

Certified Financial Consultant (CFC) Practice Exam (Sample)

Study Guide



Everything you need from our exam experts!

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Introduction

Preparing for a certification exam can feel overwhelming, but with the right tools, it becomes an opportunity to build confidence, sharpen your skills, and move one step closer to your goals. At Examzify, we believe that effective exam preparation isn't just about memorization, it's about understanding the material, identifying knowledge gaps, and building the test-taking strategies that lead to success.

This guide was designed to help you do exactly that.

Whether you're preparing for a licensing exam, professional certification, or entry-level qualification, this book offers structured practice to reinforce key concepts. You'll find a wide range of multiple-choice questions, each followed by clear explanations to help you understand not just the right answer, but why it's correct.

The content in this guide is based on real-world exam objectives and aligned with the types of questions and topics commonly found on official tests. It's ideal for learners who want to:

- Practice answering questions under realistic conditions,
- Improve accuracy and speed,
- Review explanations to strengthen weak areas, and
- Approach the exam with greater confidence.

We recommend using this book not as a stand-alone study tool, but alongside other resources like flashcards, textbooks, or hands-on training. For best results, we recommend working through each question, reflecting on the explanation provided, and revisiting the topics that challenge you most.

Remember: successful test preparation isn't about getting every question right the first time, it's about learning from your mistakes and improving over time. Stay focused, trust the process, and know that every page you turn brings you closer to success.

Let's begin.

How to Use This Guide

This guide is designed to help you study more effectively and approach your exam with confidence. Whether you're reviewing for the first time or doing a final refresh, here's how to get the most out of your Examzify study guide:

1. Start with a Diagnostic Review

Skim through the questions to get a sense of what you know and what you need to focus on. Your goal is to identify knowledge gaps early.

2. Study in Short, Focused Sessions

Break your study time into manageable blocks (e.g. 30 - 45 minutes). Review a handful of questions, reflect on the explanations.

3. Learn from the Explanations

After answering a question, always read the explanation, even if you got it right. It reinforces key points, corrects misunderstandings, and teaches subtle distinctions between similar answers.

4. Track Your Progress

Use bookmarks or notes (if reading digitally) to mark difficult questions. Revisit these regularly and track improvements over time.

5. Simulate the Real Exam

Once you're comfortable, try taking a full set of questions without pausing. Set a timer and simulate test-day conditions to build confidence and time management skills.

6. Repeat and Review

Don't just study once, repetition builds retention. Re-attempt questions after a few days and revisit explanations to reinforce learning. Pair this guide with other Examzify tools like flashcards, and digital practice tests to strengthen your preparation across formats.

There's no single right way to study, but consistent, thoughtful effort always wins. Use this guide flexibly, adapt the tips above to fit your pace and learning style. You've got this!

Questions

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- 1. When can earned surplus be returned to policyholders?**
 - A. Only at the end of the fiscal year**
 - B. When profits exceed expected returns**
 - C. Whenever it exists and is not needed for other expenses**
 - D. At the discretion of the board of directors**
- 2. What is the function of key person insurance?**
 - A. To insure inventory against theft**
 - B. To reduce the risk of financial loss due to the death of a key employee**
 - C. To provide life insurance benefits to employees**
 - D. To serve as a retirement plan for executives**
- 3. What is the minimum number of hours of continuing education specific to Long-Term Care Insurance required before each license renewal?**
 - A. 4 hours.**
 - B. 6 hours.**
 - C. 8 hours.**
 - D. 10 hours.**
- 4. Which of the following information will be stated in the consideration clause of a life insurance policy?**
 - A. The policyholder's age**
 - B. The amount of premium payment**
 - C. The benefits covered by the policy**
 - D. The terms of cancellation**
- 5. Which type of insurance coverage is designed to offset lost income due to a disability?**
 - A. Life insurance**
 - B. Disability income insurance**
 - C. Health insurance**
 - D. Property insurance**

6. What happens to the cash value of an annuity if the owner passes away before withdrawal?

- A. It is lost**
- B. It is retained by the insurance company**
- C. It goes to the federal government**
- D. It goes to the beneficiary**

7. Who is primarily responsible for the financial aspect of a disability buy-sell agreement?

- A. The business partners**
- B. The insurance company**
- C. The employed legal representative**
- D. The designated beneficiaries**

8. What can be said about the funds in an HSA regarding tax treatment?

- A. Contributions are taxed but withdrawals are tax-free**
- B. All transactions are subject to income tax**
- C. Withdrawals for qualified medical expenses are tax-free**
- D. Only employer contributions are tax-deductible**

9. How many days does an agent have to issue a complete response after the Dept. of insurance contacts them about a settled claim?

- A. 10 Days**
- B. 14 Days**
- C. 21 Days**
- D. 30 Days**

10. What is NOT a requirement for associations to buy group insurance for its members?

- A. Has at least 50 members**
- B. Members must be of a certain age**
- C. Must have a defined purpose**
- D. Members should be residents of the same state**

Answers

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

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Explanations

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1. When can earned surplus be returned to policyholders?

- A. Only at the end of the fiscal year
- B. When profits exceed expected returns
- C. Whenever it exists and is not needed for other expenses**
- D. At the discretion of the board of directors

The return of earned surplus to policyholders is generally permitted whenever the surplus exists and is not required for other operational or financial commitments. This means that if the company has generated surplus funds from its operations—profits that have not been allocated to reserves or other liabilities—it can distribute this excess to those who hold policies, assuming there are no immediate needs for that surplus within the organization. Understanding this context is important because earned surplus signifies the accumulated profits over time, which can be distributed to policyholders as a form of dividends or other benefits. It's crucial to ensure that the company remains financially stable and can meet its obligations while also rewarding its policyholders. Thus, the timing of distributions can be flexible, prioritizing the needs of the organization and the financial health of the insurance provider. The other options limit the circumstances under which earned surplus can be returned, which is not in line with the more flexible approach allowed in the industry. Distributions are not strictly tied to the fiscal year, profit metrics, or solely the discretion of the board, but rather depend on the availability of surplus and the company's ongoing financial needs.

2. What is the function of key person insurance?

- A. To insure inventory against theft
- B. To reduce the risk of financial loss due to the death of a key employee**
- C. To provide life insurance benefits to employees
- D. To serve as a retirement plan for executives

Key person insurance is specifically designed to mitigate the financial impact that a business might experience due to the loss of a vital individual, often due to their death. This type of insurance is focused on the key employees whose expertise, experience, or leadership significantly contribute to the company's success. When such an essential employee passes away, the organization may face unexpected challenges, including loss of revenue, decreased productivity, or the cost of recruiting and training a replacement. By having key person insurance in place, the business receives a payout that can be used to cover immediate financial strains, such as lost revenue, expenses associated with finding a replacement, or even settling debts. This financial cushion allows the company to stabilize during a transition period, ensuring longevity and continued operation in a challenging time. In the context of the other options, inventory insurance pertains to physical goods; providing life insurance benefits to employees does not focus on the financial risk of losing a key individual; and serving as a retirement plan for executives isn't aligned with the specific purpose of key person insurance. Thus, the function of key person insurance is clearly to protect businesses from financial loss linked to the death of crucial personnel.

3. What is the minimum number of hours of continuing education specific to Long-Term Care Insurance required before each license renewal?

- A. 4 hours.**
- B. 6 hours.**
- C. 8 hours.**
- D. 10 hours.**

The required minimum number of hours of continuing education specific to Long-Term Care Insurance before each license renewal is 8 hours. This requirement exists to ensure that insurance professionals stay informed about the latest developments, policies, and regulatory changes in Long-Term Care Insurance. By completing these hours, professionals are better equipped to advise clients accurately and responsibly. It is vital for agents to maintain a robust understanding of Long-Term Care Insurance, as this niche area of insurance requires expertise due to the complexities involved in policies and the evolving nature of healthcare options available to consumers. Staying updated through continuing education helps agents provide quality service and improve their competence in this specialized field.

4. Which of the following information will be stated in the consideration clause of a life insurance policy?

- A. The policyholder's age**
- B. The amount of premium payment**
- C. The benefits covered by the policy**
- D. The terms of cancellation**

The consideration clause is an essential component of a life insurance policy that specifies what each party to the contract must provide to initiate and maintain coverage. The correct answer highlights that the amount of premium payment is a key element of this clause. It establishes the policyholder's commitment to make regular payments, which is the insurer's consideration for providing coverage. Without clearly stating the premium payment amount, there would be uncertainty about one of the fundamental aspects of the insurance contract, which is crucial for both the insurer's financial planning and the policyholder's obligations. The consideration clause ensures that both parties understand their responsibilities, with the insurer taking on the risk of coverage and the policyholder ensuring payment. Other elements, such as the policyholder's age, benefits covered, and terms of cancellation, while important to the overall policy, do not typically belong in the consideration clause. They are addressed elsewhere in the policy documents as they relate to coverage details and contract terms rather than the reciprocal obligations of consideration between the insurer and the insured.

5. Which type of insurance coverage is designed to offset lost income due to a disability?

- A. Life insurance**
- B. Disability income insurance**
- C. Health insurance**
- D. Property insurance**

Disability income insurance is specifically designed to provide financial support in the event that an individual is unable to work due to a disability. This type of insurance typically pays a portion of the insured's income, helping to cover living expenses and maintain financial stability during a period of incapacitation. By doing so, it serves to replace lost wages and provide a safety net for individuals who may be facing extended time away from work due to illness or injury. Life insurance, on the other hand, is intended to provide a financial benefit to beneficiaries upon the death of the insured, and does not address income loss during a disability. Health insurance covers medical expenses and may assist with the costs related to treatment, but does not provide direct compensation for lost income. Property insurance protects against loss or damage to physical assets and similarly does not relate to income replacement in the event of a disability. Thus, disability income insurance is the most appropriate coverage type for offsetting lost income due to a disability.

6. What happens to the cash value of an annuity if the owner passes away before withdrawal?

- A. It is lost**
- B. It is retained by the insurance company**
- C. It goes to the federal government**
- D. It goes to the beneficiary**

The cash value of an annuity is designed to provide financial support to the annuitant or their chosen beneficiary. If the owner of an annuity passes away before making withdrawals, the cash value is not lost, nor does it remain with the insurance company or go to the federal government. Instead, it is passed on to the beneficiary designated in the annuity contract. This transfer of cash value ensures that the intended recipient can benefit from the financial asset, allowing them to access the funds either as a lump sum or through annuitized payments, depending on the terms of the contract. This mechanism forms an essential part of estate planning, providing peace of mind that the financial legacy will support loved ones in the event of the owner's death. In summary, upon the owner's death, the cash value of the annuity flows directly to the named beneficiary, ensuring its purpose as a supportive financial resource continues.

7. Who is primarily responsible for the financial aspect of a disability buy-sell agreement?

- A. The business partners**
- B. The insurance company**
- C. The employed legal representative**
- D. The designated beneficiaries**

The primary responsibility for the financial aspect of a disability buy-sell agreement rests with the business partners involved in the agreement. In this context, a disability buy-sell agreement is designed to ensure that if one partner becomes disabled and cannot fulfill their role in the business, the remaining partners have a structured way to buy out the disabled partner's interest. The business partners are responsible for determining how the agreement is funded, typically through insurance policies. They negotiate the terms of the agreement, which includes the valuation of the business, funding mechanisms, and how the proceeds will be used. Their understanding of the business, its financial standing, and the specific needs of each partner are vital in crafting a plan that works effectively for all parties involved. While the insurance company plays a crucial role in providing the coverage for the buy-sell agreement, and the employed legal representative assists in drafting the contract, neither can make financial decisions on behalf of the business partners. The designated beneficiaries typically receive the benefits of the insurance payout but do not have responsibility for the financial aspects of managing such an agreement. Thus, the business partners are central to the arrangement, making them the ones primarily accountable for its financial components.

8. What can be said about the funds in an HSA regarding tax treatment?

- A. Contributions are taxed but withdrawals are tax-free**
- B. All transactions are subject to income tax**
- C. Withdrawals for qualified medical expenses are tax-free**
- D. Only employer contributions are tax-deductible**

The funds in a Health Savings Account (HSA) have a favorable tax treatment that includes tax-free withdrawals for qualified medical expenses. This feature of the HSA allows account holders to use the funds for eligible healthcare costs without incurring additional taxes, making it a powerful tool for managing healthcare expenses. When contributions are made to an HSA, they are typically tax-deductible, which means that the contributions reduce the taxable income for the year they are made. This allows individuals or families to save on their income taxes while contributing to their healthcare savings. Moreover, the funds in an HSA can grow tax-free over time, as any interest or investment gains accrued within the account are not subject to taxation as long as they remain in the HSA. By focusing on why withdrawals for qualified medical expenses are tax-free, it's clear that the HSA is designed to encourage savings for healthcare costs while providing tax advantages that can significantly benefit account holders.

9. How many days does an agent have to issue a complete response after the Dept. of insurance contacts them about a settled claim?

- A. 10 Days**
- B. 14 Days**
- C. 21 Days**
- D. 30 Days**

When an agent receives communication from the Department of Insurance regarding a settled claim, they are required to provide a complete response within a stipulated timeframe to ensure compliance and uphold regulatory standards. The requirement for a response period of 21 days aligns with regulatory practices that facilitate thorough investigations and prompt resolutions. This timeframe allows agents to gather necessary documentation, review relevant details of the claim, and formulate a comprehensive reply. Having a standard period, such as 21 days, helps ensure that agents act promptly, promoting accountability and transparency in insurance practices. It also provides a reasonable amount of time for agents, who may be managing multiple claims and inquiries, to respond without jeopardizing efficient workflow or thoroughness in their responses.

10. What is NOT a requirement for associations to buy group insurance for its members?

- A. Has at least 50 members**
- B. Members must be of a certain age**
- C. Must have a defined purpose**
- D. Members should be residents of the same state**

In the context of requirements for associations to purchase group insurance for their members, certain criteria dictate eligibility and structure. One critical aspect is the composition of the membership, which generally does not mandate that members must be of a specific age. This allows a wider range of individuals to participate in the group insurance policy, as age restrictions can limit accessibility and affordability. On the other hand, the other requirements—such as having a minimum number of members, the association having a defined purpose, and all members being residents of the same state—are typically necessary to qualify for group insurance. These stipulations help insurance providers assess risk and manage the insurance pool effectively. Thus, recognizing that age is not a defining criterion helps clarify the focus on inclusive and diverse membership in group insurance plans. This understanding is vital for associations looking to provide benefits to their members.

Next Steps

Congratulations on reaching the final section of this guide. You've taken a meaningful step toward passing your certification exam and advancing your career.

As you continue preparing, remember that consistent practice, review, and self-reflection are key to success. Make time to revisit difficult topics, simulate exam conditions, and track your progress along the way.

If you need help, have suggestions, or want to share feedback, we'd love to hear from you. Reach out to our team at hello@examzify.com.

Or visit your dedicated course page for more study tools and resources:

<https://cfc.examzify.com>

We wish you the very best on your exam journey. You've got this!

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