North Carolina Life Insurance Practice Exam (Sample)

Study Guide

BY EXAMZIFY

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Questions

1. What does the term "surrender value" refer to?

A. The cash payout upon death of the insured

B. The price at which a policy can be sold

C. The financial amount available if a policy is terminated

D. The total premiums collected over the life of the policy

2. What is the purpose of a waiver of premium rider?

A. Allows policyholders to reduce coverage

B. Suspends premium payments if the policyholder becomes disabled

C. Automatically increases the death benefit after a certain period

D. Permits the policyholder to switch to another policy

3. Which item is essential for determining the premium rates of life insurance policies?

A. The marketing strategy of the insurer

B. The insured's medical history and lifestyle

C. The demographics of the insurance market

D. The type of policy being sold

4. What ultimately determines the interest rates for a fixed annuity's owner?

A. The market interest rates

B. The insurer's guaranteed minimum rate of interest

C. The Federal Reserve interest rates

D. Policyholder's investment performance

5. What does insurable interest refer to in life insurance?

A. A financial link between the policyholder and the insured

B. The requirement of regular premium payments

C. The ability to generate a profit from the policy

D. The obligation to consult with a financial advisor

6. Define a death benefit in the context of life insurance.

A. The amount paid to the insured upon retirement

B. The total premiums paid into the policy

C. The amount paid to beneficiaries upon the death of the insured

D. The cash value available during the life of the insured

7. Which of the following is a characteristic of whole life insurance?

A. Coverage lasts for a limited time.

B. It accumulates cash value over time.

C. Premiums fluctuate based on investments.

D. It only provides death benefits.

8. What term is used to name the non-taxed return of unused premiums?

A. Rebates

B. Dividends

C. Bonuses

D. Returns

9. What rights do family members have under a Family Policy when the insured breadwinner dies?

A. They receive a cash payout regardless of their status

B. They can convert their coverage to permanent life insurance without evidence of insurability

C. They must purchase new policies with higher premiums

D. They lose all coverage under the original policy

10. How is unearned premium handled if a policy is canceled?

A. Kept by the insurer as profit

B. Ignored and not refunded to the policyholder

C. Refunded to the policyholder

D. Used to pay future premiums

Answers

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

Explanations

1. What does the term "surrender value" refer to?

A. The cash payout upon death of the insured

B. The price at which a policy can be sold

C. The financial amount available if a policy is terminated

D. The total premiums collected over the life of the policy

The term "surrender value" specifically refers to the financial amount available to the policyholder if they decide to terminate their life insurance policy before it matures or before the death of the insured. This value reflects the accumulated cash value of a permanent life insurance policy after deducting any applicable surrender charges or fees. It is important for policyholders to understand this concept, as it provides an option for accessing funds built up within the policy rather than letting it lapse or continuing to pay premiums without any return. In contrast, the cash payout upon death pertains to the death benefit, which is distinct from the surrender value. The price at which a policy can be sold is related to market dynamics and may vary based on factors such as the policy's value and the insurer, but does not define surrender value. Lastly, total premiums collected over the life of the policy simply represents the total amount paid into the policy, but does not account for any growth in cash value or adjustments for surrender charges. Thus, acknowledging the surrender value is essential for policyholders considering their financial options with a life insurance policy.

2. What is the purpose of a waiver of premium rider?

A. Allows policyholders to reduce coverage

B. Suspends premium payments if the policyholder becomes disabled

C. Automatically increases the death benefit after a certain period

D. Permits the policyholder to switch to another policy

The waiver of premium rider is an important provision found in life insurance policies that provides financial protection to policyholders in the event of a disability. When this rider is included in a policy, it specifically allows for the suspension of premium payments if the policyholder becomes disabled and is unable to work. This means that as long as the policyholder meets the criteria for being considered disabled, they don't have to worry about making premium payments during that time, and their coverage remains intact. This rider helps ensure that the policyholder does not lose their insurance protection due to an inability to pay premiums resulting from their medical condition. It offers peace of mind, knowing that their life insurance policy will remain active even during a challenging time financially. Overall, the waiver of premium rider is designed to enhance the stability and security of a life insurance policy in the face of unexpected circumstances, providing both coverage and financial relief during periods of disability.

3. Which item is essential for determining the premium rates of life insurance policies?

A. The marketing strategy of the insurer

B. The insured's medical history and lifestyle

C. The demographics of the insurance market

D. The type of policy being sold

The insured's medical history and lifestyle are crucial factors in determining the premium rates for life insurance policies. Insurance companies assess the risk associated with providing coverage to an individual, and these personal factors offer significant insight into that risk. When evaluating an applicant for life insurance, underwriters typically require detailed information about the individual's health status, pre-existing conditions, family medical history, and lifestyle choices, such as smoking, alcohol consumption, and physical activity. This information helps insurers estimate the likelihood of the insured's death within the policy term, which in turn affects how they price the premiums. The higher the risk perceived by the insurer, the higher the premium may be set to cover that risk. Other factors listed, such as the marketing strategy or demographics of the insurance market, may influence how products are offered or targeted, but they do not directly affect the individual premium rates determined for each policyholder. The type of policy also plays a role in the overall premium structure but is secondary to the specific health and lifestyle factors of the insured when it comes to calculating rates.

4. What ultimately determines the interest rates for a fixed annuity's owner?

A. The market interest rates

B. The insurer's guaranteed minimum rate of interest

C. The Federal Reserve interest rates

D. Policyholder's investment performance

The determination of interest rates for a fixed annuity's owner primarily relies on the insurer's guaranteed minimum rate of interest. This guaranteed rate is a foundational aspect of fixed annuities, as it ensures that the policyholder will receive at least a specified minimum return on their investment over the duration of the annuity. While market interest rates and Federal Reserve rates can influence insurance companies in setting their rates, the specific rate applied to fixed annuities is dictated by the guarantees made in the policy itself. The insurer assesses its financial capabilities, obligations, and business model when setting these guaranteed rates. This means that regardless of fluctuations in market conditions or intervention by entities like the Federal Reserve, the policyholder benefits from the predefined interest rate agreed upon in the annuity contract. The performance of the policyholder's investments does not affect the interest credited to a fixed annuity in the same way, as it operates on a guaranteed basis rather than a variable or performance-driven return. Hence, the focus remains on the insurer’s commitment and capacity to honor the guaranteed rate, which is why this option is considered the correct answer.

5. What does insurable interest refer to in life insurance?

- A. A financial link between the policyholder and the insured
- B. The requirement of regular premium payments
- C. The ability to generate a profit from the policy
- D. The obligation to consult with a financial advisor

Insurable interest is a fundamental concept in life insurance that ensures the policyholder has a legitimate interest in the life of the insured. This means that there must be a financial or emotional stake in the continued life of the person being insured. For instance, a spouse typically has an insurable interest in their partner because their financial wellbeing may be dependent on their partner's life. Similarly, a business partner would have insurable interest in the life of another partner, as their demise could lead to significant financial loss for the business and its stakeholders. This principle serves to prevent insurance from becoming a gambling or speculative venture. Without insurable interest, there could be an incentive for the policyholder to wish harm upon the insured, which contradicts the purpose of insurance as a risk management tool. Thus, having a financial link—or a close personal relationship—between the policyholder and the insured is essential for a legally valid life insurance policy. The other options addressed do not adequately represent the core principle of insurable interest. Regular premium payments, profit generation from the policy, and obligations toward financial advisors do not relate directly to the established requirement that policyholders must have a vested interest in the insured to initiate a coverage contract.

6. Define a death benefit in the context of life insurance.

- A. The amount paid to the insured upon retirement
- B. The total premiums paid into the policy
- C. The amount paid to beneficiaries upon the death of the insured
- D. The cash value available during the life of the insured

In life insurance, a death benefit represents the sum of money that is paid out to the beneficiaries upon the death of the insured individual. This payment is one of the primary purposes of a life insurance policy, designed to provide financial support to loved ones after the insured's passing. The amount of the death benefit is determined at the time the policy is purchased and can vary based on the policy terms, underwriting factors, and the specific coverage selected. This benefit ensures that the beneficiaries are afforded financial security in the absence of the insured, helping to cover expenses such as funeral costs, outstanding debts, or living expenses. The death benefit is typically paid out tax-free and serves as a crucial safety net for families and dependents left behind. The other options do not accurately reflect the definition of a death benefit. Payments made upon retirement, total premiums paid, and cash value available during the policyholder's life are associated with different aspects of life insurance policies and do not pertain directly to the benefits provided at the time of the insured's death.

7. Which of the following is a characteristic of whole life insurance?

A. Coverage lasts for a limited time.

B. It accumulates cash value over time.

C. Premiums fluctuate based on investments.

D. It only provides death benefits.

Whole life insurance is designed to provide lifelong coverage, and one of its most significant features is the accumulation of cash value over time. This means that as the policyholder pays premiums, a portion of those payments contributes to a savings component that grows at a guaranteed rate. The cash value can be accessed by the policyholder during their lifetime through loans or withdrawals, providing a financial resource that can be used for various needs, such as emergencies or retirement funding. The other options highlight characteristics associated with other types of insurance. Limited coverage periods are typical of term life insurance, not whole life. Premiums that fluctuate based on investments are characteristic of variable life insurance or indexed universal life insurance, rather than whole life insurance, which has fixed premiums. Lastly, whole life insurance does provide death benefits, but it also offers the added benefit of cash value, which is central to its appeal. Thus, the correct choice underscores the dual nature of whole life insurance: a permanent death benefit along with the potential for cash accumulation.

8. What term is used to name the non-taxed return of unused premiums?

A. Rebates

B. Dividends

C. Bonuses

D. Returns

The term that refers to the non-taxed return of unused premiums in life insurance is dividends. In the context of mutual insurance companies, dividends are paid to policyholders when the company has favorable financial performance. These dividends are a share of the profits and are not considered taxable income under federal tax law. Dividends can be used in several ways—policyholders can take them as cash, apply them as a reduction in premiums, or use them to purchase additional insurance. This feature of dividends is one of the reasons policyholders may choose mutual insurance companies over stock companies, as it allows them to share in the company's profitability. Understanding dividends and their non-taxable status is crucial for life insurance professionals, as it affects both policyholder decisions and financial planning.

9. What rights do family members have under a Family Policy when the insured breadwinner dies?

A. They receive a cash payout regardless of their status

B. They can convert their coverage to permanent life insurance without evidence of insurability

C. They must purchase new policies with higher premiums

D. They lose all coverage under the original policy

When a breadwinner covered under a Family Policy passes away, family members have the right to convert their coverage to permanent life insurance without needing to provide evidence of insurability. This is significant because it allows them to maintain their insurance coverage and benefits even after such a loss, without the typical requirements that would come with applying for new insurance. This feature is particularly valuable, as it enables the surviving family members to secure permanent protection without undergoing a medical examination or providing health information that might affect their insurability at that time. Such provisions are designed for their convenience and ease during a difficult time, ensuring that they can obtain the coverage they need without additional hurdles. The option to convert to permanent life insurance is a common feature of family policies, designed to provide ongoing support and financial stability to the family after the death of the primary insured individual.

10. How is unearned premium handled if a policy is canceled?

A. Kept by the insurer as profit

B. Ignored and not refunded to the policyholder

C. Refunded to the policyholder

D. Used to pay future premiums

When a policy is canceled, any unearned premium is typically refunded to the policyholder. Unearned premium refers to the portion of the premium that has been paid but has not yet been earned by the insurer because the coverage has not yet been provided for the time corresponding to that premium. In most insurance practices, including life insurance in North Carolina, if a policyholder decides to cancel their policy, they are entitled to receive a refund for the unearned portion of their premium. This is based on principles of fairness and the acknowledgment that the policyholder has not received the full benefit of the coverage for which they initially paid. The refund process ensures that the policyholder is not financially penalized for canceling a policy if the premium payments exceed the period of coverage already provided. Thus, the correct answer reflects the established practice where insurers return any unearned premium to maintain good customer relations and comply with regulatory standards.