EXAM NOTES

- Independent ratings: AM Best, Standard and Poor's, Moody's and Fitch.
- An insurer enters into a contract with a third party to insure itself against losses from insurance policies it issues? **REINSURANCE**
- Which of the following is **NOT** a characteristic of reinsurance? It increases the unearned premium reserve.
- Which of the following statements regarding a life insurance policy dividend is **TRUE**? **It is the distribution of excess of funds accumulated by the insurer on participating policies**
- When a mutual insurer becomes a stock company, the process is called **DEMUTULZATION**.
- John owns an insurance policy that gives him the right to share in the insured's surplus. What kind of policy is this? **PARTICIPATING**.
- Which of the following is an insurer established by a parent company for the purpose of insuring the parent company's loss exposure? **CAPTIVE INSURER**.
- What is a participating life insurance policy? Contract that allows the policyholder to receive a share of surplus in the form of policy dividends.
- An insurer owned by its policyholders is called a **MUTUAL INSURER**.
- Which if the following is **NOT** a benefit of insurance? Losses due to fraud are eliminated.
- One important function of an insurance company is to identify and sell to potential customers. Which of these best describes this function? **MARKETING**.

- **REINSURANCE** – the spreading risk from one insurer to one or more other insurers to minimize exposure to loss by reinsuring risks.
- **ADVERSE SELECTION** – The tendency for poorer than average risks to seek out insurance. If an insurer can not compensate for poor risks with better than average risks then its loss experience will increase and its ability to pay claims may be compromised.
- **LAW OF LARGE NUMBERS**
- Which of the following best describes the statement "The more times an event is repeated, the more predictable the outcome becomes? **Law of large numbers**
- An insurer having a large number of similar exposure units is considered important because: **the greater the number insured**, **the more accurately the insurer can predict losses and set appropriate premiums**.
- Which type of risk is gambling? **SPECULATIVE RISK**.
- Which of the following is **NOT** considered to be a definition of the term "**loss**"? **PROBABILITY THAT AN EVENT WILL OCCUR**.
- Which of these statements correctly describes risk? **Pure risk is the only insurable risk**.
- All of the following circumstances must be met for loss retention to be an effective risk management technique, EXECPT? **Probability of loss is unknown**. (Loss retention is an effective risk management technique with all of these conditions exist. EXCEPT when the probability of loss is unknown. **The loss MUST be predictable in a risk**.
- **Moral hazard** is described as the INCREASED CHANCE OF A LOSS BECAUSE OF AN INSURED'S DISHONEST TENDENCIES.
- Which of the following is any situation that presents the possibility of a loss? **LOSS EXPOSURE**. (Any situation that presents the possibility of a loss is known as a loss exposure.

- Which of the following refers to a condition that may increase the chance of a loss? **HAZARD**. (A hazard is a condition or situation that creates or increases a chance of loss).
- Which of the following is NOT an element of an insurable risk? Loss must be **CATASRTOPHIC**.
- Restoring an insured to the same condition as before a loss is known as? **PRINCIPLE OF INDEMNITY**. (The principle of indemnity involves making an insured whole by restoring them to the same condition as before).
- Which of the following describes the increase in the probability of a loss due to an insured's dishonest tendencies? **MORAL HAZARD**. (The increase in the probability of a loss resulting from an insured's dishonest tendencies is known as moral hazard.
- A **hazard** can be best described as A CONDITION THAT MAY INCREASE THE LIKELIHOOD OF A LOSS OCCURRING. (A condition or situation that creates or increases a chance of loss is called a hazard. Ex. Icy Road, driving while intoxicated, improperly stored toxic waste).
- Which of the following is **NOT** considered a definition of risk? **THE CAUSE OF A LOSS**. (Something that can cause a loss, such as an earthquake or tornado, is referred to as a peril, not a risk).
- For an insurance contract to be legally binding, it must have 4 essential elements 1. **OFFER AND ACCEPTANCE**, 2. **CONSIDERATION**, 3. **LEGAL PURPOSE** and 4. **COMPETENT PARTIES**.
- **A legal contract must have Offer and Acceptance, Considerations, Competent parties and Legal Purposes.**
- **ALEATORY**– insurance contracts are aleatory, which means that there is not an equal exchange of value. Insured premiums are small in relation to the amount that will be paid by the insurance company, in the event of a loss.
- **ADHESION** – Adhesion is also known as, "take it or leave it" agreements, because they're prepared by only one party, the insurance company. They are accepted or rejected by the other party, the applicant, with no negotiations or changes.
- **UNILATERAL** – A unilateral contract is a one-sided agreement. In which only one party, the insurance company, is legally bound to do anything. The policy owner is under no legally binding promise to pay premiums. However, the insurance company is legally bound to pay losses covered the policy. NOTE: If the policy owner does not pay their premiums, the insurance company does have the right to terminate the insurance policy.
- **CONDITIONAL** – Insurance contracts are conditional because certain conditions must be met by all parties when a loss occurs, otherwise the contract would not be legally enforceable. If the policy owner is past due on his payments and the insured dies, the insurance company does not have to pay the death benefit because a condition was not met.
- **Life insurance** is a **VALUED contract**, which pays a stated amount, regardless of the actual loss incurred.
- **Health insurance** is an **indemnity contract**.
- **Utmost good faith** implies that there'll be no fraud, misrepresentation or concealment, between the parties as it pertains to insurance policies.
- **Insurable interest is the most important aspect for establishing** a **legal insurance contract**. This needs to exist at the time of application between the policy owner and the person being insured at the time of application, but it does not need to exist throughout the remainder of the policy.

- **Agent's authority**. An agent is a licensed insurance producer, whose been appointed to represent an insurance company. **3 TYPES OF AGENT AUTHORITY**: **EXPRESS**, **IMPLIED** & **APPARENT**.
- Which course of action is the insurer entitled to when deliberate concealment is committed by an insured? **RECINDING THE CONTRACT**.
- Which of the following statements correctly describes a **contract of indemnity**? **ONE PARTY IS RESTORED TO THE SAME FINANCIAL POSITION THE PARTY WAS IN BEFORE THE LOSS OCCURRED**.
- What does the insurance term "**indemnity**" refer to? **MAKE WHOLE** (Contracts of indemnity attempt to return the insured to their original financial position, or made whole).
- The importance of a representation is demonstrated in what **rule**? **MATERIALITY OF CONCEALMENT** (It is used to determine the importance of representation).
- If a material warranty violation on the part of the insured is found, what recourse does an insurer have? **RECIND THE POLICY**. (A WARRANTY IN INSURANCE IS A STATEMENT MADE BY THE APPLICANT THAT IS GUARANTEED TO BE TRUE IN EVERY RESPECT. IF FOUND TO BE UNTRUE, THE CONTRACT CAN BE REVOKED.
- Which statement is **CORRECT** when describing a contact of **adhesion**. **CONTRACT MUST BE ACCEPTED OR REJECTED BY THE INSURED**.
- A unilateral contract is one in which **ONLY ONE PARTY** (THE INSURED) **MAKES ANY LEGALLY ENFORCEABLE PROMISE**.
- Which of the following is **NOT** required in the content of a policy? **PROBABILITY OF LOSS**.
- Express power given to an agent in an agency agreement is **THE AUTHORITY TO REPRESENT THE INSURER**. (Express authority is granted by means of the agent's contract, which is the insurer's appointment of the agent to act on its behalf).
- Which principle is accurately described with the statement: "Insured's are entitled to recover an amount **NOT** greater than the amount of their loss"? **INDEMNITY**. (Insureds are entitled to recover an amount **NOT** greater than the amount of their loss under the principle of indemnity.
- Which of the following statements about aleatory contracts **NOT true**? **The insured and the insured contribute equally to the contract**. (AN ALEATORY CONTRACT HAS THE POTENTIAL FOR THE UNEQUAL EXCHANGE OF VALUE OR CONSIDERATION FOR BOTH PARTIES. FOR EXAMPLE, AN INDIVIDUAL WHO IS COVERED UNDER A DISABILTY INSURANCE POLICY WILL COLLECT BENEFITS UPON DISABILITY. HOWEVER, IF NO DISABILITY OCCURS, BENEFITS ARE NOT PAID).
- Which of the following is **NOT** a requirement of a contract? **EQUAL CONSIDERATION IS REQUIRED BETWEEN THE INVOLVED PARTIES**.

- Restoring an insured to the same condition as before a loss is an example of the principle of **INDEMNITY**.
- **INDEMNITY** – MAKING INSURED WHOLE RESTORING THEM TO THE SAME CONDITION AS BEFORE A LOSS IS AN EXAMPLE OF PRINCIPLE INDEMNITY.
- When handling premiums for an insured, an agent is acting in which capacity? **FIDUCIARY**.

- **FIDUCIARY** is an agent who is acting as an insurance agent, broker, solicitor, life agent or health agent acts in fiduciary capacity when handling premiums or return premiums for an insured.
- Reasonably necessary acts that an agent **must** perform for carrying out his/her expressly authorized duties are covered by an agent's **IMPLIED AUTHORTY**. (Implied authority is the unwritten authority that is not expressly granted, but which the agent is assumed to have in order to transact the business of the insurer.
- **TERM LIFE insurance is temporary life insurance** provided for a specific period of time, It is also known as pure life insurance. Term life insurance is temporary protection because it only provides coverage for a specific period of time. It provides pure death protection. If the insured dies during the policy term, the policy pays a death benefit to the beneficiary. If the policy is cancelled or expires prior to the insured's death, nothing is payable. With term policies, there is no cash value or any living benefits available.
    - **3 BASIC TYPES OF TERM COVERAGE:**
        - 1. **Level Term Insurance** – most common type of temp. protection. The word level means does not change.
        - 2. **Increasing Term Insurance** – features level premiums and death benefits that increase each year. Usually set at a specific amount or percentage.
        - 3. **Decreasing Term Insurance** - level premiums that decrease each year. Most common is to insure the payment of mortgage. The policy amount decreases as the mortgage loan decreases each year. The death benefit will be zero dollars at the end of the policy term.
- **SPECIAL FEATURES OF TERM POLICYS** – MOST TERM POLICIES ARE:
    - RENEWABLE
    - CONVERTIBLE
    - RENEWABLE AND CONVERTIBLE
- **RENEWABLE POLICY** – a term policy that is renewable allows the policy policy owner the right to renew the coverage at the expiration date without evidence of insurability. The premium for the new term policy will be based only on the insured's current attained age.
- **CONVERTIBLE POLICY** – a term policy that is convertible allows the policy owner the tight to convert the coverage to a permanent whole life insurance policy without evidence of insurability. A premium for the new whole life permanent policy will be based only on the insured's current attained age.
- **WHOLE LIFE POLICY** – Also called permanent life insurance, these are policies that remain in effect to age 100 as long as the premium is paid. Whole life provides lifetime protection and includes a savings element known as cash value. They endow at the age 100 which means the cash value created by the payment of premiums is scheduled to equal the face amount of the policy at age 100. These premiums are higher than those for term insurance.
- **LEVEL PREMIUMS** – The level premiums for whole life policies are based on the age of the individual, when originally purchased. Premiums remain the same throughout the entire life of the policy.
- **LIVING DEATH BENEFITS** – The death benefit is guaranteed and remains level for the entire lifetime of the policy.
- **CASH VALUE** – The cash value created by the accumulation of premiums is scheduled to equal the face amount of the policy when the insured reaches age 100.

- **LIVING BENEFITS** – With a whole life policy, a policy owner can borrow against the cash value while the policy is in effect, or can receive the cash value when the policy is surrendered. Cash value is also known as Nonforfeiture values.
- 3 BASIC TYPES OF WHOLE LIFE INSURANCE
  - Straight Whole Life
  - Limited Pay Whole Life
  - Single Premium Whole Life
- **STRAIGHT WHOLE LIFE** – also called Continuous Premium Whole Life is basic whole life policy where the policy owner pays a fixed premium for the time the policy is issued until the insured's death or age 100.
- **LIMITED PAY WHOLE LIFE** – Limited pay is designed so that the premiums for the coverage is completely paid by age 100. Most versions of Limited Pay Life are 20 year pay. Whereby coverage is completely paid for in 20 years. Or, Life paid up at age 65 whereby the coverage is completely paid up by the insured at age 65.
- **SINGLE PREMIUM WHOLE LIFE** – With a single Premium Whole Life, a onetime lump sum payment is made, which will provide a level death benefit to the insured at age 100. The policy is completely paid and will generate cash value immediately.
- **ADJUSTIBLE LIFE POLICY HAS THESE OPTIONS**: The policy's premium can be increased or decreased, the policy's death benefit can be increased or decreased and the policies protection period can be modified.
- All of these are valid options for an adjustable life policy EXCEPT
  - A non-forfeiture option can be used to increase the death benefit.
- Scott has just purchased a new house. He is now shopping for a life insurance policy that provides a death benefit that matches the projected outstanding debt of his mortgage. Which life policy would best suit his needs? **MORTGAGE REDEMPTION**.
- MORTGAGE REDEMPTION INSURANCE IS A DECREASING TERM LIFE POLICY TAKEN BY A DEBTOR TO REPAY THE BALANCE ON A MORTGAGE LOAN IF HE OR SHE DIES BEFORE REPAYMENT.
- Lynn owns a life policy that guarantees the right to renew the policy each year, regardless of heath, but at an increased premium. What kind of policy is this? **RENEWABLE TERM**.
- RENEWABLE TERM LIFE INSURANCE POLICY GUARANTEES A POLICYOWNER THE RIGHT TO REVIEW THE POLICY WITHOUT EVIDENCE OF INSRUABILITY, BUT AT AN INCREASED PREMIUM.
- Which of the following is a life insurance policy that does **NOT** require a physical exam? NON-MEDICAL.
- Non-Medical life insurance policies are written without a physical exam.
- Which of the following is **NOT** a true description of non-medical life insurance?
  - **Applicants are not required to answer medical questions on the application**.
- Which of the following types of life insurance is normally associated with a mortgage loan? **Decreasing term**.
- DRECREASING TERM INSURANCE IS COMMONLY USED TO PROTECT AN INSURED'S MORTGAGE.
- A life insurance policy's limit of liability would be THE POLICY'S FACE AMOUNT.
- Which of the following is **NOT** true regarding a family policy that covers children**? CONVERSATION OF CHILD'S COVERAGE TO PERMANENT INSURANCE REQUIRES EVIDENCE IF INSURABILITY.**

- Which of the following types of life insurance combines a savings element along with a flexible premium option. **UNIVERSAL LIFE**.
- Universal life combines a savings element along with a **flexible premium option**.
- John and Mary have a handicapped child that is financially dependent upon them. The death of one of the parents would not be financially disastrous, however the death of both likely would be. Which policy would be best suited for them? **SECOND TO DIE POLICY**.
- **A SECOND TO DIE POLICY covers two lives, but the benefit is paid upon the death of the lasting surviving insured.**
- A life insurance policy where the insured can choose where the cash value can be invested is called **VARIABLE LIFE**.
- **VARIABLE LIFE ALLOWS THE INSURED TO CHOOSE WHERE THE ASSESTS BACKING THE CASH VALUE ARE INVESTED.**
- Tom is shopping for a policy that covers two people and would pay the face amount ONLY when the first person dies. The types of life policy he is looking for is called a JOINT LIFE POLICY.
- A JOINT LIFE POLICY COVERS TWO OR MORE PEOPLE AND PAYS THE FACE AMOUNT AT THE FIRST INSURED'S DEATH.
- Julie has a $100,000 30-year mortgage on her new home. What type of life insurance could she purchase that is designed to pay off the loan balance if she dies within the 30-year period? DECREASING TERM INSURANCE.
- Mark, age 45, has a Modified Endowment Contract (MEC). What is the tax penalty for taking a loan against this policy prior to age 59 ½? **10%**
- Penalty taxes (10%) on premature distributions prior to age 59 ½ from a modified endowment contract (MEC) normally apply to policy loans.
- A life insurance policy that pays the face amount if the insured survives to a specified period of time is called ENDOWMENT INSURANCE.
- An ENDOWMENT policy pays the face amount if the insured survives to a specified period of time.
- What is the proper order of initial life insurance premiums, from lowest to highest? MODIFIED PREMIUM, ORDINARY LIFE, SINGLE PREMIUM.
- In a renewable term life insurance policy, the contract will usually REQUIRE A HIGHER PREMIUM PAYABLE AT EACH RENEWAL.
- In a modified endowment contract, the penalty tax imposed on premature withdrawals is **10%**.
- An insurance policy written after 1988 that fails to pass the seven-pay test known as **A MODIFIED ENDOWMENT CONTRACT.**
- Which of the following statements do NOT apply to child coverage in family policy? **ONLY CHILDREN BORN PRIOR TO POLICY'S ISSUE DATE MAY BE INCLUDED.** Children born AFTER the policy's issuance date may be covered in a family policy.
- Rights of ownership. The assignment provision specifies the policy owner's right to transfer ownership of the policy. Absolute assignment involves transferring all rights of ownership to another person or entity. It is permanent and total transfer of all policy rights. The new policy owner does not need to have an insurable interest in the insured.

- Collateral assignment involves a transfer of partial rights to another person; this is usually done in order to secure a loan. Collateral assignment is a temporary assignment. Once the debt and loan is repaid the rights are returned to the policy owner.
- Standard Policy Provisions – While there is not a set standard of policy provision in life insurance, the standard policy provision adopted by the (NAIC), National Association of Insurance Commissioners does create uniformity amongst life insurance policies.
- Entire Contract Provision – the entire contract provision stipulates that the policy and copy of the application along with any riders or amendment's make up the entire contract.
- The Insuring Clause is the insurance company's agreement and promise to pay the DEATH BENEFIT.
- Consideration Clause – The Consideration Clause is the policy owners promise to make premium payments.
- Free Look Provision – allows the policy owner, a free look at the policy for a specific number of days. Starts when the policy owner receives the policy from the insurance company in the mail, or is delivered by an insurance agent.
- Grace period provision – the grace period is the period of time after the premium payment is due. Grace period is usually 30 days. This protects the policyholder against an unintentional lapse of the policy.
- Reinstatement provision allows a lapsed policy to be put back in force. Has to pay back premiums with interest.
- Policy loan provision – The policy owner is allowed to borrow an amount equal to the available cash value. Outstanding loans will need to be paid.
- **INCONTESTABLE CLAUSE –** prevents the insurance company from denying a claim because of incorrect information or a concealment of facts after the policy has been in force for two years.
- **SUICIDE PROVISION –** the suicide provision of a life insurance policy protects insurance companies against people using suicide for a quick payment of death benefit. If the insured commits suicide within the first two years, the insurance company will not pay the death benefits. They will only return the premiums that have been paid.
- **Age or gender can affect premium rates.**
- **EXCLUSIONS – types of risks that an insurance policy will not cover.**
    - **War**
    - **Aviation – Non commercial pilot hazardous occupation or hobbies commission of a felony**

- **Suicide**

- **NON-FORFEITURE OPTIONS –** because permanent whole life insurance policies have cash values, certain guarantees are built into the policy that cannot be forfeited by the policy owner. If a whole life policy has cash value and the policy owner wants to surrender the policy, because he does not want it anymore, he must make a decision on what he would like to do with his cash value.
  - **3 OPTIONS:**
    - **Cash Surrender**
    - **Reduce Pay-up – there will not be anymore premium payments due and it will continue to gain cash value.**
    - **Extended Term – cash value is used to purchase a term policy. The new term policy will have the same face value amount as the original Whole Life Policy and will last for a set period of time based on the amount the cash value available used. And, there will not be any additional premium payments due.**
- **DIVIDENDS** are paid only on participating policies. When policy owner purchases the policy from a participating insurance company, they are eligible to receive dividends. When receiving dividends, they have to have the following 5 options:
  - **Take Dividends in cash**
  - **Apply Dividends against premium payments**
  - **Allow Dividends against premium payments**
  - **Buy paid up additions – Which is a whole life policy.**
  - **Purchase one year term insurance.**
- **POLICY RIDERS are added to a policy and ride along, on the basic life insurance policy.**
  - **Riders only have value when attached to a policy. They have no independent value.**
  - **They are added to help people customize their insurance policy for their individual needs.**
  - **Unlike policy provisions, policy riders are not free; their cost is added to the life insurance policy premium.**
- **Guaranteed Insurability Rider –** the guarantee insurability rider allows the insured to purchase additional coverage at specific future dates, without the evidence of insurability, the new premiums will be calculated only on the person's attained age.

- **WAIVER OF PREMIUM RIDER –** the waiver of premium rider waives the premium for the policy if the insured becomes totally disabled. Most insurance companies impose a six-month waiting period from the time of disability. The coverage remains in force until the insured is able to return to work. If unable to return to work, the premiums will continue to be waived. Usually expires when the insured reaches age 65.
- **COST OF LIVING RIDER –** addresses inflation by automatically increasing the amount of insurance without evidence of insurability. The face value of the policy may increase by the cost-of-living factor tied to an inflation index such as the Consumer Price Index.
- **An insurer can be protected from adverse selection with which policy provision? SUICIDE CLAUSE.**
- **Which provision will pay a portion of the death benefit prior to the insured's death due to a serious illness? ACCELERATED DEATH BENEFITS.**
- **ACCELERATED DEATH BENEFIT provision will pay a portion of the death benefit prior to the insured's death due to a serious illness.**
- **When a life insurance policy is surrendered, how does the cost recovery rule apply? THE POLICY'S COST BASIS IS EXEMPT FROM TAXATION.**
- **COST RECOVERY RULE – the cost basis of the policy is exempt from taxation.**
- **Which of the following does a policyholder NOT have a right to change? DIVIDEND SCHEDULE.**
- **DIVIDEND SCHEDULE – is not a consent right of a policyowner.**
- **When does a life insurance policy's waiver of premium take effect? INSURED BECOMES TOTALLY DISABLED.**
- **A LIFE INSURANCE POLICY'S WAIVER OF PREMIUM TAKES EFFECT IF AN INSURED BECOMES TOTALLY DISABLED.**
- **If an insured dies because of an accident, which type of life insurance rider will provide additional coverage? ACCIDENTAL DEATH RIDER.**
- **AN ACCIDENTAL DEATH RIDER PROVIDES ADDITIONAL COVERAGE IN THE EVENT OF ACCIDENTAL DEATH.**
- **Which policy provision protects the policyowner from unintentional lapse of coverage? GRACE PERIOD.**
- **Which of these is NOT s valid dividend option? MONTHLY INCOME PAYMENTS IS NOT A VALID POLICY DIVIDEND OPTION.**
- **When an accidental death benefit is added to a whole life policy, how does this affect the policy's cash value? POLICY'S CASH VALUE IS NOT AFFECTED.**

- **WHEN AN ACCIDENTAL DEATH BENEFIT IS ADDED TO A WHOLE LIFE POLICY, THE POLICIES CASH VALUE IS NOT AFFECTED.**
- **What time period allows an insured's life insurance policy to remain in force even if the premium was not paid on the due dates? GRACE PERIOD.**
- **THE GRACE PERIOD ALLOWS AN INSURED'S LIFE INSURANCE POLICY TO REMAIN IN FORCE EVEN IF THE PREMIUM WAS NOT PAID ON THE DUE DATE.**
- **What does guaranteed insurability option allow an insured to do? PURCHASE ADDIITIONAL COVERAGE WITH NO EVIDENCE OF INSURABILITY REQUIRED.**
- **Mike and Ike are 30-year-old identical twins. Both are in excellent health. Each brother purchases a life policy that has a $750 annual premium. Mike buys a 10-yr renewable term policy. Ike purchases a whole life policy. All of the following are true EXCEPT?**
    - **NOT TRUE – Mike has the option of using his cash value to purchase a reduced amount of paid-up whole life insurance.**
    - **TRUE – Ike may eventually take out a policy loan, Ike will have a level premium. Mike's policy will develop no cash value over the policy's term.**
- **How are acts of war and aviation treated under a group life insurance policy? POLICY EXCLUSIONS.**
- **ACTS OF WAR IS CONSIDERED A POLICY EXCLUSION.**
- **Bruce is involved in an accident and becomes totally and permanently disabled. His insurance policy continues in force without payment of further premiums. Which policy provision is responsible for this? WAIVER OF PREMIUM PROVISION.**
- **A WAIVER OF PREMIUM PROVISION RELIVES A POLICYOWNER OF PAYING PREMIUMS IN THE EVENT OF TOTAL AND PERMANENT DISABILITY.**
- **Which statement is true regarding policy dividends? A DIVIDEND OPTION IS SELCTED BY THE INSURED AT THE TIME OF POLICY PURCHASE.**
- **What are collateral assignments normally associated with? BANK LOANS.**
- **What does the grace period allow a life insurance policyowner to do? MAKE A PREMIUM PAYMENT AFTER THE DUE DATE WITHOUT ANY LOSS OF COVERAGE.**
- **A life insurance policy can be surrendered for its cash value under which policy provision? NON-FORFEITURE OPTIONS.**
- **NON-FORFEITURE OPTIONS ALLOW A POLICYOWNER TO SURRENDER A POLICY FOR ITS NET CASH VALUE.**

- **How is a life insurance policy dividend legally defined? A return of excess premium and not taxable. NOT TAXIBLE INCOME.**
- **Which of the following is NOT a common life insurance policy rider? EXTENDED TERM.**
- **EXTENDED TERM IS NOT CONSIDERED A LIFE INSURANCE RIDER.**
- **CALCULATING PREMIUMS**
  - **Morality**
  - **Interest**
  - **Expense**
- **MORALITY – the rate of death. Morality tables help insurance companies predict life expectancy and the probability of death for a giving group.**
- **INTEREST – Since premiums are paid before claims are incurred; insurance companies invest the money in an effort to earn interest. This is usually factored in lowering premium rates.**
- **EXPENSE – Insurance companies have operating expenses. These expenses are factored into the premium rates. This is also known as the loading charge.**
- **DEATH BENEFIT PROCEEDS, also called settlement options, are the methods used to pay the death benefit to a beneficiary upon the insured's death. The policy owner can change settlement option at any time during the life if the insured.**
- **LUMP-SUM CASH OPTION –** upon the death of the insured the policy is designed to pay the proceeds in cash called a lump sum. **NON-TAXIBLE INCOME.**
- **INTEREST ONLY OPTION –** With the interest-only option the insurance company retains the policy proceeds and pays interest on the proceeds to the recipient beneficiary at regular intervals. The insurer usually guarantees a certain rate of interest and will often pay interest in excess of the guaranteed rate.
- **FIXED-PERIOD OPTION –** Under the fixed-period option, also called PERIOD CERTAIN, proceeds will be paid out in equal installments over a specified period of years. The fixed-amount installment option pays a fixed specific amount in installments until the proceeds are exhausted.
- **LIFE INCOME OPTION –** The Life Income Option provides the recipient with an income that he or she can not outlive. The amount of each installment is based on the recipient's life expectancy.
- **1535 EXCHANGE – In accordance with section 1035 of the internal Revenue Code certain exchanges of life insurance policies and annuities may occur in a non-taxable**

exchange. When a cash value life insurance policy is exchanged for another cash value life insurance policy or an annuity for an annuity there will be no income tax on these transactions.

- **BENEFICIARIES – Policy owner chooses and could be individuals, businesses, trusts, estates, or even charities.**
  - The primary beneficiary has first claim to the policy proceeds following the death of the insured.
- **PER STIRPES** means by the bloodline, distributes benefits of the beneficiary who died before the insured to the beneficiaries' heirs.
- **PER CAPITA** means by the head, evenly distributes benefits among the living named beneficiaries.
- **REVOKABLE – the policy owner may change a revocable beneficiary at any time and without the knowledge or consent of the beneficiary.**
- **IRREVOKABLE – the policy owner may not change the beneficiary without written consent of the beneficiary. Also, the policy owner can not borrow against the policy's cash value.**
- **UNIFORM SIMULTANEOUS DEATH ACT**
  - Under the Uniform Simultaneous Death Act, the law will assume that the primary beneficiary died first in a common disaster.
- **SPENDTHRIST TRUST CLAUSE**
  - The spendthrift clause prevents the beneficiaries reckless spending of benefits by requiring that the benefits be paid in fixed installments.
- What is the price of insurance for each exposure unit? **RATE**
- **THE PRICE OF INSURANCE FOR EACH EXPOSURE UNIT IS CALLED THE RATE.**
- Pam is the primary beneficiary of a life insurance policy ad wants to let the death benefit accumulate and receive only the monthly investment proceeds. Which settlement option should she choose? **INTEREST OPTION.**
- **INTEREST OPTION IS WHEN THE BENEFICIARY OF A LIFE INSURANCE POLICY WANTS TO LET THE DEATH BENEFIT ACCUMULATE AND RECEIVES ONLY MONTHLY BENEFIT PROCEEDS.**
- A spendthrift clause in a life insurance policy **RESTRICTS THE ABILTY OF THE BENEFICIARY TO ASSIGN BENEFITS.**
- **A SPENDTHRIFT CLAUSE PREVENTS A BENEFICIARY FROM RECKLESSLY SPENDING BENEFITS.**

- A creditor would be allowed rights to life insurance policy proceeds if which of the following beneficiaries is chosen? **THE INSURED'S ESTATE.**
  - Creditors have the right to life insurance policy proceeds when the beneficiary is the insured's estate.
- Morality is calculated by using a large risk pool of **PEOPLE AND TIME.**
  - Morality is based on a large risk pool of people and time.
- How are death benefits that are received by a beneficiary normally treated for tax purposes? **EXEMPT FROM FEDERAL INCOME TAXES.**
  - Death benefits that are received by a beneficiary are generally exempt from federal income tax.
- Which of the following is NOT a component of determining policy premiums? **DIVIDENDS**.
  - Dividends are not a component when determining policy premiums.
- Which of these is the automatic mode of settlement for life insurance policy proceeds? **LUMP-SUM.**
  - **The lump sum settlement is considered the automatic (or "default") option for most life insurance contracts.**
- Tonya has replaced her whole life policy with an annuity without incurring a tax penalty. This transaction is called a(n) : **1035 EXCHANGE**
  - **1035 EXCHANGE is a tax-free EXCHANGE is the IRS tax code that allows for the rollover of a non-qualified annuity (or transfer of a life insurance policy) to a new annuity or life policy of equal or greater value.**
- The probability of death, listed by year, is demonstrated in **MORALITY TABLES**
  - **Morality tables give a measure of the number of deaths in a given population over a certain period of time.**
- Which of the following is NOT an insurer policy expense? **PREMIUMS.**
- Which of the following describes the number of deaths in a year compared to the number of people in a select group? **MORALITY RATE**
  - **Morality rate is the number of deaths during a year compared with the total number of persons exposed in the class.**
- Which settlement option involves having the proceeds remain with the insurer and earnings paid on a monthly basis to the beneficiary? **INTEREST ONLY**.
- Which of the following is NOT a life insurance settlement option? **EXTENDED TERM OPTION.**

- A beneficiary receives only the death benefits earnings in which settlement option? **INTEREST OPTION.**
    - The interest only settlement option allows only the death benefit earnings to be paid to the beneficiary.
- How does life insurance create an immediate estate? **AFTER THE FIRST PREMIUM IS PAID, THE FACE AMOUNT MAY BE AVAILABLE TO THE BENEFICIARY.**
    - **An immediate estate can be created because the face amount may be available to the beneficiary after the first premium is made.**
- Which of these is the automatic mode of settlement for policy proceeds? **LUMP-SUM**.
    - **The lump sum cash settlement is considered the automatic (or "default") option for most life insurance contracts.**
- A spendthrift clause in a life insurance policy **RESTRICTS THE ABILTY OF THE BENEFICIARY TO ASSIGN BENEFITS.**
- When calculating life insurance premium rates, which component would an agent's commission fall under? **INSURER EXPENSES.**
- When calculating life insurance premium rates, which component would an agent's commission fall under? **INSURER'S EXPENSE.**
- **When calculating life insurance premium rates, which component is affected by an insured's age and gender?** MORALITY.
- How is the cost of a policy affected when a policyholder pays premiums more frequently? **INCREASES.**
- **INCREASES – THE COST OF A POLICY INCREASES WHEN AN INSURED PAYS PREMIUMS MORE FREQUENTLY.**
- Premiums are best described as **the amount an insured pays per unit of coverage.**
- Which of the following enables a life policy to be replaced with another life policy and results in the postponement of the tax consequences? **SECTION 1035 EXCHANGE**
- **Section 1035 Exchange enables a life policy to be replaced with another life policy and results in the postponement of the tax consequence.**
- The probability of death, listed by year, is demonstrated in **MORALITY TABLES.**
- **Morality tables give a measure of the number of deaths in a given population over a certain period of time.**
- Which of the following is NOT a component of determining policy premiums? **DIVIDENDS.**
- **Dividends are not a component when determining policy premiums.**

- Pam is the primary beneficiary of a life insurance policy and wants to let the death benefit accumulate and receive only the monthly investment proceeds. Which settlement option should she choose? **INTEREST OPTION**
- **Interest option means the beneficiary should select the interest.**
- **UNDERWRITTING is the process in which an insurance company determines whether or not a particular applicant is insurable, and if so, what premiums to change.**
  - **Includes the applicant's health, both current and past, occupation, lifestyle, hobbies and habits.**
- **UNDERWRITTING PROCESS**
  - **PART 1. - GENERAL INFORMATION**
  - **PART 2. - MEDICAL INFORMATION**
  - **PART 3. – THE AGENT'S REPORT**
- THE AGENT REPORT – As a field underwriter, the agent can be considered the most important source of information available to the company underwriters.
- **MEDICAL INFORMATION BUREAU is a way insurance companies to compare the information they have collected on potential applicants.**
- **CONSUMER REPORT** includes written and oral information regarding a consumer's credit, character, reputation, or habits collected by a reporting agency from employment records, credit report and other public sources.
- **FAIR CREDIT REPORTING ACT**
  - **Under the Fair Credit Reporting Act, if someone applying for insurance is declined or modified because of information contained in either a consumer or investigating report, the person has the right to know what was in the report, and will be provided with the name and address of the reporting agency.**
- **RISK CLASSIFICATION**
  - **Standard**
  - **Substandard**
  - **Preferred**
- **STANDARD RISK** are people who, according to a company's underwriting standards, are entitled to insurance protection without extra rating or special restrictions. They are considered an average risk.
- **SUBSTANDARD RISK** are people who are not acceptable at standard rates because of a physical condition, personal or family history of disease, occupation, or dangerous habits.

These policies are also referred to as “rated” because they could be rated up, resulting in a higher premium.

- **PREFERRED RISK** are people who meet certain requirements. The applicants are in superior physical condition, with healthy lifestyles and habits. They qualify for lower premiums than standard risk.
- **CONDITIONAL RECEIPT – with a conditional receipt, the applicant is covered by the insurance company as of the date of the application, providing that the insurance company approves them for insurance.**
- **BACKDATING – the policy can be backdated NO MORE than 6 MONTHS. Backdating lowers the premium.**
- Which of the following is NOT a risk classification that an underwriter would use? **DIVIDEND RISK.**
- **Underwriters classify insurance risks as all of these EXCEPT “Dividend Risk”.**
- The Medical Information Bureau consists of **life and health insurance companies.**
- **LIFE AND HEALTH INSURERS ARE MEMBERS OF THE MEDICAL INFORMATION BUREAU.**
- How does a conditional receipt differ from a binding receipt? **Binding receipts always provide insurance which starts from the date of receipt.**
- **ONLY A BINDING RECEIPT ALWAYS PROVIDES INCURANCE THAT IS EFFECITVE FROM THE DATE THE RECEIPT IS GIVEN.**
- When an applicant applies for insurance, the process by which the insurer determines whether to issue a policy is called **UNDERWRITTING.**
- The objective of underwriting is to **avoid selecting a disproportionate number of bad risks.**
- **THE GOAL OF UNDERWRITING IS TO AVOID SELECTING A DISPROPORTIONATE NUMBER OF BAD RISK.**
- When an insurance company requests an attending physician’s report, the request must be accompanied by a **COPY OF SIGNED AUTHORIZATION.**
- **AN INSURED’S REQUEST FOR AN ATTENDING PHYSICIAN’S REPORT MUST BE S=ACCOMPANIED BY A COPY OF THE SIGNED AUTHORIZATION.**
- Which of the following types of information is NOT required for a life insurance application? **ETHNICITY.**
- **Ethnicity is not required information needed for a life insurance policy.**

- A report which is based on creditworthiness and personal characteristics that influences an insurance applicant’s eligibility for life and health insurance is called a(n): **CONSUMER REPORT**
- **A Consumer Report influences an insurance applicant’s eligibility for life and health insurance and is based on creditworthiness and personal characteristics.**
- The risk selection process is primarily given to which insurance company department. **UNDERWRITING.**
- **Underwriting dept. is primarily responsible for the risk selection process (which applications are accepted or rejected).**
- What are members of the Medical Information Bureau (MIB) required to report? **MEDICAL AILMENTS DISCOVERED DURING THE UNDERWRITING PROCESS.**
- **Members of the MIB are required to report medical impairments found during the underwriting process.**
- Which of the following risk classification charges the highest premiums? **SUBSTANDARD**
- **A substandard classification charges the highest premium.**
- A report which is based on creditworthiness and personal characteristics that influence an insurance applicant’s eligibility for life and health insurance is called a(n): **CONSUMER REPORTS**
- **A consumer report influences an insurance applicant’s eligibility for life and health insurance and is based on creditworthiness and personal characteristics.**
- An applicant has revealed conditions that require more information. Which of the following is needed next? **ATTENDING PHYSICIAN; S STATEMENT**
- **An attending physician’s statement (APS) is needed in cases in which the individual application and/or medical reports reveal conditions of which more info is required. The applicant must sign a written release to enable a release of the APS.**
- What must an applicant do in order to authorize the release of an attending physician report? **SIGN A CONSENT FORM**
- **To authorize the release of an attending physician’s report, the applicant must sign a consent form.**
- What are members of the Medical Information Bureau (MIB) required to report? **MEDICAL ALIMENTS DOSCOVERED DURING THE UNDERWRITING PROCESS.**
- **Members of the Medical Information Bureau are required to report medical impairments found during the underwriting process.**

- **Which of the following is NOT an important reason for a life insurance application?** The beneficiary must sign the application before the insurer will insure the policy.
- Which of the following types of information is NOT required for a life insurance application? **Ethnicity.**
- **ETHNICITY IS NOT REQUIRED INFORMATION NEEDED FOR A LIFE INSURANCE POLICY.**
- How does a conditional receipt differ from a binding receipt? **Binding receipts always provide insurance which starts from the date of the receipt.**
- The risk selection process is primarily given to which insurance company department? **UNDERWRITING.**
- **The Medical Information Bureau consists of** life and health insurance companies.
- **LIFE AND HEALTH INSURERS ARE MEMBERS OF THE MEDICAL INFORMATION BUREAU.**
- **GROUP LIFE INSURANCE –** is a plan that provides coverage to more than one person, under one policy. Usually written for employee—employer groups. Employer pays majority. Written as annually, renewable term insurance. Evidence of insurability is not required in group life ins. Participants receive certificates indicating that they are included in the coverage.
- **When employer pays all premiums, the plan is referred to as a NON-CONTRIBUTORY plan. The insurance company will require that 100% of the eligible employees be included in the plan.**
- **CONTRIBUTORY –** When premiums for group insurance are shared between the employer and employee, the plan is referred to as a contributory plan. The Insurance company will require that 75% of eligible employees be included in the plan.
- **Employer selects insurance coverage which may be either permanent or term insurance.**
- GROUP LIFE POLICIES must contain conversion provision that allows individual insured members to convert to an individual plan without evidence of insurability. Most group conversion provisions require that the conversion be made to a while life policy, as opposed to a term policy.
- **Evidence of insurability is usually not required of each participant unless he or she is unrolling for coverage outside the normal enrollment period. Cost of coverage is based on the average age of the group and the ratio of men and woman.**
- **Taxation of group life plans –** With group insurance, the premiums that an employer pays for life insurance on their employees are tax deductible to the employer as a business

expense. When a business pays the premiums for any of the following arrangements, the premiums are not deductible.

  - **Key Employee Insurance**
  - **Stock Redemption or Entity Purchase Agreement**
  - **Split Dollar Insurance**

- **OTHER FORMS OF LIFE INSURANCE**
  - **GROUP CREDIT LIFE –** A decreasing term insurance issued to creditors to cover the lives of people who have outstanding loans.
  - **BLANKET LIFE INSURANCE –** Covers a group exposed to a common hazard stated in the policy.
- Tim was recently terminated from his employment and opted to change his existing group term life insurance to individual permanent life insurance. What is the process called? **CONVERSION.**
- **Changing group term insurance into an equal amount of individual permanent coverage is called a conversion.**
- How does underwriting differ between group life and individual life insurance? **Medical questions must be answered on individual life insurance.**
- **One difference between group and individual life insurance underwriting is that medical questions must be answered on individual life insurance.**
- Employee participation in a noncontributory group life plan must be **100%**
- Which of the following is **NOT** a characteristic of the conversion privilege? **Employer pays the premium for the converted policy.**
- Employer provided group term life insurance is exempt from income taxation up to **$50,000.**
- All of the following are considered characteristics of group life insurance EXCEPT **INDIVIDUAL POLICIES.**
- Which of the following describes a contributory group insurance plan? **PART OF THE PREMIUMS PAID BY THE EMPLOYEE.**
- Which of the following is **NOT** a requirement for a terminated employee that has exercised the conversion privilege? **PROVIDE PROOF OF INSURABILITY.**
- **A terminating employee who wants to exercise the conversion privilege must meet all of these requirements EXCEPT supply evidence of insurability.**
- Who are the parties to the master contract in a group life insurance? **INSURER AND EMPLOYER**

- Who is issued a certificate of insurance with a group insurance policy? **PARTICIPANT.**
- **The participant is issued a certificate of insurance with a group insurance policy.**
- **PURPOSE OF ANNUITY – An annuity provides income fore a specific number of years for life. An annuity protects a person against outliving their money. Not life insurance, but a way of accumulating money and liquidating an estate. Annuity owner is the purchaser of the annuity.**

Annuitant is the person who receives the payments from the annuity.

- **ACCUMULATION PERIOD, ALSO KNOWN AS PAY-IN PERIOD IS THE PERIOD OF TIME OVER WHICH THE ANNUITANT MAKES PREMIUM PAYMENTS INTO ANNUITIES. IT IS ALSO THE TIME THAT THE PREMIUM PAYUMENTS EARN INTEREST ON A TAX DEFERRED BASIS.**
  - **Converted into income payments.**
- **ANNUITY FUNDING - paid when annuity begins**
  - **A single payment (lump sum)**
  - **Periodic payments, in which premiums are paid in installments over a period of time.**
- **IMMEDIATE ANNUNITY – one lump sum. Payments start within one year from the date of purchase.**
- **DEFERRED ANNUITY – income payment begins sometime after the first year. Can be funded in single lump sum or periodic payments.**
- **STRAIGHT LIFE INCOME OPTION – also known as pure life will pau a specific amount for the remainder of the annuitant's life. Provides the highest monthly benefit for an individual annuity. Guaranteed for a lifetime, but no guarantee all proceeds will be paid out because payments stop after death.**
- **LIFE WITH PERIOD CERTAIN – contingent on the annuitant dying. Payment goes to beneficiary for a specific period of time.**
- **FIXED ANNUITIES – provides a fixed guaranteed payout. Payments can vary, not a set rate of interest.**
- **VARIBLE ANNUITIES are considered a security and is regulated by the Securities and Exchange Commission (SEC). Agent must have a security license.**
- **ACCUMULATION OF UNITS – As variable annuity premiums are invested and begin to grow this is known as the accumulation of units.**
- **ANNUITY UNITS – is the payout phase of the Variable Annuity. A portion is taxable and another portion is not. TAX BASE.**

- What distinguishes a deferred annuity from an immediate annuity? **The time at which benefits payments start or begin.**
- Which of the following is NOT a feature of equity-indexed annuities? **Offers a maximum interest rate that increases annually.**
- An annuitant would like to determine the amount of an annuity distribution that is exempt from taxation. What is used to calculate this? **EXCLUSION RATIO**
- **Annuity benefit payment are combination of principal and interest A formula called the EXCLUSION RATIO.**
- **Exclusion Ratio is used to determine the amount of annual annuity income that is exempt from the federal income taxes.**
- A savings vehicle designed to first accumulate funds and then systematically liquidates the funds is called a(n): **DEFERRED ANNUITY.**
- **Deferred Annuity – accumulates funds and then liquidates funds.**
- Victoria owns a life annuity and elects to receive annuity payments monthly for the remainder of her life with "**ten year certain**". Her annuity will make payments **for a minimum of 120 months and a maximum of the remainder of her life.**
    - **For a life annuity with 10-year certain, monthly payments are paid to the annuitant for life. If the annuitant dies, the designated beneficiary would receive any monthly payments for the remainder of the certain period - in this case. 10 years.**
- What is a common reason people purchase an annuity? **To protect against the risk of outliving their financial resources.**
- What kind of annuity pays income to two annuitants until their death? **JOINT AND SURVIVOR ANNUITY.**
- **Joint and Survivor provides income for two people for life until their death.**
- The systematic liquidation of a sum of money is provided by a(n): **ANNUITY.**
- An annuity which is backed up by a life insurer's separate account is called a(n): **Variable Annuity.**
- **A VARIABLE ANNUITY is backed up by a life insurer's separate account.**
- Cindy buys a 10-year certain annuity with an installment refund. After receiving monthly payments for 5 years. Cindy dies. How many remaining payments will the insurer make to her beneficiary? **60 PAYMENTS.**
    - **The installment refund option guarantees that the total annuity fund will be paid to the annuitant or to the annuitant's beneficiary. In this situation, the**

annuitant dies 5 years into a 10-year certain annuity. This leaves the remaining 5 years (60 monthly payments) payable to her beneficiary.

- The "**blackout period**" affects whose benefits? **Surviving Spouse.**
- What determines the Social Security normal retirement age? **YEAR IN WHICH WORKER WAS BORN. Worker's year of birth.**
- Which statement is **NOT** true regarding Social Security benefits? **Benefits are designed to replace the entire amount of the worker's earnings.**
- How does one qualify as a fully-insured individual under Social Security disability coverage? **Individual has been credited with the appropriate number of quarters of coverage.**
- In order to be considered "currently insured" under Social Security, an individual must be credited with: **6 quarters of coverage during the last 13-quarter period**
- Which type of worker has Social Security benefits available to them? **FULLY INSURED**
- **Benefits under Social Security are available only for workers who are fully insured.**
- An insured's status under Social Security can be described as: **fully insured**
- An individual that has 40 quarters of coverage, for social Security purposes, is considered to be **fully insured.**
- According to Social Security, an individual with 6 credits of coverage during the previous 13-quarter period is considered to be: **currently insured**
- Who is **NOT** eligible for Social Security survivor benefits? **A deceased worker's dependent parents of any age**
- At what age is a surviving spouse without dependents eligible for Social Security benefits? **Age 60**
    - **Reduced widow or widower benefits can be received as early as age 60.**
- Who is eligible for retirement benefits under Social Security? **Fully insured workers**
- Which Social Security status does a worker with 6 quarters of coverage during the last 13-quarter period have? **Currently Insured**
    - **To be considered "currently insured" you must have 6 quarters of coverage during the last 13-quarter period.**
- A worker is entitled to Social Security disability benefits if all the following are true, EXCEPT for: **worker cannot perform his or her current job, but is actively seeking other employment.**

- **A worker is entitled to SS disability benefits if the worker is under the age of 65, worker is insured for disability benefits and disability is expected to continue for 12 months or result in death.**

- How long is a person expected to be disabled in order to receive Social Security Benefits? **12 months.**
  - **A person is expected to be disabled for at least 12 months before benefits are paid.**
- Under a 10-year vesting schedule, what percentage of employer contributions must be vested after 10 years of service? **100%**
- **EOPS are typically invested in** EMPLOYER STOCK
- Which of these retirement plans do NOT qualify for the federal income tax deductions? **ROTH IRA**
- **Roth IRA does not have a tax reduction. No federal income tax.**
- Retirement plans are prevented from favoring highly compensated employees under which government regulations? **Non-discrimination**
- **Non-discrimination prevents retirement plans from favoring highly compensated employees.**
- What area of group health insurance is regulated under the Employee Retirement Security Act of 1974 (ERISA)? **Disclosure and reporting**
- How are ROTH IRAs treated for tax purposes? **Non-deductible contributions and tax-free contributions.**
- Retirement plans cannot favor highly compensated employs. The government regulation that prevents this from happening is called **NON-DISCRIMINATION**
- Employer contribution to qualified plans are **tax-deductible by the employer**
  - **Employer contribution to qualified plans are tax-deductible by the employer.**
- What does ESOP stand for? **Employee Stock Ownership Plan**
- Non-deductible contributions are typically associated with a **ROTH IRA**
- **Bob and Tom are partners in a business. If one of them were to die, which of the following would guarantee a market for each of their share of the business?** BUY-SELL AGREEMENT
- Which of the following pieces of information is NOT gathered during the personal financial planning process? **An individual's civic organization memberships**
- The Human Life Value concept is based on **INCOME**

- **Life insurance creates an immediate estate. This phrase means:** when the insured dies, a death benefit is paid.
- **Key person insurance is intended to** cover business losses due to the death of a key employee.
- An individual who transacts life, disability or life and accident and health insurance on behalf of an insurer is called a(n): **life agent**
- Why is a life insurance policy's delivery date important? **The free-look period begins on the policy delivery date**
- According to the California code governing claim settlement practices, which of the following is NOT considered to be an act of unfair discrimination? **Denial of a claim based on reckless behavior**
- What does the term "illustration" mean when used in the phrase "life insurance policy illustration", according to the California Insurance Code? **Presentation of policy features that includes non-guaranteed elements**
- Which word implies **permissiveness** according to the California Insurance Code? **May**
- Who does a life settlement broker represent? **Individual wanting to sell their life policy to a third party**
- The California Insurance Code allows an individual how many days to cancel a life policy for a full refund? **Between 10 and 30 days**
- Pete is a life agent who has misappropriated fiduciary funds to his own use. What is Pete guilty of? **THEFT**
- When handling premiums for an insured, an agent is acting in which capacity? **FIDUCIARY**
- What does the term "**indemnity**" mean as it pertains to insurance? **To Make Whole**
- Which of the following is **NOT** considered to be an unfair claims settlement practice? **Advising the claimant to hire an attorney**
- Anyone employed in California to assist an insurance agent in transacting insurance is called an insurance **SOLICITOR**
- According to the California Insurance Code, what is the maximum penalty per violation for anyone who unwilfully commits an unfair method of competition? **$5,000**
- An insurer that has been found using higher rates based on race, religion, or ethnicity is said to be engaging in **unfair discrimination**
- In California, an insurer organized under the state laws of Oregon is called a(n) **foreign insurer**

- The California Insurance Code defines "**policy**" as a(n) **written contract**
- What is an insurance solicitor authorized to do? **Help an agent or broker sell insurance**
- According to the California Insurance Code, which of the following is **NOT** an example of the insurable event? **An insured suffers a financial loss in the state lottery.**
- Which of the following is **NOT** considered to be an act of insurance solicitation? **Publishing a magazine where one of the advertisers is an insurer?**
- An insurance company entitled to transact business in California is called an **admitted carrier**
- Paul has existing annuity and is sold a new one, in which the new policy holds no greater financial benefit to him than the existing contract. This is considered a(n) **unnecessary replacement**
- All of these are reasons a Commissioner may disapprove a licensee's request to use a fictitious name **EXCEPT the name is the licensee's actual name**
    - **According to the California insurance code, the commissioner can disapprove a licensee's request to use a fictitious name for all of these reasons EXCEPT "THE NAME IS THE LICENCEE'S ACTUAL NAME".**
- What is the insurance term the State of California uses for an insurer that is eligible to transact business in this state? **ADMITTED**
- Life insurance surplus must be distributed to policyowners at what frequency? **ANNUALLY**
- An agent has advertised that the insurer to which the agent is appointed with is a member of the **Insurance Guarantee Association**. This agent has committed a(n) **unfair method of competition**
- What prevents a life insurance policy from being rescinded by the insurer after being in force for two years? **INCONTESTABILITY CLAUSE**
- The California Insurance Code has authorized standards for names used by life insurance agents. Which is the following, if any, are automatically acceptable for Lance Manyon, a holder of the CLU designation? **Lance Manyon Insurance Services**
- Which of the following does the California Department of Insurance (CDI) have NO jurisdiction over? **MEDICARE**
- What is an "**insurance broker"** according to the California Insurance Code? **A person compensated for transacting insurance on behalf of another person with an insurer**
- When an insurer has met the qualifications necessary to transact business in California, it is said to be **ADMITTED**

- Jim is applying to become an insurance agent and has a past misdemeanor conviction that was later expunged due to California Penal Code 1203.4. Which of the following statements is correct? **Jim must still disclose the conviction on his insurance license application**
- Which of the following is **NOT** a primary objective of insurance regulations? **Interpret policy provisions**
- When an intentional concealment is involved, what course of action is the injured party entitled to? **Recission of the contract**
- According to the California Insurance Code, **what is** "**insurance**"? **A CONTRACT**
- According to the California Insurance Code, how is the word "**may**" interpret? **PERMISSIVE**
- The free-look period for life insurance policyowners age **60 or older** is **30 days**
- An agent's attempt to stop the replacement of an existing life insurance policy is known as **CONSERVATION**
- Insurance agent's and brokers must make their insurance records available to the Commissioner **AT ALL TIMES**
- Before an insurer is allowed to test an individual for HIV, what must be completed? **Consent form**
- What type of license is required for an individual who charges a fee to review an insured's existing life insurance policy? **Life and disability analyst**
    - **A LIFE AND DISABILITY ANAYLST LICENSE IS REQUIRED TO REIVEW AN INSURED'S EXISTING LIFE OR DISABILTY POLICY FOR A FEE.**