# MICHIGAN VARIABLE ANNUITIES PRACTICE TEST (SAMPLE)

## STUDY GUIDE

## SAMPLE STUDY GUIDE WITH LIMITED QUESTIONS

VISIT US ONLINE FOR
THE FULL VERSION STUDY GUIDE

https://mivariableannuities.examzify.com

# Table of Contents


Copyright ........ 1
Table of Contents ........ 2
Introduction ........ 3
How to Use This Guide ........ 4
Questions ........ 5
Answers ........ 8
Explanations ........ 10
Next Steps ........ 15

# 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. Which description best matches the Direct Method in the context of variable products?**

A. It uses an open-ended investment company created inside the insurer to manage the separate account

B. It is a method of guaranteeing a minimum return

C. It is a way to convert to a fixed annuity

D. It refers to a licensing requirement for sellers

**2. Flexible premium policies are described as which policy type?**

A. Fixed universal life policy.

B. Variable universal life policy.

C. Term life policy.

D. Whole life policy.

**3. A 1035 exchange can trigger which of the following?**

A. Surrender charges and new costs may apply.

B. No additional costs.

C. Immediate taxes on gains.

D. A mandatory tax on the entire account value.

**4. When surrendering a life insurance policy for its cash value, which portion is taxable?**

A. The entire cash value

B. The gain (cash value minus cost basis)

C. The premiums paid

D. The death benefit

**5. What is a subaccount expense or expense ratio?**

A. An annual fee charged by the insurer to provide the death benefit.

B. A one-time setup fee at issue.

C. A tax charged on distributions.

D. The annual fee charged by investment options within the contract, reducing net investment returns.

6. **Which statement best describes a separate account in relation to variable contracts?**

   A. The insurer's general account

   B. A separate bank account

   C. The account containing investments supporting variable contracts, segregated by federal securities law

   D. A brokerage account

7. **In the context of variable products, which statement best describes a separate account?**

   A. It is used to hold assets for variable products and is exposed to market risk

   B. It holds all fixed annuity premiums for the insurer

   C. It is a reserve for underwriting losses

   D. It guarantees a minimum return to policyholders

8. **Accumulation period/units: If a $5,000 premium deposit is made into a variable annuity with unit price $5, how many accumulation units are purchased?**

   A. 1000 accumulation units

   B. 500 accumulation units

   C. 250 accumulation units

   D. 2000 accumulation units

9. **Which statement describes the accumulation phase of an annuity?**

   A. The payout phase where distributions begin

   B. The period during which the contract owner pays in

   C. The phase when a beneficiary receives payments during death

   D. The time to withdraw all funds tax-free

10. **Mortality Guarantee — which of the following best describes it?**

   A. A fixed withdrawal period guarantee

   B. A death benefit guarantee

   C. A basic settlement option guarantee to continue annuity payments for as long as the annuitant lives, even beyond life expectancy

   D. The prospectus

# Answers

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

# Explanations

## 1. Which description best matches the Direct Method in the context of variable products?

A. It uses an open-ended investment company created inside the insurer to manage the separate account

B. It is a method of guaranteeing a minimum return

C. It is a way to convert to a fixed annuity

D. It refers to a licensing requirement for sellers

*Direct Method describes how the separate account's assets are invested by using an open-ended investment company created inside the insurer. This internal investment vehicle backs the variable subaccounts, keeping assets separate from the insurer's general account and allowing the insurer to manage the funds directly within its own structure. The result is that the contract values move with the performance of these internal funds, subject to any contract charges. This approach is not about guaranteeing a minimum return, converting to a fixed annuity, or dealing with licensing rules, which is why the description matches the Direct Method best.*

## 2. Flexible premium policies are described as which policy type?

A. Fixed universal life policy.

B. Variable universal life policy.

C. Term life policy.

D. Whole life policy.

*Flexible premium policies come from universal life products, which let you adjust premium payments (within limits) and often vary the death benefit as well. The version that pairs this flexibility with investment options and cash value tied to separate accounts is the variable universal life policy, so it fits the description best. In contrast, term life, whole life, and fixed-premium universal life have set premiums or no cash-value-driven flexibility, so they don't match the concept of adjustable premium payments.*

## 3. A 1035 exchange can trigger which of the following?

A. Surrender charges and new costs may apply.

B. No additional costs.

C. Immediate taxes on gains.

D. A mandatory tax on the entire account value.

*A 1035 exchange moves funds from one annuity to another tax-free, but it doesn't wipe out the contract-specific costs. Each annuity has its own surrender-charge schedule and potential fees. If you transfer within or soon after the surrender period, you can face surrender charges on the old contract and the new contract may impose its own costs. The transfer itself isn't taxed, so immediate taxes on gains or a mandatory tax on the entire account value aren't triggered. And saying there are no additional costs isn't accurate because these charges can apply depending on the contracts involved.*

### 4. When surrendering a life insurance policy for its cash value, which portion is taxable?

A. The entire cash value

<u>B. The gain (cash value minus cost basis)</u>

C. The premiums paid

D. The death benefit

*When you surrender a life insurance policy for its cash value, only the amount that represents a gain is taxable. The policy's cash value grows tax-deferred, so you've already paid for the money with after-tax premiums, and the portion representing earnings is the part you owe taxes on. The gain is calculated as cash value minus the cost basis, where the cost basis is the total premiums you've paid into the policy. That gain is taxed as ordinary income in the year you surrender. For example, if you've paid $40,000 in premiums and surrender for $60,000, the taxable amount is $20,000. The remaining $40,000 isn't taxed because it's your return of the money you invested. The death benefit, if paid later to beneficiaries, is generally income-free. If the surrender value is less than the premiums paid, there's typically no tax on a loss, and premiums aren't deductible. Also, any outstanding policy loans reduce the surrender value but don't change the rule: the taxable amount is the gain above your cost basis.*

### 5. What is a subaccount expense or expense ratio?

A. An annual fee charged by the insurer to provide the death benefit.

B. A one-time setup fee at issue.

C. A tax charged on distributions.

<u>D. The annual fee charged by investment options within the contract, reducing net investment returns.</u>

*The subaccount expense or expense ratio is the ongoing annual fee charged by the investment options inside a variable annuity. Each subaccount represents a pool of assets managed by an investment manager, and the expense ratio covers costs of managing those assets and running the subaccount. This fee is taken out of the assets each year, so it directly reduces the net return you receive from the investment, even if the fund performs well or poorly. This fits the idea of an annual fee tied to the investment options within the contract, not a one-time setup fee, not a tax, and not a charge for the death benefit.*

### 6. Which statement best describes a separate account in relation to variable contracts?

A. The insurer's general account

B. A separate bank account

<u>C. The account containing investments supporting variable contracts, segregated by federal securities law</u>

D. A brokerage account

*In variable contracts, the separate account is the investment pool that backs the contract, distinct from the insurer's general assets. This account holds the assets chosen by the policyholder, typically in subaccounts that function like mutual funds, and is legally segregated from the insurer's other finances under securities laws. Because the value of a variable contract depends on the performance of these investments, the policyholder bears the investment risk—the credited values rise or fall with the investment results rather than being fixed by the insurer. The guarantees often associated with the contract (such as a death benefit or minimum payout) come from the contract's terms and the insurer's backing, but the actual investment risk is borne by the separate account. This is not the insurer's general fixed-account funding, nor a separate bank or brokerage account, but a dedicated investment pool organized to support variable contracts.*

**7. In the context of variable products, which statement best describes a separate account?**

A. It is used to hold assets for variable products and is exposed to market risk

B. It holds all fixed annuity premiums for the insurer

C. It is a reserve for underwriting losses

D. It guarantees a minimum return to policyholders

*Separate accounts in variable products are investment pools that hold the assets backing the policy's variable benefits, kept separate from the insurer's general assets. This separation means the account's value rises or falls with the performance of the investments chosen (stocks, bonds, etc.), so the policyholder bears the investment risk rather than the insurer. That market exposure is the defining feature of the separate account. The other statements don't fit because fixed annuity premiums are typically held in the insurer's general account, not in the separate account; underwriting losses are addressed through reserves and the insurer's own financial structure rather than the separate account; and a minimum return guarantee, when present, is not the function of the separate account itself and may be backed by guarantees outside the separate account.*

**8. Accumulation period/units: If a $5,000 premium deposit is made into a variable annuity with unit price $5, how many accumulation units are purchased?**

A. 1000 accumulation units

B. 500 accumulation units

C. 250 accumulation units

D. 2000 accumulation units

*In a variable annuity, you convert the premium into accumulation units at the current price per unit. The number of units bought is the premium amount divided by the unit price. Here, 5,000 divided by 5 equals 1,000 accumulation units. Those units represent your ownership in the subaccounts, and their total value will change with the performance of the investments, as the unit price moves up or down over time.*

**9. Which statement describes the accumulation phase of an annuity?**

A. The payout phase where distributions begin

B. The period during which the contract owner pays in

C. The phase when a beneficiary receives payments during death

D. The time to withdraw all funds tax-free

*The accumulation phase is the funding period of an annuity when you make premium payments and the account value grows as those funds are invested. This phase is typically tax-deferred inside the contract, until you start taking distributions. The statement that best describes this phase is that it is the period during which the contract owner pays in. Once you begin receiving payments, you move into the payout phase. The idea of payments to a beneficiary after death describes a death benefit during the payout/redistribution period, not the accumulation phase. And the notion of withdrawing all funds tax-free isn't accurate for annuities, since earnings are taxed as ordinary income when withdrawals are taken (with any tax-free return limited to the return of your principal).*

### 10. Mortality Guarantee — which of the following best describes it?

A. A fixed withdrawal period guarantee

B. A death benefit guarantee

C. A basic settlement option guarantee to continue annuity payments for as long as the annuitant lives, even beyond life expectancy

D. The prospectus

*Mortality guarantee means the insurer promises to continue paying annuity income for as long as the annuitant is alive, even if that extends beyond the expected life span. This is a life-contingent feature that shifts longevity risk to the insurer, ensuring the annuitant won't outlive the income. It's a basic settlement option aimed at lifetime income. It isn't about a fixed withdrawal period, a death benefit in a life insurance policy, or the prospectus, which is why the description focusing on continuing payments for life is the best fit.*

# 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://mivariableannuities.examzify.com

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