

PSI Ohio Insurance Practice Exam (Sample)

Study Guide



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SAMPLE

Questions

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- 1. Which of the following is a distinguishing feature of a variable life insurance policy?**
 - A. The cash value earnings are based on the performance of the separate account.**
 - B. The death benefit is fixed and does not vary.**
 - C. Premium payments are guaranteed to remain constant.**
 - D. Investment options are limited to cash and bonds.**
- 2. In order to avoid being classified as a Modified Endowment Contract (MEC), a policy must pass which of the following?**
 - A. Five-pay test**
 - B. Seven-pay test**
 - C. Ten-pay test**
 - D. Annual premium test**
- 3. What is one reason why a policyholder might select a longer grace period?**
 - A. To increase the policy's death benefit**
 - B. To manage cash flow better in difficult times**
 - C. To reduce premium costs**
 - D. To simplify policy changes**
- 4. According to the time of payment of claims provision, the insurer must make the payment immediately after receiving proof of loss EXCEPT for which type of claim?**
 - A. A claim involving accidental death benefits.**
 - B. A claim involving periodic payments.**
 - C. A claim for property damage.**
 - D. A claim made due to natural disasters.**
- 5. Which type of insurance may not always provide a guaranteed return of premiums?**
 - A. Term life insurance**
 - B. Whole life insurance**
 - C. Participating life insurance**
 - D. Universal life insurance**

- 6. What is true regarding the owner's rights when an irrevocable beneficiary is designated?**
- A. The owner cannot make any changes to the policy**
 - B. The owner retains the right to make premium payments**
 - C. The owner can change the beneficiary at any time**
 - D. The owner has full control of the policy's cash value**
- 7. Which policy offers benefits for in-hospital medical treatment and outpatient expenses?**
- A. Critical illness insurance**
 - B. Disability income insurance**
 - C. Hospitalization insurance**
 - D. Major medical insurance**
- 8. What is the main goal of an indemnity contract?**
- A. Provide additional benefits beyond covered losses**
 - B. Ensure profit for the insurance company**
 - C. Restore the insured to their pre-loss financial condition**
 - D. Offer fixed benefits regardless of loss**
- 9. What is a fraternal benefit society?**
- A. An organization that provides healthcare plans**
 - B. A group that provides life insurance benefits to its members**
 - C. A union of employees offering retirement plans**
 - D. A social club with no financial benefits**
- 10. Which account is most commonly associated with a high deductible health plan?**
- A. Flexible Spending Account (FSA)**
 - B. Health Savings Account (HSA)**
 - C. Health Reimbursement Arrangement (HRA)**
 - D. Retirement Health Account (RHA)**

Answers

SAMPLE

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

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Explanations

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1. Which of the following is a distinguishing feature of a variable life insurance policy?

A. The cash value earnings are based on the performance of the separate account.

B. The death benefit is fixed and does not vary.

C. Premium payments are guaranteed to remain constant.

D. Investment options are limited to cash and bonds.

A distinguishing feature of a variable life insurance policy is that the cash value earnings are based on the performance of the separate account. In a variable life insurance policy, policyholders can allocate their premiums among various investment options, which are typically focused on stocks, bonds, and other securities held in a separate account. The performance of these investments directly affects the cash value of the policy as well as the death benefit, which can vary based on how well the chosen investments perform. In contrast, a fixed death benefit, guaranteed premium payments, and limited investment options would be characteristics of other types of life insurance policies, such as whole life or term life insurance. Therefore, option A accurately captures the unique aspect of variable life insurance, showcasing its investment component and the associated risks and potential rewards that come with it.

2. In order to avoid being classified as a Modified Endowment Contract (MEC), a policy must pass which of the following?

A. Five-pay test

B. Seven-pay test

C. Ten-pay test

D. Annual premium test

To avoid being classified as a Modified Endowment Contract (MEC), a policy must pass the seven-pay test. This test is a crucial measure established by the Internal Revenue Code to ensure that life insurance policies do not accumulate cash value too quickly. The seven-pay test determines whether the total premiums paid in the first seven years of the policy will exceed the total net level premiums that would have been paid for the same amount of insurance over a seven-year period. If a policy fails this test, it will be classified as a MEC, which has different tax implications. For instance, withdrawals and loans taken against a MEC can be taxed differently from those taken against a standard life insurance policy. This classification is important for both insurers and policyholders, as it affects the policy's tax treatment and overall financial strategy. Understanding the significance of the seven-pay test is essential for anyone involved in the sale or management of life insurance products, as it helps ensure compliance with tax regulations while maximizing the benefits of the policy for the insured.

3. What is one reason why a policyholder might select a longer grace period?

- A. To increase the policy's death benefit**
- B. To manage cash flow better in difficult times**
- C. To reduce premium costs**
- D. To simplify policy changes**

A policyholder might select a longer grace period primarily to manage cash flow better in difficult times. This extended time frame allows the policyholder to delay the payment of premiums without immediate penalty. It can provide necessary financial flexibility during periods of economic hardship or unexpected expenses, making it easier for the policyholder to maintain their insurance coverage without the immediate burden of paying premiums. Choosing a longer grace period does not directly result in increasing the death benefit, reducing premium costs, or simplifying policy changes. These aspects are typically determined by other factors such as policy type, the insurer's regulations, and the specific terms of the policy rather than the length of the grace period. Therefore, selecting a longer grace period is fundamentally a strategy for managing cash flow in challenging financial situations.

4. According to the time of payment of claims provision, the insurer must make the payment immediately after receiving proof of loss EXCEPT for which type of claim?

- A. A claim involving accidental death benefits.**
- B. A claim involving periodic payments.**
- C. A claim for property damage.**
- D. A claim made due to natural disasters.**

The time of payment of claims provision in insurance policies stipulates that insurers are required to settle claims promptly after they receive adequate proof of loss. However, certain types of claims may not necessitate an immediate payment because they involve ongoing obligations from the insurer. Periodic payment claims require the insurer to make payments in installments over a designated period rather than as a lump sum. This means that the insurer's obligation extends beyond a single settlement event; rather, it encompasses continuous payments as defined in the policy. Because these claims might involve multiple payment dates over time, the insurer is typically allowed a different timeframe for payment relative to a one-time claim. In contrast, claims involving accidental death benefits, property damage, or claims made due to natural disasters usually result in a singular payment response after the submission of proof of loss, requiring prompt action to meet the claimant's immediate financial needs. This distinction clarifies why periodic payments do not adhere to the same immediate payment stipulation as other claim types.

5. Which type of insurance may not always provide a guaranteed return of premiums?

- A. Term life insurance**
- B. Whole life insurance**
- C. Participating life insurance**
- D. Universal life insurance**

Term life insurance is designed to cover the insured for a specific period, typically ranging from 1 to 30 years, and it provides a death benefit if the insured passes away during that term. One key characteristic of term life insurance is that it does not accumulate cash value and does not guarantee a return of premiums if the policyholder outlives the term. This means that once the term expires, the premiums paid are generally not refundable, and the policy simply ceases. In contrast, whole life insurance, participating life insurance, and universal life insurance all feature components that may allow for a return of premiums or the accumulation of cash value. Whole life insurance provides a death benefit alongside a savings element that grows over time, while participatory policies can pay dividends which possibly can lead to cash values being returned. Universal life insurance also falls under this category by offering flexible premiums and a cash value component. Thus, term life insurance is primarily geared towards providing pure protection, lacking the benefits of guaranteed return of premiums that are found in the other types of life insurance options.

6. What is true regarding the owner's rights when an irrevocable beneficiary is designated?

- A. The owner cannot make any changes to the policy**
- B. The owner retains the right to make premium payments**
- C. The owner can change the beneficiary at any time**
- D. The owner has full control of the policy's cash value**

When an irrevocable beneficiary is designated on an insurance policy, the rightful ownership rights of the policy owner change significantly. The designation of an irrevocable beneficiary means that the policy owner cannot change the beneficiary without the consent of that beneficiary. This is a critical aspect, as it ensures that the benefits of the policy will go to the designated beneficiary, providing them with a guaranteed interest in the policy. Despite this restriction on changing the beneficiary, the policy owner still retains certain rights. One of those rights is the ability to make premium payments. Premium payments are essential for keeping the policy in force, and the owner can continue to make these payments regardless of the irrevocability of the beneficiary designation. This ability allows the policy owner to maintain control over the financial aspects of the policy, ensuring that it remains active and that the benefits can eventually be disbursed to the irrevocable beneficiary. The other options imply restrictions that do not apply to the owner's ability to make premium payments. For instance, while the owner cannot change the irrevocable beneficiary without consent, this does not preclude them from fulfilling their obligation to pay premiums on the policy. Similarly, full control over the policy's cash value is not present with an irrevocable beneficiary, as any withdrawal or changes could

7. Which policy offers benefits for in-hospital medical treatment and outpatient expenses?

- A. Critical illness insurance**
- B. Disability income insurance**
- C. Hospitalization insurance**
- D. Major medical insurance**

The choice that offers benefits for in-hospital medical treatment and outpatient expenses is Major medical insurance. This type of insurance is designed to provide extensive coverage for a wide range of medical services, including inpatient hospital stays, outpatient procedures, surgery, and preventive care, which makes it a comprehensive choice for addressing both the expenses incurred during hospitalization and those related to outpatient care. In contrast, critical illness insurance focuses on providing a lump-sum benefit when a policyholder is diagnosed with a serious condition, rather than covering day-to-day medical expenses. Disability income insurance serves to replace a portion of income lost due to the inability to work caused by a disability, and does not cover medical treatment expenses directly. Hospitalization insurance primarily provides coverage for costs associated with a stay in the hospital but may not adequately address outpatient expenses or broader medical treatment costs. Therefore, Major medical insurance is the most comprehensive option that effectively addresses both in-hospital and outpatient medical expenses.

8. What is the main goal of an indemnity contract?

- A. Provide additional benefits beyond covered losses**
- B. Ensure profit for the insurance company**
- C. Restore the insured to their pre-loss financial condition**
- D. Offer fixed benefits regardless of loss**

The main goal of an indemnity contract is to restore the insured to their pre-loss financial condition. Indemnity contracts are designed to provide compensation for actual losses incurred, thereby ensuring that the policyholder does not profit from their insurance coverage but instead is put back in the financial position they were in prior to the loss. This principle helps to maintain the integrity of insurance by preventing moral hazard, which can occur if individuals are incentivized to cause losses in order to receive payment. The contract's focus is on covering actual expenses or losses rather than offering additional benefits, guaranteeing profit for the insurer, or providing fixed benefits that do not correspond to specific losses experienced. Thus, the intent is clearly towards financial restoration rather than any other aspects of financial gain or fixed payouts.

9. What is a fraternal benefit society?

- A. An organization that provides healthcare plans
- B. A group that provides life insurance benefits to its members**
- C. A union of employees offering retirement plans
- D. A social club with no financial benefits

A fraternal benefit society is primarily characterized by its provision of life insurance benefits to its members. These organizations operate on a mutual basis, meaning that they are formed by a group of individuals who share a common bond, such as religion, ethnicity, or occupation. The main purpose of a fraternal benefit society is to offer social, charitable, and insurance benefits to its members. Members typically pay dues or premiums that are then pooled to provide coverage, allowing the society to support its members financially during times of need, such as in the event of death. Unlike healthcare plans, employee unions, or purely social clubs, fraternal benefit societies are structured to provide specific financial benefits, particularly related to life insurance. The focus on life insurance distinguishes them from organizations that might focus on retirement plans or other benefits without offering life insurance coverage. Thus, the definition and function of a fraternal benefit society are best encapsulated in the idea that it provides life insurance benefits to its members.

10. Which account is most commonly associated with a high deductible health plan?

- A. Flexible Spending Account (FSA)
- B. Health Savings Account (HSA)**
- C. Health Reimbursement Arrangement (HRA)
- D. Retirement Health Account (RHA)

The answer is Health Savings Account (HSA) because HSAs are specifically designed to work in conjunction with high deductible health plans (HDHPs). An HSA allows individuals to save money tax-free for medical expenses, promoting the use of HDHPs, which typically have lower premiums but higher deductibles. The fundamental purpose of an HSA is to provide a financial tool that enables individuals to set aside funds for qualified medical costs incurred before they reach their deductible, thereby making high deductible plans more accessible and manageable. This coupling encourages consumers to be more cost-conscious about their healthcare choices and can ultimately lower overall healthcare costs. In contrast, a Flexible Spending Account (FSA) is not specifically tied to high deductible plans and has different rules regarding fund availability and usage. A Health Reimbursement Arrangement (HRA) is employer-funded and not typically linked to high deductible plans in the same way as HSAs. Lastly, a Retirement Health Account (RHA) is focused on retirement and is not commonly associated with the current medical expense usage that HSAs support.