

PSI Life Exam Practice Test (Sample)

Study Guide



Everything you need from our exam experts!

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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. 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. What does the term "policy loan" refer to in life insurance?**
 - A. A loan taken against the cash value of a permanent life insurance policy**
 - B. A loan taken to purchase a life insurance policy**
 - C. A loan that does not need to be repaid**
 - D. A loan that affects death benefits**
- 2. What typically happens if an issuer discovers fraud in an insurance application?**
 - A. The policy is automatically canceled**
 - B. The claim is still paid out**
 - C. The issuer can deny a claim based on the fraud**
 - D. The insured receives a refund**
- 3. 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**
- 4. Upon annuitization, which of the following will have the highest monthly payout?**
 - A. Straight Life**
 - B. Joint Life**
 - C. Life with Period Certain**
 - D. Term Life**
- 5. When underwriting group life insurance, the underwriter typically evaluates what?**
 - A. The individual risks in the group**
 - B. The group as a whole**
 - C. The claims history of previous policies**
 - D. The amount of coverage needed by each individual**

- 6. What term refers to statements made by an applicant concerning personal health history?**
- A. Declarations**
 - B. Representations**
 - C. Warranties**
 - D. Affidavits**
- 7. Why is disclosure important during the life insurance application process?**
- A. It allows for premium rebates if not accepted**
 - B. It ensures accurate underwriting and prevents future claim denials**
 - C. It guarantees immediate policy approval**
 - D. It reduces the overall policy cost**
- 8. What does it indicate if a life insurance policy has a level premium?**
- A. The premium amount varies based on the insured's age**
 - B. The premium amount decreases over time**
 - C. The premium amount remains constant throughout the life of the policy**
 - D. The premium amount is only fixed for the first five years**
- 9. What is the main purpose of a "rider" in a life insurance policy?**
- A. To decrease death benefits for savings**
 - B. To add additional benefits or coverage to the base policy**
 - C. To eliminate the need for premium payments**
 - D. To change ownership of the policy**
- 10. Which type of risk involves the possibility of loss but not a possibility of gain?**
- A. Speculative risk**
 - B. Pure risk**
 - C. Commercial risk**
 - D. Investment risk**

Answers

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

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Explanations

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1. What does the term "policy loan" refer to in life insurance?

- A. A loan taken against the cash value of a permanent life insurance policy**
- B. A loan taken to purchase a life insurance policy**
- C. A loan that does not need to be repaid**
- D. A loan that affects death benefits**

The term "policy loan" specifically refers to a loan that policyholders can take out against the cash value of a permanent life insurance policy. Permanent life insurance, such as whole life or universal life, accumulates cash value over time, which serves as a financial asset for the policyholder. When a policyholder takes a loan against this cash value, they are essentially borrowing money from their own policy, and the insurance company uses the cash value as collateral. This type of loan is advantageous because it typically offers lower interest rates compared to conventional loans, and in many cases, the policyholder does not need to undergo a credit check due to the nature of the loan being secured by the policy's cash value. Additionally, the policyholder can borrow up to the available cash value of the policy, providing flexibility in accessing funds for various needs. While the other options touch on different financial concepts related to insurance, they do not accurately describe a policy loan. Loans to purchase a life insurance policy or those that need not be repaid are not typical or standard practices. Furthermore, a policy loan does impact the death benefit, but its primary definition centers around the loan taken against the cash value that the policyholder can access. Thus, understanding the specific nature of "

2. What typically happens if an issuer discovers fraud in an insurance application?

- A. The policy is automatically canceled**
- B. The claim is still paid out**
- C. The issuer can deny a claim based on the fraud**
- D. The insured receives a refund**

When an issuer discovers fraud in an insurance application, one of the key actions they can take is to deny a claim based on the fraudulent information provided. Insurance companies rely heavily on the accuracy and honesty of the information that applicants submit when applying for coverage. When fraud is detected, it undermines the integrity of the insurance contract, giving the issuer grounds to reject any future claims related to that policy. This denial serves to protect the insurer from financial loss caused by fraudulent activities and ensures that resources are allocated correctly to legitimate claims. The presence of fraud can also lead the issuer to investigate further, which could have implications for the entire policy—not just individual claims. Other choices do not accurately reflect industry practices; for instance, simply canceling the policy automatically might not be the immediate response, as fraud needs to be legally established first. Paying out a claim in the presence of fraud runs counter to the principles of risk management in insurance. While a refund could result from a cancellation due to fraud, it is not the primary or guaranteed outcome when fraud is discovered.

3. 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

4. Upon annuitization, which of the following will have the highest monthly payout?

- A. Straight Life**
- B. Joint Life**
- C. Life with Period Certain**
- D. Term Life**

The option that leads to the highest monthly payout upon annuitization is the Straight Life option. This type of annuity provides payments to the annuitant for their entire lifetime, with no additional provisions for beneficiaries after their death. Because the payments are based solely on the life expectancy of the annuitant and do not need to account for the potential continuation of payments to a second person or any guaranteed period, the monthly payout is maximized. In contrast, Joint Life pay out options, while beneficial for couples, will pay less per month because the payout must accommodate for both lives, which can significantly extend the duration of payments. Life with Period Certain guarantees payments for a defined period, meaning that the total amount is distributed over a shorter time frame, potentially lowering each payment. Term Life, while a form of insurance, does not offer a payout in the same manner as the other options since it only pays a benefit upon death within a specified term and does not provide monthly income during the annuitization phase. Therefore, the Straight Life annuity is designed to offer the highest monthly payment because it is a straightforward contract focused solely on the individual receiving the annuity.

5. When underwriting group life insurance, the underwriter typically evaluates what?

- A. The individual risks in the group**
- B. The group as a whole**
- C. The claims history of previous policies**
- D. The amount of coverage needed by each individual**

In the context of underwriting group life insurance, the underwriter's primary focus is on evaluating the group as a whole rather than the individual risks within it. This approach allows the underwriter to assess the overall risk profile of the group, which can often be more favorable than assessing individual members because risks can be diversified across the entire group. By analyzing demographic factors, health statistics, and participation levels, the underwriter can make a determination about the insurability of the group and set appropriate premium rates. This method relies on the principle of group underwriting, which acknowledges that while individual members may pose certain risks, the collective characteristics of the group can mitigate those risks. This evaluation can include factors such as the average age, occupation types, and overall health of the group. In contrast, focusing solely on individual risks, claims history of previous policies, or the specific coverage needs of each member does not align with the group underwriting philosophy, which prioritizes the collective assessment to streamline the underwriting process and achieve a balanced risk evaluation.

6. What term refers to statements made by an applicant concerning personal health history?

- A. Declarations**
- B. Representations**
- C. Warranties**
- D. Affidavits**

The term that refers to statements made by an applicant concerning personal health history is "Representations." In the context of insurance applications, representations are the assertions or statements made by applicants about their health status and medical history. These statements are crucial as they are relied upon by the insurer to assess the risk associated with providing coverage. In an insurance policy, a representation is generally considered true to the best knowledge of the applicant at the time it is made. If the insured later discovers that a material representation was incorrect, it may lead to issues such as claims being denied or policies being rescinded, depending on the nature of the misrepresentation. Hence, understanding this term is vital for applicants as it impacts their obligations and potential liabilities during and after the insurance application process. The other terms provided, while related to aspects of legal and insurance contexts, do not accurately define the statements concerning an applicant's health history in the same way. Declarations typically refer to formal statements or proclamations but do not specifically relate to personal health history. Warranties are promises that certain conditions will be met, which also diverge from the nature of health representations. Affidavits are sworn statements of fact made under oath and typically do not pertain specifically to health history within

7. Why is disclosure important during the life insurance application process?

- A. It allows for premium rebates if not accepted**
- B. It ensures accurate underwriting and prevents future claim denials**
- C. It guarantees immediate policy approval**
- D. It reduces the overall policy cost**

Disclosure is essential during the life insurance application process because it ensures accurate underwriting and helps prevent future claim denials. When applicants provide complete and truthful information about their health history, lifestyle choices, and any other relevant factors, insurers can accurately assess risk and determine appropriate coverage levels and premium rates. This process is fundamental to the underwriting guidelines that insurance companies follow. If an applicant fails to disclose significant information—whether intentionally or unintentionally—it can lead to the insurer being unable to properly evaluate the risk. In situations where a claim arises, if the insurer discovers that crucial information was omitted or misrepresented, they may deny the claim based on the grounds of non-disclosure. This can leave beneficiaries without the financial support they expected, highlighting the critical role of honesty and transparency in this process. In contrast, the other options do not align as closely with the core principles of the application process. Providing complete and truthful details does not guarantee immediate policy approval, offer premium rebates, or inherently lower policy costs. Instead, the focus lies on the accuracy of the information, which upholds the integrity of the insurance coverage and protects both the insurer and the insured.

8. What does it indicate if a life insurance policy has a level premium?

- A. The premium amount varies based on the insured's age**
- B. The premium amount decreases over time**
- C. The premium amount remains constant throughout the life of the policy**
- D. The premium amount is only fixed for the first five years**

A life insurance policy with a level premium means that the premium amount stays the same over the entire duration of the policy. This feature provides predictability and stability for policyholders, as they can budget their expenses without worrying about fluctuating costs. Level premiums are commonly associated with whole life insurance and some term life insurance products, allowing policyholders to maintain the same payment structure throughout the policy's life. In contrast, other options suggest scenarios where premiums would vary, decrease, or only be fixed for a limited time. These variations can create uncertainty and might affect a policyholder's long-term financial planning, which is not the case with a level premium policy. This consistency is a key advantage for individuals seeking stability in their life insurance costs.

9. What is the main purpose of a "rider" in a life insurance policy?

- A. To decrease death benefits for savings**
- B. To add additional benefits or coverage to the base policy**
- C. To eliminate the need for premium payments**
- D. To change ownership of the policy**

The main purpose of a rider in a life insurance policy is to add additional benefits or coverage to the base policy. Riders are customizable features that policyholders can choose to enhance their life insurance coverage according to their specific needs or preferences. These may include provisions such as accelerated death benefits, which allow for a portion of the death benefit to be accessed while the insured is still alive, or accidental death riders, which provide additional coverage in the event of death due to an accident. This flexibility allows policyholders to tailor their insurance plans, ensuring that they have the necessary provisions for various circumstances without needing to purchase a separate policy. Riders can address unique situations that a standard life insurance policy may not cover, thereby increasing the overall value of the policy as it evolves with the insured's life changes.

10. Which type of risk involves the possibility of loss but not a possibility of gain?

- A. Speculative risk**
- B. Pure risk**
- C. Commercial risk**
- D. Investment risk**

The type of risk that involves the possibility of loss but not the possibility of gain is pure risk. Pure risk is characterized by scenarios where outcomes are limited to two possibilities: loss or no loss. Examples of pure risk include risks associated with natural disasters, accidents, or health-related issues. In these situations, the potential outcomes do not include any opportunity for profit, only the potential for loss. On the other hand, speculative risk involves scenarios that can result in a gain, a loss, or no change at all. This type of risk is typically associated with investments and entrepreneurial pursuits, where there is the potential for both profits and losses. Commercial risk and investment risk also contain elements of speculative risk, as they often involve the uncertainty of returns. Thus, the defining aspect of pure risk is its exclusivity to loss, making it the correct answer to the question.

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!