Alaska Life Insurance Practice Exam (Sample)

Study Guide

BY EXAMZIFY

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Questions

1. What does the term "underwriting" refer to in the context of insurance?

A. The process of policy cancellation

B. The assessment of risk for insurance coverage

C. The collection of premiums

D. The adjustment of policies

2. What required provision protects against unintentional lapses in policy coverage?

A. Cash surrender

B. Grace period

C. Automatic premium loan

D. Dividends

3. Why are policy loans not available on term insurance?

A. They are not permitted by law

B. There is no cash value to borrow against

C. They can only be taken after a certain age

D. Policy loans are too risky

4. Who is eligible to contribute to an HR-10 plan?

A. Only large corporations

B. A self-employed individual

C. Only government employees

D. Employees of non-profit organizations

5. What is meant by policy replacement in life insurance?

A. Issuing a new policy and keeping the old one

B. Issuing a new policy while terminating an existing one

C. Changing the beneficiary of an existing policy

D. Adjusting the premium of an existing policy

6. What type of report is used to evaluate an applicant's lifestyle and character?

A. Medical Record Review

B. Credit Report

C. Underwriting Report

D. Investigative Consumer Report

7. In what form must contributions to a traditional IRA be made?

A. In stocks

B. In bonds

C. In cash or cash equivalents

D. In real estate

8. When does an adjustable life policy begin to accumulate cash value?

A. When the premiums exceed the policy costs

B. At the end of the policy term

C. Upon the policyholder's retirement

D. After the first premium payment

9. What is considered a core principle that allows policyholders to benefit from life insurance?

A. Risk aversion

B. Risk pooling

C. Premium selection

D. Investment diversification

10. Which of the following is NOT a common instance of insurable interest?

A. Business partners

B. Blood relatives

C. Close friends

D. Own life

Answers

1. **B**
2. **B**
3. **B**
4. **B**
5. **B**
6. **D**
7. **C**
8. **A**
9. **B**
10. **C**

Explanations

1. What does the term "underwriting" refer to in the context of insurance?

A. The process of policy cancellation

B. The assessment of risk for insurance coverage

C. The collection of premiums

D. The adjustment of policies

In the context of insurance, "underwriting" refers specifically to the assessment of risk for insurance coverage. This process involves evaluating the likelihood that a policyholder will make a claim and determining the appropriate premium to charge based on that risk assessment. Underwriters analyze various factors, including the applicant's health, lifestyle, and any history of claims, to gauge potential risk levels accurately. This function is critical for insurance companies as it helps maintain profitability and ensures that premiums reflect the actual risk associated with insuring an individual or entity. Proper underwriting protects the insurer from potential losses while providing the policyholder with coverage tailored to their specific risk profile. As a result, underwriting not only impacts the cost of coverage but also ensures that the insurer maintains a balanced and sustainable approach to the portfolio of policies they underwrite.

2. What required provision protects against unintentional lapses in policy coverage?

A. Cash surrender

B. Grace period

C. Automatic premium loan

D. Dividends

The grace period is the required provision that protects policyholders against unintentional lapses in coverage. This provision offers a specified period, typically 30 days, during which the policy remains in force even if the premium has not been paid by the due date. If the policyholder pays the premium during this grace period, the coverage continues without any interruption. This feature is essential as it provides policyholders with some flexibility and a safeguard against losing their insurance coverage due to minor oversights in timely premium payments. The grace period is particularly important for those who may face temporary financial difficulties or unexpected circumstances that could delay payment. Without this provision, a missed payment could lead to an immediate lapse in coverage, which could leave the policyholder vulnerable. Other options do not serve the function of preventing unintentional lapses in policy coverage. Cash surrender pertains to the option of withdrawing the cash value from a policy, the automatic premium loan allows for using the cash value to cover premium payments, and dividends refer to the distribution of surplus earnings to policyholders. None of these options address the direct issue of maintaining active policy coverage in the event of missed premium payments.

3. Why are policy loans not available on term insurance?

A. They are not permitted by law

B. There is no cash value to borrow against

C. They can only be taken after a certain age

D. Policy loans are too risky

Policy loans are not available on term insurance primarily because there is no cash value to borrow against. Term insurance is designed to provide death coverage for a specified term, typically ranging from 1 to 30 years, but does not accumulate any cash value over time. The premiums paid for term life insurance only cover the cost of insurance protection and do not contribute to any savings or investment account. In contrast, permanent life insurance policies, such as whole life or universal life, include a savings component that builds cash value as the policyholder pays premiums. This cash value can be accessed through policy loans, as it serves as collateral. Since term insurance lacks this built-up cash value, policyholders cannot take out loans against it. Understanding that term policies focus solely on providing a death benefit without forming a cash accumulation element is crucial for comprehending why loans are not applicable in this context.

4. Who is eligible to contribute to an HR-10 plan?

A. Only large corporations

B. A self-employed individual

C. Only government employees

D. Employees of non-profit organizations

An HR-10 plan, also known as a Keogh plan, is specifically designed for self-employed individuals and unincorporated businesses. This type of retirement plan allows eligible self-employed individuals to make contributions to their retirement savings, providing them with significant tax advantages. The HR-10 plan was created to give self-employed individuals the ability to save for retirement similarly to how employees of corporations benefit from employer-sponsored retirement plans. This is essential for those who do not have access to traditional corporate retirement plans, enabling them to secure their financial future. In contrast, large corporations typically have their own retirement plans that do not fall under the HR-10 designation. Government employees and non-profit organization employees are also not eligible, as HR-10 plans are tailored specifically for self-employed individuals who must manage their own retirement savings without the standard employer resources available to other types of employees.

5. What is meant by policy replacement in life insurance?

A. Issuing a new policy and keeping the old one

B. Issuing a new policy while terminating an existing one

C. Changing the beneficiary of an existing policy

D. Adjusting the premium of an existing policy

Policy replacement in life insurance refers to the process of issuing a new policy while terminating an existing one. This often occurs when a policyholder decides to switch policies for various reasons, such as obtaining better coverage, lower premiums, or improved benefits. In such cases, the old policy is effectively replaced by the new one. During this process, it is crucial for insurance agents to ensure that the policyholder fully understands the implications of replacing a policy, including any potential loss of benefits or cash value associated with the old policy. Proper documentation and disclosure are also necessary to complete the replacement process responsibly, ensuring that the policyholder makes an informed decision that aligns with their long-term insurance needs. This concept is vital within the insurance industry as it protects consumers and ensures that they are making beneficial choices suited to their circumstances.

6. What type of report is used to evaluate an applicant's lifestyle and character?

A. Medical Record Review

B. Credit Report

C. Underwriting Report

D. Investigative Consumer Report

An Investigative Consumer Report is utilized to evaluate an applicant's lifestyle and character by gathering detailed information through personal interviews and other sources. This type of report provides insights into the individual's habits, reputation, and general lifestyle, which can influence underwriting decisions. The information typically includes details about the applicant's social behavior, employment background, and overall character assessment, making it a valuable tool for insurers to gauge potential risks associated with insuring the applicant. Medical Record Reviews and Credit Reports focus on different aspects of an applicant's profile; the former is primarily concerned with health information relevant to life insurance, while the latter assesses financial responsibility and creditworthiness. An Underwriting Report compiles various data points for risk assessment but does not specifically delve into an applicant's lifestyle and character in the same way that an Investigative Consumer Report does. Thus, the Investigative Consumer Report stands out as the appropriate choice for evaluating lifestyle and character.

7. In what form must contributions to a traditional IRA be made?

A. In stocks

B. In bonds

C. In cash or cash equivalents

D. In real estate

Contributions to a traditional IRA must be made in cash or cash equivalents. This requirement ensures that the funds are liquid and can be readily deposited into the account, allowing for immediate investment within the IRA. Cash equivalents include money market accounts or other similar instruments that are easily convertible to cash. The guideline is in place so that the contributions can be easily managed and invested according to the account holder's preferences and investment strategy. Cash contributions enable investors to purchase a wide variety of investment assets, such as stocks, bonds, or mutual funds, once the money is within the IRA. This provides flexibility and encourages individuals to invest in ways that best meet their financial goals. Investments made in forms such as stocks, bonds, or real estate cannot be directly contributed as they lack the liquidity required for the initial deposit into an IRA. Therefore, ensuring that contributions are made in cash or cash equivalents aligns with the regulations governing IRAs and facilitates smooth administration of the account.

8. When does an adjustable life policy begin to accumulate cash value?

A. When the premiums exceed the policy costs

B. At the end of the policy term

C. Upon the policyholder's retirement

D. After the first premium payment

An adjustable life insurance policy begins to accumulate cash value after the initial premium payment, provided that subsequent premiums paid exceed the policy's costs. This is because the policy has both a life insurance component and a savings or investment component. The premiums contribute to the cash value, which can grow over time, but only when the premiums paid surpass the expenses associated with maintaining the policy, such as cost of insurance, administrative fees, and other charges. This mechanism allows policyholders to adjust their premium payments and coverage amounts, making it beneficial to ensure that they are appropriately funding the cash value aspect. The appropriate financial management of the policy is crucial for cash value growth, which distinguishes it from some other types of insurance where cash value accumulation may start under different conditions.

9. What is considered a core principle that allows policyholders to benefit from life insurance?

A. Risk aversion

B. Risk pooling

C. Premium selection

D. Investment diversification

The concept of risk pooling is central to how life insurance operates, allowing policyholders to benefit from their policies. In essence, risk pooling involves grouping many individuals together in a way that allows the risks each person faces to be spread across the entire group. As each policyholder pays premiums into the collective pool, these funds can be used to pay out claims when a member of the group passes away. This method reduces the financial burden on any single individual, as the impact of a loss is shared among all members. The greater the number of policyholders in the pool, the more stable the financial risk becomes. This principle is foundational because it ensures that while individual risks are unpredictable, the overall risk for the insurance company becomes more manageable and predictable. The other concepts, while related to insurance and finance, do not directly illustrate the core benefit structure of life insurance. Risk aversion refers to the reluctance to accept risk and seeks alternatives to hedge against it, which does not define the mechanism by which life insurance operates. Premium selection focuses on how premiums are determined and chosen by individuals, but this process doesn't convey how the policyholder benefits from the insurance. Investment diversification relates to spreading investments across various assets to mitigate risk, which is a different concept from the

10. Which of the following is NOT a common instance of insurable interest?

A. Business partners

B. Blood relatives

C. Close friends

D. Own life

Insurable interest is a fundamental principle in insurance, which states that the policyholder must have a legitimate interest in the continued life or well-being of the insured. This requirement helps prevent insurance from becoming a form of gambling or wagering on someone's life. In the context of the question, business partners demonstrate insurable interest because each partner has a vested interest in the other's life or health, as their business's success often hinges on both parties being alive and well. Blood relatives typically also exhibit insurable interest, as family members usually have emotional and financial stakes in each other's lives. Additionally, individuals have insurable interest in their own lives since they are the ones most directly affected by their health and well-being. While close friends may care for each other, that relationship does not universally confer insurable interest in the same way as family or business partnerships do. Consequently, taking out a life insurance policy on a friend would usually not meet the insurable interest requirement unless there are specific financial implications involved, which are less common. Therefore, this option represents an instance that is not typically recognized as an insurable interest, making it the correct answer in this context.