market:
- A large number of buyers and sellers such that no one buyer or seller nor any other group can influence the market
  - Insurance sellers have freedom of entry and exit from the market
  - Buyers and sellers are well informed about the products
  - Government regulators are able to specify the pricing on guaranteed coverages to prospective insureds
  - Sellers produce identical products
36. Economies of scale exist in the insurance market when:
- An insurer's average cost of production falls with increasing production
  - An insurer's average cost of production increases with increasing production
  - An insurer's average cost of production decreases with decreasing production
  - An insurer's marginal cost of production is less than the average cost of sales
  - An insurer's marginal cost of production increases with decreasing sales
37. Price discrimination occurs when:
- Buyers prefer one firm's products over those of its rivals
  - A single firm can produce multiple products or services at lower costs than can multiple firms
  - A firm offers effectively identical products at different prices to different groups
  - An insurer's average cost of production decreases with increasing production
  - Buyers prefer none of a firm's products over those of its rivals
38. The "lemons" problem in insurance occurs when:
- The insurance customer knows less than the insurer (seller) about the insurance company and its products
  - The insurance customer knows more than the insurer (seller) about the insurance company and its products
  - Poorer than average risks seek to obtain insurance at higher than average rates
  - Individuals alter their behavior because of the existence of insurance
  - Insurers attempt to sell customers policies that offer higher coverage at below normal rates

39. The principal-agent problem in insurance occurs when:
- The insurance customer knows less than the insurer (seller) about the insurance company and its products
  - Poorer than average risks to seek to obtain insurance at higher than average rates
  - Individuals seek to obtain insurance by misrepresentation
  - Insurers seek to terminate agents who have become too expensive to the company as a result of selling too many policies
  - An agent knows more about his or her own actions than does the principal, in this case the insurer.
40. The human life value approach to life insurance is:
- A measure to the production potential of an individual based on educational background
  - A measure of the actual future earnings or values of services of an individual
  - Based on the financial needs of a human life to survive over one's life expectancy
  - Determined by taking current earnings and capitalizing them at the risk-free rate of return over an individual's life expectancy
  - An antiquated method of finding the value of a human life by multiplying one's life expectancy by average lifetime income.
41. An economic consumption theory that argues that consumption depends on the household's income relative to the income of households with which it identifies is called the:
- Absolute Income Hypothesis
  - Efficient Household Income Hypothesis
  - Relative Income Hypothesis
  - Life Cycle Hypothesis
  - Permanent Income Hypothesis
42. A method whereby an insurer may borrow additional capital through the sale and purchase of its insurance by another insurer is called:
- Reversionary Life Insurance Sales
  - Reinsurance
  - Sale/Leaseback Insurance
  - Stop Loss Insurance Lending
  - Reverse Capitalization

43. Actuaries:
- a. Determine insurance premiums and necessary reserves using their best estimates of future losses and expenses, with an eye toward competitiveness.
  - b. Sell insurance coverages to prospective insurance through the direct writing agency system.
  - c. Determine whether and on what terms to issue a requested insurance policy.
  - d. Negotiate and settle claims
  - e. None of the Above
44. 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
45. A peril is:
- a. A cause of loss
  - b. A physical condition giving rise to an increased frequency of loss
  - c. A physical condition giving rise to an increased severity of loss
  - d. A tendency for those having insurance to become careless in minimizing future loss
  - e. None of the above
46. Pricing objectives in life and health insurance is (are):
- a. That premium rates should be adequate
  - b. Premiums should be equitable
  - c. Premiums should be excessive
  - d. All of the above
  - e. Only a and b
47. The process under which insurers decide whether to issue insurance to a person and the price and terms of coverage is called:
- a. Insurance marketing
  - b. Underwriting
  - c. Actuarial rate determination
  - d. Pre-claim settlement pricing
  - e. None of the above

48. A table that shows the yearly probabilities and/or information related to loss of health for individuals is:
- A Mortality Table
  - A Annuity Table
  - A Morbidity Table
  - Commissioner's Ordinary Life Table
  - U.S. Select Life Table
49. The calculation of life and health insurance rates and values requires all of the following information except:
- Probability of insured event occurring
  - Time value of money
  - The benefits promised
  - Loadings to cover expenses ,taxes, profits and contingencies
  - The financial strength of the insurer
50. Gross rates are life insurance rates calculated to recognize:
- The probability of an insured event
  - Time value of money
  - Financial strength of the insurer
  - The net rate plus a loading for expenses, contingencies, profits and taxes
  - The cash surrender value of the policy less and paid-up additions
51. You are given the following mortality, present value factors and death claim information for 95 year old males, what would be the present value of total death claims in the second policy year if each insured has a \$1,000 policy?

| Policy Year | # Dying | Total Death Claims | Present Value | PV Death Claims |
|-------------|---------|--------------------|---------------|-----------------|
| 1           | 33,000  |                    | .9525         |                 |
| 2           | 25,795  |                    | .9070         |                 |

- \$31,429,200
  - \$23,396,065
  - \$17,084,236
  - \$11,599,247
  - None of the above
52. The amount that represents the savings element in the cash-value life insurance policy that is available to a terminating policyowner is referred to as:
- The policy's cash surrender value
  - The cash savings value
  - The policyholder reserve
  - The net asset value
  - None of the above

53. The actual amount of pure life insurance protection which is the difference between the policy reserve at a given point and the face amount insurance is called:
- The policy's net reserve
  - The cash surrender value
  - The net amount at risk
  - The net asset value
  - The cash savings value
54. An example of a flexible-premium plan insurance is:
- A whole life policy
  - A term policy
  - An endowment policy
  - A universal life policy
  - None of the above
55. Life insurance policies that allow policy values to vary either favorably or unfavorably based on an insurer's anticipated future experience are:
- Retrospective insurance reserve policies
  - Nonparticipating policies
  - Reversionary insurance policies
  - Current assumption policies
  - Modified term life policies
56. A type of insurance simulation which utilizes estimates of operating experience for a block of policies, and individual factors on policies to determine whether profit, reserving and other insurance objectives are being met is:
- An asset share calculation
  - An interest reserve calculation
  - A cash value calculation
  - Prospective reserve analysis
  - A premium affordability calculation

Please use this information drawn from the 1983 IAM Table for Male Lives in answering the following questions.

| <u>Age</u> | <u>Number Living (<math>l_x</math>)</u> | <u>Number Dying (<math>d_x</math>)</u> | <u>Prob. Dying (<math>q_x</math>)</u> | <u>Prob. Living (<math>p_x</math>)</u> |
|------------|---|--|---------------------------------------|--|
| 60         | 9,013,785                               |  | .008338                               |  |
| 61         | 8,938,628                               | 80,296                                 |                                       |  |
| 62         | 8,858,332                               |  |                                       |  |
| 63         | 8,772,052                               |  |                                       |  |
| 64         | 8,678,805                               |  |                                       |  |
| 65         | 8,577,575                               |  |                                       |  |

57. The number of people dying between ages 60 and 61 is:  
 (a) 80,296 (b) 75,157 (c) 66,712 (d) 86,280 (e) none of these its not possible to determine
58. The probability that a person age 60 lives to age 61 is: (a) .991662 (b) .992218  
 (c) .992710 (d) .008983 (e) .991017
59. The probability that a person age 60 lives to age 65 is: (a) .991662 (b) .992218  
 (c) .951606 (d) .008983 (e) .991017
60. The probability that a person now age 60 dies before age 65 is: (a) .048393  
 (b) .008983 (c) .951606 (d) .065713 (e) .991017

Answers: 1. A 2. E 3. D 4. B 5. B 6. C 7. B 8. C 9. E 10. D  
 11. D 12. E 13. C 14. C 15. D 16. E 17. C 18. B 19. B 20. C  
 21. C 22. C 23. D 24. B 25. D 26. D 27. D 28. D 29. C  
 30. B 31. A 32. B 33. C 34. C 35. D 36. A 37. C 38. A 39. E  
 40. B 41. C 42. B 43. A 44. C 45. A 46. E 47. B 48. C 49. E 50. D  
 51. B 52. A 53. C 54. D 55. D 56. A 57. B 58. A 59. C 60. A