

Life and Annuity License 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

- 1. A paid-up nonforfeiture benefit becomes effective as specified unless the person elects another option within how many days after the premium is in default?**
 - A. 30 days**
 - B. 45 days**
 - C. 60 days**
 - D. 90 days**
- 2. What is true about the cost of employer-offered group coverage?**
 - A. The cost is fully paid by employees**
 - B. The cost is deductible as a business expense by the employer**
 - C. The cost is not applicable for tax deductions**
 - D. The cost must be shared equally between the employer and employees**
- 3. What is the primary purpose of key person insurance?**
 - A. To fund retirement plans for employees**
 - B. To provide financial benefits in case of a key person's death**
 - C. To insure all employees of a company**
 - D. To enhance credit ratings for the business**
- 4. Can a group formed solely for the purpose of obtaining group insurance qualify for group coverage?**
 - A. Yes, if they meet minimum size requirements**
 - B. No, it must be formed for a purpose other than obtaining insurance**
 - C. Yes, if at least one member was previously insured**
 - D. No, they must be a registered organization**
- 5. When an insured has a universal life policy, what can they do with the accumulated cash value?**
 - A. Withdraw it without limits**
 - B. Increase monthly premiums with no fees**
 - C. Use it to pay premiums or withdraw cash**
 - D. Transfer it to any other account**

- 6. What is the effect on the face amount of a policy when the reduced paid up nonforfeiture option is chosen?**
- A. It remains the same regardless of cash value**
 - B. It is increased based on policy dividends**
 - C. It is reduced to the amount that cash value would buy as a single premium**
 - D. It is converted into term insurance for a specified period**
- 7. When an agent's client needs coverage that the agent's own insurer cannot provide, what is the additional coverage called?**
- A. Supplemental insurance**
 - B. Excess insurance**
 - C. Alternative coverage**
 - D. Correlative coverage**
- 8. Which organization is not considered an insurer but provides benefits to members of an affiliated lodge or religious group?**
- A. Mutual Insurance Company**
 - B. Fraternal Benefit Society**
 - C. Health Maintenance Organization**
 - D. Insurance Exchange**
- 9. When does a 20 pay whole life policy endow?**
- A. At age 65**
 - B. At age 75**
 - C. When the insured reaches age 100**
 - D. At the end of the 20-year pay period**
- 10. Which steps are involved in the underwriting process for life insurance?**
- A. Selection, pricing, and distribution of policies**
 - B. Selection, classification, and rating of risks**
 - C. Assessment, documentation, and approval**
 - D. Application, investigation, and approval**

Answers

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

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Explanations

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1. A paid-up nonforfeiture benefit becomes effective as specified unless the person elects another option within how many days after the premium is in default?

A. 30 days

B. 45 days

C. 60 days

D. 90 days

The correct answer is that a paid-up nonforfeiture benefit becomes effective after 60 days following the premium default unless another option is elected by the policyholder. This provision is crucial as it helps protect policyholders when they fail to make a premium payment. The nonforfeiture benefit ensures that the policyholder does not lose all value from the insurance policy after a lapse in premium payment, allowing them to retain some benefits even if they cannot continue their coverage in the same manner. The 60-day period gives the policyholder ample time to decide whether to reinstate their policy or take advantage of the paid-up benefit, reflecting an important consideration of consumer protection in the insurance industry. By allowing policyholders this window, it reinforces the idea that their invested premiums have ongoing value, thus encouraging responsible financial planning.

2. What is true about the cost of employer-offered group coverage?

A. The cost is fully paid by employees

B. The cost is deductible as a business expense by the employer

C. The cost is not applicable for tax deductions

D. The cost must be shared equally between the employer and employees

When considering employer-offered group coverage, one important aspect is that the cost is deductible as a business expense by the employer. This is significant because it allows employers to manage their overhead costs while providing valuable health benefits to their employees. By deducting the cost of providing health insurance from their taxable income, employers can reduce their overall tax liability, making it financially beneficial to offer such coverage. Additionally, this tax deductibility is a major incentive for employers to maintain group health plans, which in turn helps attract and retain talent by offering competitive benefits. It's a critical component of how businesses view employee benefits in relation to their financial planning and decision-making. The other options do not align with established practices concerning group coverage costs. Although employee contributions can vary and some employers may choose different cost-sharing structures, it is not a requirement that costs must be equally shared or that they cannot be fully borne by the employer or employees entirely. Understanding this deductibility aspect can clarify why many employers opt to provide group coverage as part of their benefits package.

3. What is the primary purpose of key person insurance?

- A. To fund retirement plans for employees
- B. To provide financial benefits in case of a key person's death**
- C. To insure all employees of a company
- D. To enhance credit ratings for the business

The primary purpose of key person insurance is to provide financial benefits in the event of a key person's death. This type of insurance is designed to mitigate the financial impact that the loss of a vital employee—such as a founder, executive, or other critical personnel—can have on a business. The death of a key person can disrupt operations, lead to a loss of revenue, and create challenges in securing financing or maintaining relationships with clients, suppliers, and investors. The policy ensures that the business can receive a lump sum payout when a key individual passes away, which can be utilized to cover operational costs, recruit and train a replacement, or pay off debts that may arise from the transition. This financial cushion is crucial for maintaining stability and continuity within the organization during a challenging time. In contrast, other options do not capture the core function of key person insurance. Funding retirement plans or insuring all employees addresses broader employee benefits and does not specifically relate to the unique risks associated with the loss of a key individual. Similarly, enhancing credit ratings is more about overall financial health rather than directly linked to the losses associated with losing key personnel.

4. Can a group formed solely for the purpose of obtaining group insurance qualify for group coverage?

- A. Yes, if they meet minimum size requirements
- B. No, it must be formed for a purpose other than obtaining insurance**
- C. Yes, if at least one member was previously insured
- D. No, they must be a registered organization

The accurate understanding of group insurance necessitates that a group must be formed for a purpose other than merely obtaining insurance coverage. This requirement ensures that the group is cohesive and has a shared interest that is not solely reliant on securing better insurance rates or coverage terms. Groups created exclusively for the purpose of obtaining insurance lack the social structure or underlying purpose typically found in qualified groups, such as employer-employee relationships, professional associations, or unions. These groups usually have a common interest or goal that fosters a sense of community and solidarity among their members, which is a critical aspect in the underwriting process for group insurance. Thus, for a group to qualify for group coverage, it must demonstrate that it was established for legitimate operations beyond securing insurance benefits. This principle helps maintain the integrity and intended function of group insurance.

5. When an insured has a universal life policy, what can they do with the accumulated cash value?
- A. Withdraw it without limits
 - B. Increase monthly premiums with no fees
 - C. Use it to pay premiums or withdraw cash**
 - D. Transfer it to any other account

With a universal life insurance policy, the accumulated cash value provides unique flexibility for the policyholder. This cash value can be utilized in various ways, which contributes to the policy's appeal. The option that states the insured can use the accumulated cash value to pay premiums or withdraw cash accurately reflects the features of universal life policies. Policyholders often have the option to withdraw from the cash value, which can provide immediate access to funds if needed. Additionally, the cash value can be used to cover premium payments, which can help maintain the policy in force even if the policyholder is temporarily unable to pay the premiums out of pocket. The ability to manage the cash value in these ways is a key aspect of universal life insurance, as it lends itself well to the policyholder's financial planning and cash flow management. This flexibility can be advantageous in times of financial need or when ongoing premium payments are difficult for the insured.

6. What is the effect on the face amount of a policy when the reduced paid up nonforfeiture option is chosen?
- A. It remains the same regardless of cash value
 - B. It is increased based on policy dividends
 - C. It is reduced to the amount that cash value would buy as a single premium**
 - D. It is converted into term insurance for a specified period

When the reduced paid-up nonforfeiture option is chosen, the face amount of the policy is reduced to the amount that the policy's cash value would buy as a single premium. This option allows the policyholder to stop paying premiums while still maintaining a form of coverage. Essentially, the cash value of the policy is applied toward the purchase of a new, fully paid-up policy, which has a lower face amount than the original policy. This reduction in face amount reflects the fact that the insurer is using the cash value to secure a new policy without ongoing premium payments. The new policy is paid up, meaning no further payments are needed, but the coverage will be less than what was originally established under the original policy's terms. This is particularly beneficial for policyholders who wish to preserve some level of coverage without the financial burden of continued premium payments.

7. When an agent's client needs coverage that the agent's own insurer cannot provide, what is the additional coverage called?

A. Supplemental insurance

B. Excess insurance

C. Alternative coverage

D. Correlative coverage

The additional coverage needed when an agent's client requires protection that their own insurer cannot provide is referred to as excess insurance. This type of insurance comes into play when an underlying policy has reached its limit, and the client still seeks additional coverage. Excess insurance acts as a layer on top of existing policies and is designed to provide further financial protection in the event of significant claims or losses that exceed the amounts covered by the primary policy. This is particularly important in scenarios where substantial risks are present or when high-value assets require more comprehensive coverage. In this context, the other terms do not accurately fit the scenario. Supplemental insurance typically refers to additional policies that provide benefits on top of a primary health or life insurance plan, rather than addressing gaps in coverage. Alternative coverage might suggest different forms of insurance but does not specifically convey the idea of providing extra amounts beyond existing limits of coverage. Correlative coverage is not a widely recognized term in the insurance industry and does not pertain directly to the additional insurer options for clients needing more protection. Thus, excess insurance is the most fitting term for the additional coverage required in these cases.

8. Which organization is not considered an insurer but provides benefits to members of an affiliated lodge or religious group?

A. Mutual Insurance Company

B. Fraternal Benefit Society

C. Health Maintenance Organization

D. Insurance Exchange

The correct answer is a Fraternal Benefit Society, which is indeed not considered a traditional insurer but instead functions to provide benefits exclusively to its members who are part of a specific lodge or religious group. These societies operate on a non-profit basis and promote community and social connections among their members, offering benefits such as life insurance, health coverage, and other types of financial assistance. Fraternal Benefit Societies are unique because they often require membership in a specific group, which distinguishes them from standard insurance companies that offer services to the general public. They are an important alternative for individuals looking for insurance options within supportive community networks. In contrast, mutual insurance companies are owned by their policyholders and are classified as insurers, offering a broader range of insurance products. Health Maintenance Organizations (HMOs) provide health care services to members but are also categorized as health insurers. Insurance exchanges, often related to health coverage, serve as marketplaces for buying insurance and are considered part of the insurance industry as well.

9. When does a 20 pay whole life policy endow?

- A. At age 65
- B. At age 75
- C. When the insured reaches age 100**
- D. At the end of the 20-year pay period

A 20-pay whole life policy is designed to provide coverage for the insured's lifetime while requiring premium payments for only 20 years. Endowment occurs when the cash value of the policy equals the face amount of the policy, typically at a specific age if the insured is still alive, or at the time of the insured's death. In the case of a whole life policy, it will generally endow at the age when the cash value reaches the death benefit amount. Most whole life policies are designed to endow at age 100. This means that by that age, the cash value should equal the death benefit, allowing the policy to pay out the full face amount either upon the death of the insured or at age 100 if they are still alive. This process emphasizes the hallmark of whole life policies, which accumulate cash value and provide coverage for life, ensuring financial protection for beneficiaries while also serving as a savings component for the policyholder.

10. Which steps are involved in the underwriting process for life insurance?

- A. Selection, pricing, and distribution of policies
- B. Selection, classification, and rating of risks**
- C. Assessment, documentation, and approval
- D. Application, investigation, and approval

The underwriting process for life insurance primarily involves the selection, classification, and rating of risks. This is a vital procedure that insurers use to determine the level of risk associated with an applicant and to decide whether to provide coverage. Selection refers to the process by which underwriters choose which applicants should be offered insurance coverage based on their risk profile, which includes factors such as age, health status, and lifestyle choices. This is crucial since it helps the insurer avoid high-risk applicants who may not be profitable for the company. Classification involves grouping applicants into categories based on their risk levels. For instance, individuals may be classified as standard, preferred, or substandard risks. This helps insurance companies manage their exposure by ensuring they know how to treat the risks associated with different applicants. Rating of risks is where the underwriter assigns a premium to the policy based on the classification established. This premium reflects the risk associated with insuring the individual and ensures that the insurer can cover potential future claims. By following these steps, insurers can effectively balance their portfolios and maintain financial stability while offering appropriate policies to applicants based on their individual risk levels.

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://lifeandannuity.examzify.com>

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