

LIFE & HEALTH INSURANCE PRACTICE EXAM (SAMPLE)

STUDY GUIDE



SAMPLE STUDY GUIDE WITH LIMITED QUESTIONS

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THE FULL VERSION STUDY GUIDE

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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. What happens to benefits received from a BOE policy in terms of taxation?**
 - A. They are tax-exempt.
 - B. They are taxable to the business.
 - C. They are tax-deductible for the owner.
 - D. They are considered personal income.
- 2. What is the purpose of a Probationary Period in a disability policy?**
 - A. To allow immediate claims for sickness
 - B. To avoid adverse selection related to pre-existing conditions
 - C. To extend coverage without additional premium
 - D. To provide extra time for premium payments
- 3. What do morbidity tables predict in the context of insurance?**
 - A. The number of claims filed
 - B. The likelihood of policyholders becoming disabled
 - C. The overall health of insured individuals
 - D. The average life expectancy of policyholders
- 4. Under the captive agency system, who is responsible for employing the agent?**
 - A. Multiple insurance companies
 - B. Independent agents
 - C. One insurance company
 - D. Agents themselves
- 5. What characterizes partial disability?**
 - A. The complete inability to work
 - B. The inability to perform all regular duties
 - C. A significant decrease in income
 - D. The ability to work part-time hours

- 6. Which department is tasked with the responsibility of calculating policy reserves and dividends?**
- A. Underwriting Department
 - B. Actuarial Department
 - C. Claims Department
 - D. Human Resources Department
- 7. What is the primary responsibility of the Claims Department?**
- A. Calculating policy rates
 - B. Processing and paying claims for losses
 - C. Reviewing applications
 - D. Conducting market research
- 8. Which scenario exemplifies pure risk?**
- A. Potential profit from investments
 - B. The loss of life
 - C. Market fluctuations
 - D. Business competition
- 9. What must a person have to possess an insurable interest regarding a loss?**
- A. Financial Connection
 - B. Emotional Attachment
 - C. More to Lose than Gain
 - D. Health Status
- 10. What is the term for the company that transfers the risk in an insurance agreement?**
- A. Ceding Company
 - B. Primary Insurer
 - C. Reinsurer
 - D. Captive Insurer

Answers

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

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Explanations

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1. What happens to benefits received from a BOE policy in terms of taxation?

- A. They are tax-exempt.
- B. They are taxable to the business.**
- C. They are tax-deductible for the owner.
- D. They are considered personal income.

Benefits received from a Business Overhead Expense (BOE) policy are indeed taxable to the business. This means that when a business claims benefits from such a policy to cover its overhead expenses during the period of disability of the owner or key person, those benefits are treated as taxable income for the business. The rationale behind this taxation is that since the premiums paid for BOE insurance are typically not tax-deductible for the business, any benefits received must be taxed when they are collected. Therefore, the IRS views the benefit payments as income, ensuring that tax liability is incurred by the business when the coverage is utilized. This taxation structure allows for a clear line of distinction between the benefits that serve as a financial support mechanism for ongoing business expenses and personal income tax considerations. In contrast, options that involve tax-exempt status, tax-deduction eligibility for the owner, or consideration as personal income do not apply here since they do not accurately reflect the business structure or the tax treatment of BOE policy benefits. Such distinctions are critical for understanding how BOE insurance functions in a business context.

2. What is the purpose of a Probationary Period in a disability policy?

- A. To allow immediate claims for sickness
- B. To avoid adverse selection related to pre-existing conditions**
- C. To extend coverage without additional premium
- D. To provide extra time for premium payments

The probationary period in a disability policy serves to mitigate the risk of adverse selection associated with pre-existing conditions. This means that it acts as a waiting period during which an insurer will not cover any claims that arise from conditions that existed before the policy started. By implementing a probationary period, insurers protect themselves from policyholders who may only seek coverage when they anticipate needing it, which can be more likely if they have pre-existing health issues. This helps ensure that only those who genuinely require insurance coverage for new conditions will be eligible to make claims during this initial period. This feature is crucial for maintaining the overall viability of the insurance pool, as it encourages honesty and fairness among insured individuals, allowing the insurer to manage risk more effectively. The other options do not address the strategic importance of the probationary period in managing claims related to pre-existing conditions, which is the primary aim of this feature in a disability policy.

3. What do morbidity tables predict in the context of insurance?

- A. The number of claims filed
- B. The likelihood of policyholders becoming disabled**
- C. The overall health of insured individuals
- D. The average life expectancy of policyholders

Morbidity tables are essential tools used in the insurance industry to predict the likelihood of policyholders becoming disabled or suffering from health impairments during a specific period. These tables compile statistical data regarding the rates of illness and injury in a given population, helping insurers assess the risk associated with providing coverage to individuals. By understanding the probability of disability, insurers can set premiums more accurately, determine policy terms, and ensure they have adequate reserves to cover potential claims. The focus on disability and health conditions distinguishes morbidity tables from mortality tables, which instead target life expectancy and death rates. In contrast, the other options, while relevant to the broader context of insurance, do not specifically align with the purpose of morbidity tables. Claims filed are a consequence of disability but do not directly reflect the predictive aspect of morbidity. Overall health accounts for general well-being, which is broader than the specific focus of morbidity data. Finally, average life expectancy pertains to mortality metrics rather than morbidity statistics, underscoring the importance of understanding the different types of tables in the insurance landscape.

4. Under the captive agency system, who is responsible for employing the agent?

- A. Multiple insurance companies
- B. Independent agents
- C. One insurance company**
- D. Agents themselves

In the captive agency system, one insurance company is responsible for employing the agent. This means that the agents work exclusively for that particular insurer and promote its products and services. They are often provided with training, resources, and support directly from the company, which can help them develop their skills and align closely with the company's sales goals and objectives. This structure contrasts with independent agents, who operate on their own and have the ability to represent multiple insurance companies, thus providing a broader range of options for their clients. In the case of the captive agency system, the focus is on fostering a deep expertise and dedication to a single insurer's offerings, creating a direct relationship between the agent and the insurance company. This arrangement often allows for a unified brand message and customer service experience, as agents are trained to understand and communicate the specific advantages of their employer's policies.

5. What characterizes partial disability?

- A. The complete inability to work
- B. The inability to perform all regular duties**
- C. A significant decrease in income
- D. The ability to work part-time hours

Partial disability is characterized by the inability to perform all regular duties associated with one's job. This situation often arises when an individual can complete some, but not all, aspects of their work, leading to limitations in their ability to function normally in their professional role. This definition is crucial in the context of insurance claims and coverage, as it determines the level of benefits an individual may qualify for based on their current capabilities compared to their pre-disability condition. While being unable to work entirely reflects a total disability, partial disability indicates that the individual can still participate in some work-related activities but faces challenges that prevent them from fulfilling all their responsibilities. This nuanced understanding is essential for assessing the impact of the disability on the person's ability to earn an income and how it ties into their insurance benefits. The other options, such as complete inability to work, a significant decrease in income, and the ability to work part-time hours, do not fully capture the essence of partial disability as these may apply to varying degrees or situations unrelated strictly to the inability to perform all job duties.

6. Which department is tasked with the responsibility of calculating policy reserves and dividends?

- A. Underwriting Department
- B. Actuarial Department**
- C. Claims Department
- D. Human Resources Department

The actuarial department is responsible for calculating policy reserves and dividends because this department specializes in using mathematics, statistics, and financial theories to assess risk in the insurance industry. Actuaries analyze various factors such as mortality rates, policyholder behavior, and investment returns to estimate the amount of money that must be set aside to ensure that future claims can be paid (policy reserves) and to determine how much, if any, dividend can be returned to policyholders based on the insurer's financial performance. In contrast, the underwriting department focuses on evaluating and accepting or rejecting insurance applications based on risk assessment, while the claims department deals with processing and settling claims made by policyholders. The human resources department, on the other hand, manages employee-related functions and does not engage in any financial calculations related to policy reserves or dividends. Thus, the actuarial department plays a crucial role in maintaining the financial stability and obligation of insurance companies through accurate calculations of reserves and dividends.

7. What is the primary responsibility of the Claims Department?

- A. Calculating policy rates
- B. Processing and paying claims for losses**
- C. Reviewing applications
- D. Conducting market research

The primary responsibility of the Claims Department is processing and paying claims for losses. This function is crucial because it directly relates to the policyholders' experience after they have suffered a loss and are relying on their insurance coverage. The department ensures that claims are evaluated based on the policy terms, the nature and extent of the loss, and available coverages. Their goal is to provide timely and equitable payment for valid claims, thereby fulfilling the commitments made in the insurance policy. In contrast, the other functions mentioned—calculating policy rates, reviewing applications, and conducting market research—are typically responsibilities of other departments within an insurance company. Calculating policy rates falls under underwriting and actuary functions, where risks are assessed and premium amounts are determined. Reviewing applications is part of the underwriting process, where potential policyholders are evaluated for coverage eligibility. Conducting market research is generally associated with marketing and strategy departments, focusing on understanding market trends and customer needs rather than directly dealing with claims processing.

8. Which scenario exemplifies pure risk?

- A. Potential profit from investments
- B. The loss of life**
- C. Market fluctuations
- D. Business competition

Pure risk is characterized by situations where there is a possibility of loss but no chance of gain. The scenario that exemplifies pure risk is the loss of life, as it represents a situation that can result solely in a negative outcome—death—without any potential for gain or profit. In the context of insurance, pure risks are insurable risks, meaning they can be managed and mitigated through various types of policies designed to provide financial protection against such losses. On the other hand, potential profit from investments, market fluctuations, and business competition involve varying degrees of uncertainty and the possibility of financial gain, making them examples of speculative risk rather than pure risk. Speculative risks include both the chance of loss and the potential for gain, which is not aligned with the concept of pure risk.

9. What must a person have to possess an insurable interest regarding a loss?

- A. Financial Connection
- B. Emotional Attachment
- C. More to Lose than Gain**
- D. Health Status

To possess an insurable interest regarding a loss, a person must have a situation where they stand to lose more than they gain from the insurance coverage. Insurable interest is a fundamental principle in insurance, ensuring that the insured party would suffer financially from a loss and thus has a legitimate interest in the continued existence of the insured property or person. Having more to lose than gain signifies a financial motivation that aligns with the purpose of insurance, which is designed to mitigate potential financial losses. This connection is crucial in preventing moral hazard, where individuals might be tempted to cause a loss because they would profit from the insurance payout. While a financial connection may contribute to insurable interest, simply having a financial stake does not necessarily satisfy the requirement without the context of actual risk of loss. Emotional attachment can be significant in personal insurance settings, but it does not meet the legal definition of insurable interest. Health status might be relevant in terms of underwriting but is not a direct criterion for establishing insurable interest in the context of loss.

10. What is the term for the company that transfers the risk in an insurance agreement?

- A. Ceding Company**
- B. Primary Insurer
- C. Reinsurer
- D. Captive Insurer

The term for the company that transfers the risk in an insurance agreement is "Ceding Company." This refers to an insurance company that passes on some of its risk to another insurance entity, typically a reinsurer, in order to reduce its liability or improve its financial stability. The ceding company makes this transfer as a strategic measure to manage its risk exposure. When insurance policies are written, there comes a point where the company might want to limit its exposure on certain high-risk policies. By ceding part of this risk, the company is able to protect itself from substantial losses that could arise from large claims, thereby maintaining its solvency and ability to pay claims to its policyholders. In the context of insurance relationships, the ceding company's role is foundational, as it enables the risk-sharing mechanism essential for the broader insurance landscape. The other options refer to different aspects of the insurance and reinsurance industry, but none accurately define the entity that transfers the risk in an agreement.

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://lifeandhealthinsurance.examzify.com>

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

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