Georgia Life, Accident and Sickness Practice Exam (Sample)

Study Guide

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Questions

1. What differentiates a Limited-pay life policy from a Straight life policy?

- **A. Higher premiums**
- **B. Shorter time to pay premiums**
- **C. More coverage options**
- **D. Endowment features**

2. Which program protects individuals when their employment is terminated?

- **A. ERISA**
- **B. COBRA**
- **C. HIPAA**
- **D. ACA**

3. What is considered the point at which a policy is deemed delivered?

- **A. When the first premium is paid**
- **B. When the insurer approves the application and issues the policy**
- **C. When the applicant signs the policy**
- **D. When the policy is sent via mail**

4. What is the term used to describe the tendency for poorer than average risks to seek out insurance?

- **A. Adverse Selection**
- **B. Risk Assessment**
- **C. Underwriting Bias**
- **D. Lapse Rate**

5. Who can an applicant have an insurable interest in?

- **A. A cousin**
- **B. An in-law**
- **C. A sibling**
- **D. A friend**

6. What can policyholders use to convert their term insurance to a permanent policy without additional requirements?

A. Proof of income

B. Proof of insurability

C. Proof of age

D. Proof of residence

7. How is the interest rate determined in a whole life policy?

A. Market conditions

B. Formula set by the insurer

C. Government regulations

D. Individual policyholder risk factors

8. Which of the following is a feature of a revocable beneficiary?

A. Ownership rights remain with the beneficiary

B. It can be changed at the discretion of the policyowner

C. It cannot be altered at any time

D. It is automatically irrevocable

9. If Bob committed suicide before the two-year suicide clause expired, what will the insurer do with Bob's policy?

A. Pay the death benefit

B. Return all paid premiums to the beneficiary

C. Cancel the policy

D. Provide partial benefits

10. What is a key feature of both immediate and deferred annuities?

A. They provide lifetime income

B. They are both types of life insurance

C. They are investment products

D. They require a death benefit

Answers

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

Explanations

1. What differentiates a Limited-pay life policy from a Straight life policy?

A. Higher premiums

B. Shorter time to pay premiums

C. More coverage options

D. Endowment features

A Limited-pay life policy is characterized by a shorter time frame for premium payments compared to a Straight life policy. In a Limited-pay life policy, policyholders may pay premiums for a specified number of years, after which they are considered fully paid-up and do not owe any further premium payments, while still being covered for their lifetime. This feature allows the policyholder to complete their financial obligation sooner than with a Straight life policy, where premiums are paid throughout the policyholder's life. The concept of a shorter payment period in Limited-pay life policies can appeal to those who prefer to have their life insurance premiums concluded earlier, providing them with the peace of mind that their coverage remains active without ongoing payments. Since the premiums can be higher due to this limited payment schedule, and coverage options or endowment features may also differ, the key aspect that stands out distinctly is the reduced duration of payment obligations.

2. Which program protects individuals when their employment is terminated?

A. ERISA

B. COBRA

C. HIPAA

D. ACA

The program that protects individuals when their employment is terminated is COBRA (Consolidated Omnibus Budget Reconciliation Act). COBRA allows employees and their dependents to continue their group health insurance coverage for a limited time after leaving their job, whether the termination was voluntary or involuntary. This is particularly important because losing a job often also means losing health benefits, and COBRA provides a financial safety net during the transition period. After employment ends, individuals might find themselves in a vulnerable situation without insurance coverage. COBRA enables them to maintain their health insurance, allowing for continuity of care and reducing the financial burden associated with sudden medical expenses. This protection is a critical advantage for individuals navigating the unemployment process and can help ensure that they have access to necessary medical services. The other options, while related to health and employment issues, do not focus specifically on the protection provided when employment is terminated. ERISA pertains to employee benefits and pension plans, HIPAA protects patient health information, and ACA refers to the Affordable Care Act, which focuses on health insurance reform but does not offer specific continuation of coverage for individuals after job loss like COBRA does.

3. What is considered the point at which a policy is deemed delivered?

A. When the first premium is paid

B. When the insurer approves the application and issues the policy

C. When the applicant signs the policy

D. When the policy is sent via mail

The point at which a policy is considered delivered is when the insurer approves the application and issues the policy. This is an important distinction because the delivery of the policy finalizes the contractual relationship between the insurer and the insured. Until the application is approved and the policy is issued, the potential insured does not have coverage, and the insurer has not yet accepted the risk. This process involves the underwriting of the application, assessment of risks, and ultimately the granting of coverage as specified in the policy document. At this stage, the insurer officially acknowledges that the application meets their criteria for coverage, and thus, the policy is considered delivered to the applicant. While paying the first premium is crucial for activating the coverage, it is not the determining factor for delivery. The signing of the policy also does not constitute delivery; it's part of the process but does not signify that the insurer has formally accepted the application and agreed to provide coverage. Sending the policy via mail does not establish delivery until it is confirmed that the applicant has received the policy and is aware of the terms and coverage it provides.

4. What is the term used to describe the tendency for poorer than average risks to seek out insurance?

A. Adverse Selection

B. Risk Assessment

C. Underwriting Bias

D. Lapse Rate

The term that describes the tendency for poorer than average risks to seek out insurance is known as adverse selection. This phenomenon occurs when individuals who perceive themselves as having a higher likelihood of claims are more inclined to purchase insurance. For example, those with pre-existing health conditions may be more motivated to obtain health insurance than healthier individuals. Adverse selection poses challenges to insurers, as it can lead to an imbalance in risk pools. If mainly high-risk individuals are buying insurance, it can result in increased claims costs, which may drive up premiums for all policyholders. Insurers strive to mitigate adverse selection through careful underwriting practices, setting premiums based on the risk level of different insureds, and implementing various measures to attract a more balanced risk pool. This is distinct from risk assessment, which involves evaluating the risk factor of an individual or entity before underwriting. Underwriting bias refers to a subjective judgment or inconsistency in evaluating the risk associated with applicants, while lapse rate refers to the percentage of policyholders who discontinue their coverage.

5. Who can an applicant have an insurable interest in?

A. A cousin

B. An in-law

C. A sibling

D. A friend

An applicant can have an insurable interest in a sibling because insurable interest is typically based on a close relationship that would result in financial loss or hardship to one party if the other were to pass away. Siblings generally share a strong familial bond, and this connection implies that one would be financially affected by the loss of the other. Insurance is founded on the principle that one must have a vested interest in the life or health of the insured, ensuring that the policyholder has a legitimate reason to seek the insurance coverage. In comparing other relationships, while it is conceivable that a cousin, an in-law, or a friend could have a degree of insurable interest, the degree of financial dependency or loss is usually less significant compared to that between siblings. Siblings often have shared financial responsibilities, shared living arrangements, or emotional ties that can translate into insurable interest in a way that is more direct and impactful. Thus, the relationship with a sibling aligns well with the requirement of insurable interest in the context of life insurance.

6. What can policyholders use to convert their term insurance to a permanent policy without additional requirements?

A. Proof of income

B. Proof of insurability

C. Proof of age

D. Proof of residence

The ability for policyholders to convert their term insurance to a permanent policy without additional requirements is typically referred to as a "conversion privilege" or "conversion option." This feature allows policyholders to switch to a permanent life insurance policy, such as whole life or universal life, usually during the term period. In this context, the correct option relates specifically to the lack of requirement for proof of insurability. When a policyholder exercises the conversion privilege, they are not required to submit evidence of being in good health or to provide medical information that could affect their eligibility for the new policy. This is particularly beneficial for individuals whose health may have declined since the inception of their term policy, as they can secure permanent coverage without the risk of being denied due to health issues or increased premiums associated with their current health status. The other options, while they may be necessary for other types of applications or insurance processes, do not relate to the specific conversion process that allows immediate transition to a permanent policy without the need for additional medical underwriting or information.

7. How is the interest rate determined in a whole life policy?

A. Market conditions

B. Formula set by the insurer

C. Government regulations

D. Individual policyholder risk factors

In a whole life policy, the interest rate is determined primarily by a formula set by the insurer. This formula takes into consideration the needs of the insurance company to maintain a stable cash value, ensure that it can meet future policyholder obligations, and achieve profitability. The insurer establishes the interest rate based on various factors, including their investment strategy, expected returns on their investment portfolio, and the overall financial condition of the insurance company. The interest rate is not directly influenced by market conditions in a day-to-day sense, though overall economic conditions might indirectly affect the insurer's long-term investment yield. While other areas like government regulations may influence how insurance products are designed, they do not set specific interest rates for individual policies. Individual policyholder risk factors are more relevant in underwriting and determining premiums than in setting the interest rate. Thus, the insurer's formula is a critical mechanism for how returns on the policy's cash value are calculated, ultimately providing policyholders with a predictable growth of their policy's value.

8. Which of the following is a feature of a revocable beneficiary?

A. Ownership rights remain with the beneficiary

B. It can be changed at the discretion of the policyowner

C. It cannot be altered at any time

D. It is automatically irrevocable

A revocable beneficiary is a designation in a life insurance policy that allows the policy owner to alter or change the beneficiary at any time without needing consent from the current beneficiary. This means that the policy owner retains the authority to decide who will ultimately receive the policy's death benefit upon their passing. The key characteristic that leads to the correct choice is the flexibility it provides to the policy owner. This feature contrasts with irrevocable beneficiaries, who cannot be changed without the beneficiary's consent, ensuring that the specific individual designated as the beneficiary will receive the benefits regardless of any subsequent decisions by the policy owner. Ownership rights do not remain with the beneficiary, nor does the revocable nature imply that it cannot be altered or is automatically irrevocable. Instead, the very definition of a revocable beneficiary emphasizes that the policy owner has the discretion to make changes as they see fit. This understanding is crucial for policy owners managing their financial and estate planning.

9. If Bob committed suicide before the two-year suicide clause expired, what will the insurer do with Bob's policy?

A. Pay the death benefit

B. Return all paid premiums to the beneficiary

C. Cancel the policy

D. Provide partial benefits

In the context of life insurance policies, the two-year suicide clause is a stipulation that typically states that if the insured commits suicide within the first two years of the policy, the insurer may not be obligated to pay the death benefit. Instead, the insurer usually refunds the premiums paid up to the time of death. When a policyholder dies by suicide before this two-year period concludes, the insurance company often opts to return the premiums paid, rather than paying out the death benefit. The rationale behind this practice is to discourage individuals from taking out life insurance policies with the intent of committing suicide shortly thereafter to benefit their beneficiaries financially. By returning the premiums, the insurer avoids potential moral hazard issues. Thus, in this case, since Bob's suicide occurred before the expiration of the two-year suicide clause, the correct response is for the insurer to return all paid premiums to the beneficiary. This approach aligns with standard practices in the life insurance industry regarding the treatment of suicide claims within the specified period.

10. What is a key feature of both immediate and deferred annuities?

A. They provide lifetime income

B. They are both types of life insurance

C. They are investment products

D. They require a death benefit

Immediate and deferred annuities both serve as investment products designed to provide a stream of income, generally during retirement. These annuities allow individuals to accumulate funds over time (in the case of deferred annuities) or to convert a lump sum into a regular income payment right away (in the case of immediate annuities). By pooling together funds from multiple investors, annuities can offer a stable income, which is a key aspect of their use as financial planning tools, especially for retirement. When individuals purchase an annuity, they essentially enter a contract with an insurance company, which then manages the investments and payouts as per the terms of the annuity. This focus on investment confirms the categorization of both immediate and deferred annuities as investment products rather than simply insurance products or necessitating a death benefit, which relate specifically to life insurance. The nature of an annuity focuses on providing financial growth or income rather than simply covering death-related expenses.