Primerica Life Insurance Practice Exam (Sample)

Study Guide

BY EXAMZIFY

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Questions

1. **Which best describes the function of the Medical Information Bureau (MIB)?**
   - A. It protects insured against insolvent insurers
   - B. It is a rating organization for health insurance
   - C. It maintains underwriting information on applicants for life and health insurance
   - D. It collects medical information on the insured from the insurance companies

2. **Define "universal life" insurance.**
   - A. A permanent policy with fixed premiums only
   - B. A flexible permanent policy with a death benefit and cash value account
   - C. A type of term insurance that builds cash value
   - D. A policy specifically for children

3. **What is the primary purpose of life insurance?**
   - A. To provide financial protection to beneficiaries upon the insured's death
   - B. To save for retirement
   - C. To pay for college tuition
   - D. To invest in the stock market

4. **What does "self-insured" mean?**
   - A. Having multiple insurance policies for full coverage
   - B. Not holding any insurance and relying on personal savings
   - C. Being insured only against natural disasters
   - D. Owning insurance with a high deductible

5. **Which type of life insurance is usually focused on providing coverage for a defined period?**
   - A. Whole life insurance
   - B. Term life insurance
   - C. Universal life insurance
   - D. Variable life insurance

6. A key person insurance policy can pay for which of the following?

- **A. Workers compensation**
- **B. Hospital bills of the key employee**
- **C. Costs of training a replacement**
- **D. Loss of personal income**

7. Which of the following would NOT fall into the category of costs associated with death?

- **A. Final medical expenses of the insured**
- **B. Day to day expenses of maintaining the family**
- **C. The expense of a vacation for surviving family members**
- **D. Funeral expenses**

8. What is the purpose of establishing an insurable interest in a life insurance policy?

- **A. To determine premium costs**
- **B. To validate the policy beneficiary**
- **C. To ensure a legitimate financial interest exists**
- **D. To outline the terms of the coverage**

9. What advantage does having an insurance trust provide regarding life insurance policies?

- **A. It allows for direct management by beneficiaries**
- **B. It can help with estate planning and managing tax implications**
- **C. It guarantees the highest payout possible**
- **D. It eliminates the need for a will**

10. What is an insurance "policy loan"?

- **A. A payment plan for premiums based on the policyholder's income**
- **B. A loan taken against the cash value of a life insurance policy**
- **C. A fee paid for processing the insurance application**
- **D. A type of policy that pays out only after the policyholder's death**

Answers

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

Explanations

1. Which best describes the function of the Medical Information Bureau (MIB)?

A. It protects insured against insolvent insurers

B. It is a rating organization for health insurance

C. It maintains underwriting information on applicants for life and health insurance

D. It collects medical information on the insured from the insurance companies

The Medical Information Bureau (MIB) plays a crucial role in the life and health insurance industry by maintaining underwriting information on applicants. This organization gathers and compiles data from various insurance companies, creating a centralized database that helps underwriters assess the risk of insuring a particular individual. When an applicant submits an insurance application, insurers can check the MIB database to obtain relevant medical history and risk-related information, ensuring they make informed decisions. The MIB is particularly valuable because it helps mitigate the risk of insurance fraud by providing accurate and comprehensive information, allowing insurers to better evaluate the risk profiles of applicants. This can lead to more accurate premium pricing based on an individual's health status and history. In contrast, the other choices involve different functions that do not accurately reflect the primary role of the MIB. The MIB does not protect insured individuals from insolvent insurers, serve as a health insurance rating organization, or primarily act as a collector of medical information from insured individuals directly. Its main purpose is focused on underwriting support by maintaining and sharing relevant applicant data among insurance providers.

2. Define "universal life" insurance.

A. A permanent policy with fixed premiums only

B. A flexible permanent policy with a death benefit and cash value account

C. A type of term insurance that builds cash value

D. A policy specifically for children

Universal life insurance is characterized as a flexible permanent policy that combines both a death benefit and a cash value account. This type of insurance allows policyholders to adjust their premiums and the death benefit as needed, providing a level of adaptability that is not found in other types of permanent insurance. The cash value component grows over time and can be accessed by the policyholder, offering financial flexibility throughout their life. In contrast, other types mentioned lack these features. Policies with fixed premiums typically do not allow for adjustments in payment, limiting the policyholder's ability to manage their financial commitments according to changing needs. Term insurance is strictly temporary and does not build cash value, making it unsuitable for those looking for a long-term investment. Lastly, policies specifically for children are tailored for a distinct demographic and do not encompass the broader features of universal life insurance.

3. What is the primary purpose of life insurance?

- A. To provide financial protection to beneficiaries upon the insured’s death
- B. To save for retirement
- C. To pay for college tuition
- D. To invest in the stock market

The primary purpose of life insurance is to provide financial protection to beneficiaries upon the insured's death. Life insurance serves as a safety net, ensuring that loved ones or dependents are financially secure when the policyholder passes away. The death benefit paid out by the insurance provider can help cover a variety of expenses that might arise from the loss of income, such as mortgage payments, daily living expenses, funeral costs, and other financial obligations. This critical function of life insurance highlights its role in providing peace of mind for the policyholder, knowing that their beneficiaries will not face financial hardship after their passing. The other options focus on financial tools or goals that are not the primary functions of life insurance. While saving for retirement, paying for college tuition, or investing in the stock market are important financial strategies, they do not align with the fundamental goal of life insurance, which is specifically designed to offer support in the event of death rather than to serve as an investment or savings vehicle.

4. What does "self-insured" mean?

- A. Having multiple insurance policies for full coverage
- B. Not holding any insurance and relying on personal savings
- C. Being insured only against natural disasters
- D. Owning insurance with a high deductible

The term "self-insured" refers to the practice of not purchasing insurance and instead relying on personal savings or assets to cover potential financial losses. This approach means that an individual consciously decides to bear the risk themselves rather than transferring that risk to an insurance company. This concept applies in situations where the individual believes their financial capacity is sufficient to absorb any losses they might incur. For instance, someone may choose to self-insure against minor health expenses or property damage, relying on their savings to cover these costs rather than paying premiums for an insurance policy. In this context, the other choices do not accurately define "self-insured." Having multiple insurance policies would indicate a desire to transfer risk rather than accept it. Being insured only against natural disasters suggests a limited scope of coverage, which doesn't reflect the idea of self-insurance. Lastly, owning insurance with a high deductible still means engaging with an insurance policy, as there is still some transfer of risk happening.

5. Which type of life insurance is usually focused on providing coverage for a defined period?

- A. Whole life insurance
- B. Term life insurance
- C. Universal life insurance
- D. Variable life insurance

Term life insurance is specifically designed to provide coverage for a predetermined period, typically ranging from one year to several decades. This type of insurance is attractive for individuals seeking affordable premiums for financial protection during critical years, such as when they have dependents or significant debts, like a mortgage. The coverage under term life insurance is straightforward: if the insured passes away during the term, the beneficiaries receive a death benefit. However, if the term expires and the insured is still alive, the policy's coverage ends, and there is typically no cash value accumulated. This clear-time frame allows individuals to align their insurance needs with specific life events or responsibilities. In contrast, whole life insurance, universal life insurance, and variable life insurance are designed to provide lifelong coverage and often have cash value components, which differentiate them significantly from term life insurance.

6. A key person insurance policy can pay for which of the following?

- A. Workers compensation
- B. Hospital bills of the key employee
- C. Costs of training a replacement
- D. Loss of personal income

A key person insurance policy is designed to protect a business from the financial impact that arises when a key employee, often critical to the company's operations and success, becomes unable to perform their role due to death or disability. The funds received from such a policy can be used for several purposes, primarily focused on mitigating the economic loss faced by the business. Training a replacement is a significant expense for any business when a key employee is lost. The funds from a key person insurance policy can be allocated to cover the costs associated with recruiting, hiring, and training a new employee to fill the gap left by the key person. This makes it crucial for maintaining the continuity and stability of the organization during a challenging transition. In contrast, the other options mentioned do not accurately reflect the purpose of key person insurance. For example, workers compensation pertains to liabilities associated with workplace injuries and is separate from coverage for loss due to the absence of key personnel. Hospital bills for the key employee, while important, are typically covered under health insurance rather than key person insurance, which primarily focuses on the business aspect rather than individual medical expenses. Lastly, the loss of personal income, although a concern for the individual, does not directly relate to the function of a key person policy, which is

7. Which of the following would NOT fall into the category of costs associated with death?

A. Final medical expenses of the insured

B. Day to day expenses of maintaining the family

C. The expense of a vacation for surviving family members

D. Funeral expenses

The correct answer indicates that the expense of a vacation for surviving family members does not fall into the category of costs associated with death. This is because costs related to death typically refer to expenses that are directly incurred as a result of the person's passing and the financial implications that follow. Final medical expenses of the insured, day-to-day expenses of maintaining the family, and funeral expenses are all consequential costs that arise directly due to the death. Final medical expenses encompass the costs incurred during the last illness or injury leading to the insured's death. Funeral expenses entail all costs related to burial or cremation services, which are also directly tied to the death. Additionally, the day-to-day expenses of maintaining the family can increase or become more burdensome following the loss of income due to death, making them relevant to the situation. In contrast, a vacation for surviving family members, while it might be a beneficial expense for them in dealing with grief, is not a necessary cost associated with the death itself. It does not address immediate financial obligations or needs arising from the individual’s passing, thereby distinguishing it from the other expenses listed.

8. What is the purpose of establishing an insurable interest in a life insurance policy?

A. To determine premium costs

B. To validate the policy beneficiary

C. To ensure a legitimate financial interest exists

D. To outline the terms of the coverage

The purpose of establishing an insurable interest in a life insurance policy is to ensure a legitimate financial interest exists between the policyholder and the insured. Insurable interest serves as a foundational legal principle in insurance, which means that the policyholder must have a valid interest in the continued life of the insured. This requirement helps prevent insurance from being used as a gambling mechanism or to create policies on individuals with no meaningful relationship. For instance, if one were to take out a life insurance policy on a stranger, it could lead to unethical situations where the policyholder may have an incentive for harm to come to the insured. Insurable interest protects against these scenarios by requiring that the policyholder has a vested financial interest in the well-being of the individual covered by the policy, such as a spouse, child, or business partner.

9. What advantage does having an insurance trust provide regarding life insurance policies?

- A. It allows for direct management by beneficiaries
- B. It can help with estate planning and managing tax implications
- C. It guarantees the highest payout possible
- D. It eliminates the need for a will

Having an insurance trust provides significant advantages for estate planning and managing tax implications, which is why this option is the correct choice. When life insurance policies are placed in a trust, the death benefits do not count as part of the insured's taxable estate. This can help reduce estate taxes and ensure that more of the policy's value is passed on to the beneficiaries. Additionally, using an insurance trust allows for more structured management of the policy's proceeds. The trust can specify how and when the funds are distributed to beneficiaries, which can prevent mismanagement or premature spending of the proceeds. This can be particularly beneficial when the beneficiaries are minors or those who may not be financially responsible. In contrast, direct management by beneficiaries, guaranteed payouts, and the elimination of the need for a will do not capture the primary function of an insurance trust, which is to aid in tax efficiency and estate planning strategies. While these aspects may be relevant in broader contexts of insurance and estate management, they do not reflect the essential reason for utilizing an insurance trust.

10. What is an insurance "policy loan"?

- A. A payment plan for premiums based on the policyholder's income
- B. A loan taken against the cash value of a life insurance policy
- C. A fee paid for processing the insurance application
- D. A type of policy that pays out only after the policyholder's death

A policy loan refers to the ability of a policyholder to borrow money against the cash value accumulated in their life insurance policy. When a policy has a cash value, the insurer allows the policyholder to take out a loan using that cash value as collateral. This is often a beneficial option because it does not require approval and generally has lower interest rates compared to traditional loans. However, it's important for policyholders to understand that any unpaid loan amount, including interest, will be deducted from the death benefit if not repaid before the policyholder's death. The other choices do not accurately represent what a policy loan is. A payment plan for premiums is related to how the policyholder pays for the insurance coverage and does not involve borrowing against the policy. A fee for processing the insurance application pertains to administrative costs rather than a loan mechanism. Lastly, a type of policy that pays out only after the policyholder's death describes a whole life or term policy but is not related to loans or cash values. Thus, the definition matched by the correct option highlights an essential feature of certain life insurance policies that allows for financial flexibility through loans against cash value.