

Life Insurance Policies, Provisions, Options and Riders Practice Test (Sample)

Study Guide



Everything you need from our exam experts!

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SAMPLE

Questions

- 1. A spouse and child can be added to the primary insured's coverage as what kind of rider?**
 - A. Dependent term**
 - B. Guaranteed insurability**
 - C. Primary term**
 - D. Family term**
- 2. Which policy feature allows for flexibility in payment amounts?**
 - A. Fixed premium payments**
 - B. Flexible premiums**
 - C. Standardized face amount**
 - D. Guaranteed insurability**
- 3. What is the advantage of adding a children's term rider to a life insurance policy?**
 - A. Can be converted to permanent coverage without evidence of insurability**
 - B. Coverage can be different for each child**
 - C. Premiums on this rider are not required until the limiting age is reached**
 - D. Increases the policy's overall cash value**
- 4. What do you call the provision that allows a policyholder to surrender their life insurance policy for its cash value?**
 - A. Face Value Provision**
 - B. Cash Surrender Value Provision**
 - C. Loan Provision**
 - D. Dividend Provision**
- 5. Which insurance rider provides an additional benefit if the insured dies in an accident?**
 - A. Accidental Death Benefit Rider**
 - B. Critical Illness Rider**
 - C. Disability Income Rider**
 - D. Family Income Rider**

- 6. Which of the following are the premium payments for a Universal life policy NOT used for?**
- A. Death benefits**
 - B. Cash value**
 - C. Loading costs**
 - D. Separate account investments**
- 7. What is a life insurance policy that is subject to a contract interest rate called?**
- A. Adjustable life**
 - B. Group life**
 - C. Term life**
 - D. Universal life**
- 8. Which of these statements about whole life insurance is true?**
- A. Policyowner can take out a policy loan up to the face amount**
 - B. When a whole life policy is surrendered, income taxes may be owed**
 - C. Coverage is normally temporary**
 - D. The death benefit is not affected by outstanding loans**
- 9. If a life insurance policy with a face amount of \$300,000 accumulates a cash value of \$50,000 and increases to \$350,000, what type of policy is it?**
- A. Increasing Term Life policy**
 - B. Nonparticipating policy**
 - C. Modified Whole Life policy**
 - D. Universal Life policy**
- 10. A life insurance policy that contains cash values varying according to stocks' performance is called?**
- A. Increasing Term Life**
 - B. Modified Whole Life**
 - C. Variable Whole Life**
 - D. Adjustable Whole Life**

Answers

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

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Explanations

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1. A spouse and child can be added to the primary insured's coverage as what kind of rider?

- A. Dependent term**
- B. Guaranteed insurability**
- C. Primary term**
- D. Family term**

The correct choice is family term. This type of rider allows a policyholder to extend coverage to their spouse and children under their life insurance policy. The family term rider is particularly beneficial as it provides additional protection for family members at a cost-effective rate, often without requiring separate evidence of insurability. In contrast, other options, such as dependent term, typically target specific dependents with limited coverage and may not cover all family members simultaneously. Guaranteed insurability riders provide the option to purchase additional insurance at certain intervals without medical underwriting, but they do not directly add family members to the primary insured's coverage. Primary term is not a recognized term in the context of riders, as it refers more to the main life insurance coverage rather than additional options for dependents. Thus, the family term rider stands out as the correct answer because it is designed specifically for incorporating family members into the coverage of the primary insured, ensuring peace of mind and security for the entire family under one policy.

2. Which policy feature allows for flexibility in payment amounts?

- A. Fixed premium payments**
- B. Flexible premiums**
- C. Standardized face amount**
- D. Guaranteed insurability**

The feature that allows for flexibility in payment amounts is the option for flexible premiums. This characteristic is particularly common in certain types of life insurance policies, such as universal life insurance. With flexible premiums, policyholders can adjust the amount they pay into the policy, which can be higher or lower depending on their financial situation at any given time. This flexibility can help policyholders manage their cash flow and adapt their insurance costs to fit their current financial circumstances. In contrast, fixed premium payments require the policyholder to pay a predetermined amount on a regular schedule, which does not allow for any variation based on their changing financial needs. The standardized face amount refers to the set death benefit provided by the policy, while guaranteed insurability pertains to a feature that allows the policyholder to purchase additional insurance at specified times without having to prove insurability. None of these options provide the same level of payment flexibility that is offered by flexible premiums.

3. What is the advantage of adding a children's term rider to a life insurance policy?

- A. Can be converted to permanent coverage without evidence of insurability**
- B. Coverage can be different for each child**
- C. Premiums on this rider are not required until the limiting age is reached**
- D. Increases the policy's overall cash value**

The advantage of adding a children's term rider to a life insurance policy primarily lies in the ability to convert it to permanent coverage without requiring evidence of insurability. This feature is significant because it allows parents to secure their children's insurability at a young age, even if health issues arise later on. Upon reaching a specified age, the child can convert the rider into a permanent life insurance policy without needing to provide medical proof or undergo underwriting. This flexibility is valuable for ensuring that children have lifelong coverage regardless of any future health changes. The other aspects of the choices do not accurately reflect the primary benefits of a children's term rider. While riders can offer some form of coverage for each child, their premiums typically apply collectively rather than individually, making the individual coverage aspect less impactful. The requirement for premiums often comes into play regardless of the child's age in relation to coverage features, and the rider does not contribute to the policy's overall cash value since term insurance is not designed to accumulate cash value like permanent insurance products do.

4. What do you call the provision that allows a policyholder to surrender their life insurance policy for its cash value?

- A. Face Value Provision**
- B. Cash Surrender Value Provision**
- C. Loan Provision**
- D. Dividend Provision**

The provision that allows a policyholder to surrender their life insurance policy for its cash value is known as the Cash Surrender Value Provision. This provision is important as it provides the policyholder with an option to access the cash accumulated in the policy when they choose to terminate or no longer need the coverage. The cash surrender value is typically available in permanent life insurance policies, such as whole life or universal life, where a cash value component builds over time. When a policyholder decides to utilize this provision, they receive the cash value minus any applicable surrender charges and outstanding loans against the policy, if any. This option can be beneficial if financial situations change, allowing the policyholder to recoup some of their investment in the policy rather than letting it lapse or continuing to pay premiums without receiving any return. The other options provided do not fit this definition. The Face Value Provision relates to the amount payable upon the insured's death, the Loan Provision outlines terms for borrowing against the policy, and the Dividend Provision pertains to the payment of dividends on participating policies.

5. Which insurance rider provides an additional benefit if the insured dies in an accident?

A. Accidental Death Benefit Rider

B. Critical Illness Rider

C. Disability Income Rider

D. Family Income Rider

The Accidental Death Benefit Rider specifically provides an additional payout or benefit if the insured dies as a result of an accident. This rider enhances the life insurance policy, offering the beneficiaries a higher amount of money in such unfortunate circumstances compared to the standard death benefit. It serves to protect the insured's loved ones financially in the event that an accidental death occurs, recognizing that these situations may impose unexpected financial burdens on the family. In contrast, the other riders listed serve different purposes. The Critical Illness Rider offers benefits upon a diagnosis of certain serious health conditions, while the Disability Income Rider provides a stream of income if the policyholder becomes disabled and unable to work. The Family Income Rider ensures steady income protection for dependents for a specific period after the insured's death, but it does not specifically address accidental death situations.

6. Which of the following are the premium payments for a Universal life policy NOT used for?

A. Death benefits

B. Cash value

C. Loading costs

D. Separate account investments

In a Universal Life policy, premium payments serve multiple functions, including contributing to death benefits, accumulating cash value, and covering loading costs, which are the expenses associated with the policy. However, separate account investments do not receive a portion of the premium payments in the same way. The premium payments made by the policyholder primarily fund the insurance coverage, which involves risk assessment and benefits planning. Death benefits represent the payout to beneficiaries upon the insured's death. Cash value refers to the savings component of a Universal Life policy, which grows over time and can be accessed or borrowed against by the policyholder. Loading costs cover the administrative and operational expenses incurred by the insurance company. In contrast, the separate account investments typically refer to investment options that policyholders can choose as part of variable life insurance contracts or similar products that allow for investment in equity markets, fixed income, or other securities. In this context, Universal Life policies may not incorporate a separate account structure for the purpose of investment in the same manner, which differentiates how these premiums are utilized. Therefore, separate account investments do not represent a function of how premium payments are allocated in Universal Life policies.

7. What is a life insurance policy that is subject to a contract interest rate called?

- A. Adjustable life**
- B. Group life**
- C. Term life**
- D. Universal life**

A life insurance policy subject to a contract interest rate is referred to as universal life insurance. This type of policy offers flexibility in terms of premium payments and death benefits, while also accumulating cash value based on a specific interest rate set by the insurer. The interest rate can vary over time, but it is guaranteed to not fall below a certain minimum. Universal life insurance provides policyholders with the ability to adjust their premiums and death benefits within certain limits, which is distinct from other types of policies. This flexibility, combined with the cash value component that grows over time at a contractual interest rate, makes universal life policies unique in the realm of life insurance products.

8. Which of these statements about whole life insurance is true?

- A. Policyowner can take out a policy loan up to the face amount**
- B. When a whole life policy is surrendered, income taxes may be owed**
- C. Coverage is normally temporary**
- D. The death benefit is not affected by outstanding loans**

The statement regarding the potential tax implications when a whole life policy is surrendered is accurate. When a policyowner decides to surrender a whole life insurance policy, they may receive a cash value amount, which is the savings component of the policy. If the cash value exceeds the total premiums paid into the policy, the difference is treated as taxable income by the IRS. As a result, this could trigger a tax obligation for the policyowner, making it important to understand the financial implications of surrendering the policy. Regarding the other statements, they each have specific inaccuracies. Taking out a policy loan up to the face amount is not always possible, as the maximum loan amount is typically a percentage of the cash value, not the full face amount. The assertion that coverage is temporary is also incorrect, as whole life insurance provides lifelong coverage as long as premiums are paid. Finally, the claim about the death benefit being unaffected by outstanding loans is misleading; while the full death benefit remains the same, any outstanding loans will be subtracted from the death benefit at the time of the insured's passing. This creates the necessity for policyowners to be mindful of the loans they take out against their policies.

9. If a life insurance policy with a face amount of \$300,000 accumulates a cash value of \$50,000 and increases to \$350,000, what type of policy is it?

A. Increasing Term Life policy

B. Nonparticipating policy

C. Modified Whole Life policy

D. Universal Life policy

The correct answer is Universal Life policy because this type of policy is designed to offer flexible premiums, adjustable death benefits, and the ability to accumulate cash value over time. In the scenario provided, the life insurance policy has a face amount that not only has a cash value of \$50,000 but also increases to \$350,000, indicating that the death benefit can be adjusted. Universal Life policies are particularly known for their capacity to allow policyholders to change their death benefit amounts and premium payments as their needs change, which aligns with the scenario described. Other policy types have specific characteristics that don't match this flexibility. An Increasing Term Life policy typically only provides increasing death benefits over time without accumulating cash value. A Nonparticipating policy does not share dividends with the policyholder and tends to have a fixed death benefit with no cash accumulation. A Modified Whole Life policy generally has a lower premium in the early years and adjusts after a set time frame, but it does not illustrate the same level of cash value increase and flexibility with death benefits as a Universal Life policy.

10. A life insurance policy that contains cash values varying according to stocks' performance is called?

A. Increasing Term Life

B. Modified Whole Life

C. Variable Whole Life

D. Adjustable Whole Life

The life insurance policy that contains cash values varying according to stocks' performance is referred to as Variable Whole Life insurance. This type of policy provides policyholders with the flexibility to allocate a portion of their premiums into a variety of separate accounts, similar to mutual funds, which can include stock market investments. As the performance of these chosen investments fluctuates, the cash value of the policy can increase or decrease correspondingly. This characteristic allows policyholders to potentially benefit from market upswings, leading to a dynamic cash value growth, which can be a major advantage compared to traditional whole life policies where the cash value grows at a guaranteed rate. Additionally, Variable Whole Life policies offer the lifelong coverage similar to whole life insurance, along with the investment component that is not present in some other policy types. In contrast, the other options mentioned are not designed to have cash values tied directly to stock performance. Increasing term life, for example, is a term insurance product that provides a death benefit that increases over time but does not accumulate cash value. Modified whole life policies typically have reduced premiums early on but do not link cash values to stock performance. Adjustable whole life gives policyholders some flexibility in premium payments and death benefits but does not offer the investment component tied to stock market.