# BC Canada HLLQP Life Insurance Practice Exam (Sample)

## Study Guide

BY EXAMZIFY

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# Questions

1. Which of the following is true about premiums for group insurance plans?
   A. They are typically tax-deductible.
   B. Accidental and sickness premiums can be claimed as medical expenses.
   C. The employee pays the entire premium amount.
   D. They are always higher than individual insurance premiums.

2. What is meant by "genuine intention to create legal relations" in contract law?
   A. The contract should reflect the party's wishes
   B. Both parties must plan to break the contract
   C. There must be an agreement for any future contracts
   D. The intent to perform obligations must be present

3. When can you purchase Canada Premium Bonds (CPB)?
   A. January
   B. March
   C. October
   D. December

4. What distinguishes a variable annuity?
   A. Payments increase at fixed intervals
   B. Payments are linked to market performance
   C. Payments increase as inflation rises
   D. Payments are adjusted once a year

5. For tax purposes, how are foreign dividends classified in a non-registered investment account?
   A. Interest
   B. Dividends
   C. Capital gains
   D. Business Income

**6. For the cash surrender value, what is the maximum guaranteed amount under Assuris?**

**A. 100,000 or 100% of the accumulated value**

**B. 60,000 or 85% of the original amount**

**C. 200,000 or 85% of the contract amount**

**D. 85% of the cash value**

**7. What is the tax treatment of payments from a RRIF once the annuitant turns 72?**

**A. 100% of the payment is tax-free**

**B. 100% taxable income**

**C. Taxed at a reduced rate**

**D. Taxed only on gains**

**8. What role does a Managing General Agent (MGA) serve in the insurance industry?**

**A. They underwrite insurance policies**

**B. They represent clients directly to insurers**

**C. They provide support services to agents**

**D. They have the authority to approve claims**

**9. What is a fundamental attribute of variable annuities?**

**A. The payments are fixed indefinitely**

**B. The payments are adjusted for living costs**

**C. The returns can fluctuate based on market conditions**

**D. The payments are predictable and stable**

**10. What does the CSV of a whole life policy provide when converted into a reduced paid-up insurance policy?**

**A. An increased cash surrender value**

**B. A permanent coverage with a smaller face amount**

**C. Coverage with ongoing premium payments**

**D. Enhanced benefits compared to the original policy**

# Answers

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

# Explanations

1. **Which of the following is true about premiums for group insurance plans?**

    A. **They are typically tax-deductible.**

    B. **<u>Accidental and sickness premiums can be claimed as medical expenses.</u>**

    C. **The employee pays the entire premium amount.**

    D. **They are always higher than individual insurance premiums.**

**The assertion that accidental and sickness premiums can be claimed as medical expenses is correct. This is an important aspect of how health-related insurance premiums function within the context of the tax system in Canada. For tax purposes, individuals are allowed to claim eligible medical expenses for various types of insurances, including those pertaining to accidental and sickness coverage. This means that if premiums are paid for group insurance policies that cover these categories, those payments may qualify for tax deductions under the medical expense tax credit, benefiting the employee financially. This understanding is critical for individuals enrolled in group insurance plans to properly navigate their tax obligations and potential benefits. It also highlights the importance of being aware of which types of expenses can be claimed, allowing for better financial planning and tax strategy. The other options, while they may carry some truths in different contexts or with additional specifications, do not accurately describe the general characteristics of group insurance premiums. For example, while premiums can be tax-deductible for employers and, in some cases, employees depending on the specifics of the plan, it's not universally true across all situations. The responsibility for premium payment can vary; often, the employer contributes to some portion of the premium, and it is rarely the case that employees pay the entire amount themselves. Lastly,**

2. **What is meant by "genuine intention to create legal relations" in contract law?**

    A. **The contract should reflect the party's wishes**

    B. **Both parties must plan to break the contract**

    C. **There must be an agreement for any future contracts**

    D. **<u>The intent to perform obligations must be present</u>**

**In contract law, "genuine intention to create legal relations" signifies that the parties involved in the agreement intend for their contract to be legally binding and enforceable. This means that they are serious about fulfilling their obligations under the contract and that the contract is not merely a casual or informal arrangement. The correct answer highlights the necessity of having an intent to perform the contractual obligations, which is fundamental for a contract to be recognized by law. When both parties demonstrate a clear intent to adhere to the terms and fulfill their respective roles, it substantiates the idea that the agreement is serious and warrants legal recognition. In contrast, the idea that the contract should reflect the party's wishes does not directly address the legal enforceability of the intent; rather, it speaks to how well the contract represents the parties' desires. The notion that both parties must plan to break the contract contradicts the essence of a binding agreement. Lastly, stating that there must be an agreement for any future contracts is unrelated to the immediate intention to create legal relations regarding the current contract. Thus, the focus on intent to perform obligations is essential for understanding what constitutes a legally binding agreement in contract law.**

## 3. When can you purchase Canada Premium Bonds (CPB)?

- **A. January**
- **B. March**
- **C. October**
- **D. December**

**Canada Premium Bonds (CPB) are specifically designed for Canadians and are sold through a unique annual offering. This offering occurs only during a designated period which typically begins in October and runs until early December. Therefore, the correct choice reflects the timeline when these bonds are available for purchase. The period starts in October because that's when the Government of Canada makes the bonds available to the public for purchase. The bonds are then sold until early December, aligning with the established timeframe for this particular investment opportunity. Understanding that CPBs are not available for purchase in other months is critical, as it clarifies the limited window in which investors can take advantage of this savings vehicle. In contrast, the other months do not coincide with the annual offering period for CPBs, making them incorrect choices for the timing of purchasing these bonds. Recognizing these timelines is essential for investors who are interested in Canada Premium Bonds as part of their financial strategy.**

## 4. What distinguishes a variable annuity?

- **A. Payments increase at fixed intervals**
- **B. Payments are linked to market performance**
- **C. Payments increase as inflation rises**
- **D. Payments are adjusted once a year**

**A variable annuity is primarily characterized by the fact that its payments are linked to market performance. This means that the value of the annuity can fluctuate based on the performance of the underlying investments, which may include stocks, bonds, or mutual funds. This variability allows the investor to potentially receive higher payments when the market performs well, but it also carries the risk of lower payments if the market does poorly. This feature is what differentiates variable annuities from other types of annuities, such as fixed annuities, where payments remain constant and are not influenced by market conditions. The connection to market performance also provides the opportunity for growth, as the investor can benefit from potential returns on their investment in a way that is not possible with fixed payouts.**

## 5. For tax purposes, how are foreign dividends classified in a non-registered investment account?

A. Interest

B. Dividends

C. Capital gains

D. Business Income

**The classification of foreign dividends in a non-registered investment account is significant for tax purposes. Foreign dividends are specifically categorized as dividends. This classification means that these payments from foreign corporations are generally subject to different tax treatment compared to categories such as interest, capital gains, or business income. When dividends are received, they are typically eligible for a dividend tax credit, and taxation will depend on whether the dividends are considered eligible or non-eligible. In this context, it's crucial to distinguish how the tax system views different income types due to their varying impacts on a taxpayer's overall tax liability. For example, eligible dividends often receive preferential tax treatment compared to ordinary income or interest. If one were to categorize foreign dividends as interest, it could misrepresent the nature of the income and lead to inaccurate tax reporting. Interest income does not come with the same tax credits as dividends, and thus, classifying them incorrectly would result in a greater tax burden for the taxpayer. In summary, understanding that foreign dividends are classified as dividends helps ensure proper tax treatment, allowing for accurate reporting and taking advantage of any tax benefits associated with dividend income.**

## 6. For the cash surrender value, what is the maximum guaranteed amount under Assuris?

A. 100,000 or 100% of the accumulated value

B. 60,000 or 85% of the original amount

C. 200,000 or 85% of the contract amount

D. 85% of the cash value

**The maximum guaranteed amount for cash surrender value under Assuris is set at $60,000 or 85% of the accumulated value, whichever is higher. Assuris, the organization that protects Canadian policyholders in the event of an insurance company default, provides specific coverage limits to ensure that policyholders remain protected to some extent. This coverage is designed to ensure that even if an insurance provider faces financial difficulties, policyholders can reclaim at least a portion of the value they've built up in their policies. Thus, the correct answer indicates that the rules implemented by Assuris create a safety net for policyholders, allowing them to receive a substantial return without losing all their accumulated value. The other options do not align with Assuris' specific parameters regarding maximum guarantees, making this choice the most accurate in the context of the question asked.**

## 7. What is the tax treatment of payments from a RRIF once the annuitant turns 72?

- A. 100% of the payment is tax-free
- **B. 100% taxable income**
- C. Taxed at a reduced rate
- D. Taxed only on gains

**Once the annuitant of a Registered Retirement Income Fund (RRIF) turns 72, all payments made from the RRIF are considered taxable income. This is due to the way that RRIFs are structured; they are designed to provide a stream of retirement income, and the government requires that these withdrawals be included in the annuitant's income for tax purposes. The rationale behind this taxation is based on the principle that funds placed within a RRIF were likely contributed with tax deferral benefits earlier in life. Consequently, when those funds are withdrawn as income, they are subject to standard income tax rates. Withdrawals from a RRIF are fully taxable, meaning that the complete amount received during the tax year is included in the taxpayer's income for that year, and tax is calculated based on their total taxable income. This treatment aligns RRIFs with other retirement income sources, thereby ensuring a consistent tax approach for various forms of retirement income. It's also essential for individuals to plan for the tax implications of these distributions, especially as they may push taxpayers into higher tax brackets depending on their overall income situation.**

## 8. What role does a Managing General Agent (MGA) serve in the insurance industry?

- A. They underwrite insurance policies
- B. They represent clients directly to insurers
- **C. They provide support services to agents**
- D. They have the authority to approve claims

**A Managing General Agent (MGA) serves a vital role in the insurance industry by providing support services to insurance agents. MGAs operate as intermediaries between insurers and agents, enabling insurance carriers to delegate certain functions such as underwriting, binding coverage, and managing claims. This allows MGAs to effectively train and support independent agents, giving them the tools and resources to sell insurance products more efficiently. By providing these support services, MGAs help streamline operations, assist in marketing efforts, and enhance overall efficiency within the distribution of insurance products. This role is especially important for smaller insurance companies that may not have the resources to fully manage a large sales force or the complexities of underwriting and claims processing. The other roles mentioned, such as underwriting policies or having authority to approve claims, are typically functions associated with the insurance companies themselves rather than the MGA's responsibilities. While MGAs may facilitate certain aspects of underwriting or claims processing, their primary focus remains on supporting and empowering the agents who sell insurance.**

## 9. What is a fundamental attribute of variable annuities?

**A. The payments are fixed indefinitely**

**B. The payments are adjusted for living costs**

**C. The returns can fluctuate based on market conditions**

**D. The payments are predictable and stable**

**A fundamental attribute of variable annuities is that the returns can fluctuate based on market conditions. This characteristic distinguishes variable annuities from fixed annuities, where payments are stable and predetermined. With variable annuities, the individual's account value is invested in a selection of investment options, typically mutual funds, which can lead to varying returns that are directly tied to the performance of those investments. Consequently, the annuity payments received during retirement can increase or decrease, reflecting the underlying investment results. This potential for variability allows investors the chance to benefit from market growth, but it also means they bear the risk of market losses. Understanding this attribute is crucial for individuals considering a variable annuity, as it influences both the potential growth of their retirement funds and the level of risk they are willing to accept.**

## 10. What does the CSV of a whole life policy provide when converted into a reduced paid-up insurance policy?

**A. An increased cash surrender value**

**B. A permanent coverage with a smaller face amount**

**C. Coverage with ongoing premium payments**

**D. Enhanced benefits compared to the original policy**

**When a whole life insurance policy is converted into a reduced paid-up insurance policy, the cash surrender value (CSV) is used to purchase a permanent form of insurance that has a smaller face amount than the original policy. This means the insured retains coverage for the rest of their life without needing to make further premium payments. The reduced paid-up policy is a way to leverage the cash value accumulated in the whole life policy to continue having life insurance coverage, albeit at a reduced level of benefit. This option emphasizes the key aspects of the mechanics involved in the transformation of the policy: it maintains the insurance protection while effectively utilizing the accumulated cash value, all without requiring ongoing premium contributions. The outcome of this conversion reflects the inherent nature of whole life insurance, which prioritizes both cash value accumulation and lifetime coverage.**