

PSI Life Exam Practice Test (Sample)

Study Guide



Everything you need from our exam experts!

This is a sample study guide. To access the full version with hundreds of questions,

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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. Don't worry about getting everything right, 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, and take breaks to retain information better.

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.

7. Use Other Tools

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!

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Questions

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- 1. What kind of retirement plan can a 75-employee for-profit corporation establish?**
 - A. 401(k) Plan**
 - B. Pension Plan**
 - C. SIMPLE IRA**
 - D. Roth IRA**

- 2. What factor does NOT typically influence life insurance premiums?**
 - A. The applicant's age**
 - B. The applicant's health status**
 - C. The applicant's hobbies and occupations**
 - D. The type of car the applicant drives**

- 3. Which one of the following is NOT a use of life insurance proceeds by beneficiaries?**
 - A. Debt repayment**
 - B. Income replacement**
 - C. Health care costs for the insured**
 - D. Education expenses**

- 4. What is an advantage of whole life insurance policies compared to term life?**
 - A. They offer significant risk in investment**
 - B. They provide coverage for a specific time period only**
 - C. They generate tax-free income during the insured's lifetime**
 - D. They accumulate cash value over time**

- 5. When are the policy loan proceeds typically reported for tax purposes?**
 - A. At the end of the policy term**
 - B. When the loan is taken**
 - C. Only if the policy is canceled**
 - D. Never, as they are always tax-free**

6. What is "survivorship life insurance" also known as?

- A. Joint life insurance**
- B. Temporary life insurance**
- C. Trustee life insurance**
- D. Single life insurance**

7. What is a characteristic of whole life insurance that differentiates it from other types of insurance?

- A. It has a higher risk of cancellation**
- B. It always includes a death benefit**
- C. It links premium costs to stock market performance**
- D. It can be converted to term insurance at any time**

8. What is the function of a "collateral assignment" in life insurance?

- A. A pledge of the death benefit to secure a loan**
- B. A type of policy that accumulates cash value**
- C. A strategy to waive premium payments**
- D. A method to increase coverage limits**

9. When a beneficiary receives interest payments from an insurer, how are such payments generally treated for tax purposes?

- A. As ordinary income**
- B. As capital gains**
- C. As tax-exempt income**
- D. As investment returns**

10. What happens to coverage under a children term rider when a child reaches a specified age?

- A. Coverage continues with increased premium**
- B. They are converted to a permanent policy**
- C. They are eliminated from coverage**
- D. They retain coverage with reduced benefits**

Answers

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

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Explanations

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1. What kind of retirement plan can a 75-employee for-profit corporation establish?

- A. 401(k) Plan**
- B. Pension Plan**
- C. SIMPLE IRA**
- D. Roth IRA**

A 75-employee for-profit corporation has the option to establish a SIMPLE IRA, which stands for Savings Incentive Match Plan for Employees. This type of retirement plan is specifically designed for small businesses and organizations with 100 or fewer employees, making it a suitable choice for a company of this size. With a SIMPLE IRA, both employees and employers can contribute to the retirement plan, providing employees with a straightforward way to save for retirement while also benefiting from the employer's matching contributions. There are fewer administrative requirements compared to larger retirement plans, which makes it easier for smaller companies to implement and maintain. While a 401(k) Plan and Pension Plan could also be options, they tend to have more complex rules and administrative requirements that may not be ideal for a smaller company structure. A Roth IRA is typically set up by individuals rather than employers and does not offer the same matching contribution options, which further distinguishes it from the SIMPLE IRA. Thus, given the parameters of a for-profit corporation with 75 employees, a SIMPLE IRA is the most appropriate retirement plan option.

2. What factor does NOT typically influence life insurance premiums?

- A. The applicant's age**
- B. The applicant's health status**
- C. The applicant's hobbies and occupations**
- D. The type of car the applicant drives**

Life insurance premiums are primarily determined by factors that directly impact the risk of mortality associated with the insured individual. The applicant's age plays a significant role in insurance underwriting, as older individuals generally face a higher risk of health issues, thus leading to higher premiums. Similarly, the applicant's health status is crucial since pre-existing conditions or overall health can greatly affect life expectancy, directly influencing the cost of coverage. Additionally, an applicant's hobbies and occupations are closely scrutinized because certain activities or jobs can present higher risks of injury or death; for instance, someone engaged in skydiving or an occupation considered hazardous may be charged more or face exclusions. The type of car the applicant drives, however, is not typically a factor in determining life insurance premiums. It is more relevant to auto insurance since it can influence the likelihood of accidents. Therefore, while factors such as age, health, and occupation will affect life insurance premiums due to their connection to mortality risk, the make or model of a vehicle does not have a direct impact on life insurance pricing.

3. Which one of the following is NOT a use of life insurance proceeds by beneficiaries?

- A. Debt repayment**
- B. Income replacement**
- C. Health care costs for the insured**
- D. Education expenses**

Life insurance proceeds are primarily designed to provide financial support to beneficiaries upon the death of the insured. They typically serve several important purposes, such as debt repayment, income replacement, and funding education expenses, all aimed at ensuring that the beneficiaries can maintain financial stability after the loss of the insured. Debt repayment refers to using life insurance funds to settle any outstanding financial obligations, ensuring that the deceased's debts do not burden the beneficiaries. Income replacement is a fundamental function of life insurance; the proceeds can help cover living expenses and maintain the lifestyle of the beneficiaries that may be impacted by the loss of the insured's income. Education expenses can also be funded with life insurance proceeds, providing financial support for beneficiaries who may wish to pursue higher education or vocational training. However, health care costs for the insured typically would not be covered by life insurance proceeds since these costs are generally incurred while the individual is still alive. Life insurance is intended to provide financial support to beneficiaries after the insured's death, not to cover the medical expenses of the insured during their lifetime. Thus, this option stands out as not being a typical use of life insurance proceeds.

4. What is an advantage of whole life insurance policies compared to term life?

- A. They offer significant risk in investment**
- B. They provide coverage for a specific time period only**
- C. They generate tax-free income during the insured's lifetime**
- D. They accumulate cash value over time**

Whole life insurance policies offer several benefits that distinguish them from term life insurance, and one of the most significant advantages is the accumulation of cash value over time. This feature means that part of the premium payments contributes to a savings component within the policy. As the policyholder continues to pay premiums, this cash value grows at a guaranteed rate, offering a financial resource that can be accessed during the insured's lifetime, often in the form of loans or withdrawals. This cash value can be particularly appealing because it can provide policyholders with financial flexibility, enabling them to use it for various needs such as educational expenses, emergencies, or supplementing retirement income. Moreover, the cash value grows on a tax-deferred basis, meaning that policyholders are not taxed on the growth until they withdraw funds from the policy, adding another layer of financial benefit. In contrast, term life insurance is designed to provide coverage for a specific period, without any cash value accumulation. This means that while it offers a death benefit, it does not build equity or provide financial support beyond the term of coverage. Other choices either misrepresent the characteristics of whole life policies or highlight features not available in the context of life insurance.

5. When are the policy loan proceeds typically reported for tax purposes?

- A. At the end of the policy term**
- B. When the loan is taken**
- C. Only if the policy is canceled**
- D. Never, as they are always tax-free**

The policy loan proceeds are reported for tax purposes when the loan is taken because this action represents a realized transaction. When a policyholder borrows against the cash value of their life insurance policy, the amount borrowed is not considered taxable income at the time of the loan. Instead, it is treated as a loan against the policy's cash value. However, for taxation purposes, the loan itself is recognized at the point it is accessed, which is when the policyholder chooses to take out the loan. In other cases, if the policyholder were to cancel the policy or if the total amount of the loan exceeded the policy's cash value, this could result in taxable events. Therefore, the timing of when the loan is acknowledged for tax purposes becomes critical in understanding how it can affect overall tax liability.

6. What is "survivorship life insurance" also known as?

- A. Joint life insurance**
- B. Temporary life insurance**
- C. Trustee life insurance**
- D. Single life insurance**

Survivorship life insurance is often referred to as joint life insurance because it insures two lives under a single policy. This type of policy is typically designed for couples, such as spouses, and pays out a death benefit only after both insured individuals have passed away. The concept is built around the idea that the benefits will help cover estate taxes or provide an inheritance to heirs, which might not be needed until the second person's death. Joint life insurance also allows for lower premiums compared to two separate policies since it covers multiple individuals within one contract. The other choices do not correlate with survivorship life insurance; for instance, temporary life insurance provides coverage for a specific period and does not involve multiple lives, while trustee life insurance is focused more on the management of assets in trust and single life insurance is issued to only one individual.

7. What is a characteristic of whole life insurance that differentiates it from other types of insurance?

- A. It has a higher risk of cancellation**
- B. It always includes a death benefit**
- C. It links premium costs to stock market performance**
- D. It can be converted to term insurance at any time**

Whole life insurance is a type of permanent life insurance that provides coverage for the insured's entire lifetime, as long as premiums are paid. A defining characteristic of whole life insurance that sets it apart from term life insurance and other forms of insurance is the inclusion of a death benefit that is guaranteed to be paid out upon the death of the insured, regardless of when that occurs, as long as the policy is in force. This assurance of a death benefit distinguishes whole life insurance from term insurance, which only provides coverage for a specified term or period. If the insured lives past the term, there is no payout. Additionally, other types of insurance may not be guaranteed for a lifetime or may have different structures regarding benefits. Whole life policies typically also accumulate cash value over time, which can be accessed by the policyholder during their lifetime, further solidifying their unique structure and advantages. In contrast, the other options either misrepresent characteristics of whole life insurance or apply to different insurance types. For example, a higher risk of cancellation may be relevant to certain policies but does not specifically define whole life. Linking premiums to stock market performance is a feature of certain variable policies, not whole life. The ability to convert to term insurance applies to convertible term policies, which is

8. What is the function of a "collateral assignment" in life insurance?

- A. A pledge of the death benefit to secure a loan**
- B. A type of policy that accumulates cash value**
- C. A strategy to waive premium payments**
- D. A method to increase coverage limits**

The function of a "collateral assignment" in life insurance is primarily to pledge the death benefit to secure a loan. This process allows the policyholder to assign a portion of the insurance policy's death benefit to a lender as collateral for a loan. In the event of the policyholder's death, the lender is entitled to be paid from the proceeds of the policy up to the amount owed on the loan, which secures the lender's interests while allowing the policyholder to access necessary funds. This mechanism provides a safeguard for lenders, ensuring that they have recourse in case the borrower defaults. Collateral assignments are often utilized in situations where individuals need to borrow money for various needs, such as business expenses, personal debts, or other financial obligations. By using the death benefit as collateral, individuals can leverage their life insurance policies in a strategic way to meet immediate financial needs without completely relinquishing control of the policy itself.

9. When a beneficiary receives interest payments from an insurer, how are such payments generally treated for tax purposes?

- A. As ordinary income**
- B. As capital gains**
- C. As tax-exempt income**
- D. As investment returns**

When a beneficiary receives interest payments from an insurer, those payments are typically treated as ordinary income for tax purposes. This classification means that the interest payments are subject to income tax at the beneficiary's applicable tax rate, similar to wages or other forms of compensation received. Interest income is earned on various forms of accounts and investments, and the IRS requires that it be declared as part of the beneficiary's taxable income during their annual tax return. This tax treatment applies regardless of the source of the interest, whether it's derived from an insurance policy, bank savings, or bonds. Understanding this classification is critical for beneficiaries as it impacts how the received payments impact their overall tax liability. Other forms of payments, such as capital gains, tax-exempt income, or investment returns, would be subject to different tax treatments, but in the case of interest from an insurer, it is straightforwardly considered ordinary income.

10. What happens to coverage under a children term rider when a child reaches a specified age?

- A. Coverage continues with increased premium**
- B. They are converted to a permanent policy**
- C. They are eliminated from coverage**
- D. They retain coverage with reduced benefits**

When a child reaches a specified age specified in the children's term rider, the coverage under this rider is typically eliminated. Children's term riders are designed to provide life insurance coverage for a policyholder's children until they reach a certain age, often around 18 or 21. Once this age is reached, the rider generally terminates and the coverage is no longer in effect. This approach allows the policyholder to provide temporary coverage during the children's early years, but it does not continue indefinitely. While there may be options available in some policies to convert to a permanent policy or retain benefits in a different form, standard practice for a children's term rider is to cease coverage entirely once the specified age is reached. This ensures that the policy only covers children during the defined term of the rider, after which they may seek their own life insurance if needed.

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://psi-lifeexam.examzify.com>

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

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