

South Dakota Life and Health Practice Exam (Sample)

Study Guide



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SAMPLE

Questions

SAMPLE

- 1. Licensed producers in South Dakota are authorized to do what regarding applications?**
 - A. Administer life insurance claims**
 - B. Solicit, receive, and forward applications to the insurer**
 - C. Conduct insurance marketing seminars**
 - D. Provide legal advice on insurance matters**
- 2. Which of the following is true about unilateral contracts?**
 - A. They require the agreement of both parties for enforcement**
 - B. They are formed when one party makes a promise in exchange for a performance**
 - C. They must be in writing to be enforceable**
 - D. They involve mutual obligations**
- 3. In contract disputes, what is usually the first step for resolution?**
 - A. Seeking a formal legal resolution in court**
 - B. Negotiating directly with the other party**
 - C. Filing a complaint with regulatory authorities**
 - D. Demanding financial restitution**
- 4. If an individual incurs \$15,000 in covered medical expenses under a Major Medical policy with a \$5,000 deductible and 80/20 coinsurance, how much will the insured have to pay?**
 - A. \$5,000**
 - B. \$7,000**
 - C. \$8,000**
 - D. \$10,000**
- 5. What type of insurance aims primarily to cover loss of income due to disabilities?**
 - A. Term Insurance**
 - B. Health Insurance**
 - C. Life Insurance**
 - D. Disability Income Insurance**

- 6. Which type of contract does not require a written document to be enforceable?**
- A. Verbal contracts**
 - B. Implied contracts**
 - C. Executed contracts**
 - D. Contracts of adhesion**
- 7. What is the function of a "health maintenance organization" (HMO)?**
- A. A type of life insurance**
 - B. A type of health insurance plan that requires members to receive care from a network of providers for full benefits**
 - C. A healthcare service that provides emergency care only**
 - D. A plan with high premiums and low outright costs**
- 8. What type of retirement plan is typically defined by company profits shared with employees?**
- A. Defined Contribution Plan**
 - B. Profit-sharing Plan**
 - C. Cash Balance Plan**
 - D. Traditional IRA**
- 9. What type of insurance is likely to offer the highest premiums due to the nature of its payouts?**
- A. Term life insurance**
 - B. Whole life insurance**
 - C. Dread disease insurance**
 - D. Accident insurance**
- 10. Which type of contract allows a policyowner to sell their whole life insurance policy for more than its cash value?**
- A. Life Settlement Contract**
 - B. Accelerated Benefits Rider**
 - C. Term Life Insurance Contract**
 - D. Universal Life Contract**

Answers

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

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Explanations

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1. Licensed producers in South Dakota are authorized to do what regarding applications?

A. Administer life insurance claims

B. Solicit, receive, and forward applications to the insurer

C. Conduct insurance marketing seminars

D. Provide legal advice on insurance matters

Licensed producers in South Dakota are specifically authorized to solicit, receive, and forward applications to the insurer. This function is a fundamental part of the producer's role, as they act as intermediaries between potential policyholders and insurance companies. By facilitating the application process, producers ensure that clients receive the necessary coverage while helping insurers gather potential customers effectively. This duty encompasses informing clients about different insurance products, gathering relevant information from them, and submitting their applications to the appropriate insurance companies. It is essential for producers to understand the intricacies of application procedures to provide quality service and support to both the clients and the insurers. This role is critical in ensuring that the insurance underwriting process runs smoothly and efficiently. The other choices involve activities that either fall outside the scope of a licensed producer or require specific qualifications not typically held by producers. For instance, administering life insurance claims is usually handled by the insurance company itself rather than the producer. Conducting insurance marketing seminars might be a part of a producer's activities but is not a primary function related to applications. Providing legal advice on insurance matters is also outside the purview of a licensed producer, as this requires legal expertise and authorization.

2. Which of the following is true about unilateral contracts?

A. They require the agreement of both parties for enforcement

B. They are formed when one party makes a promise in exchange for a performance

C. They must be in writing to be enforceable

D. They involve mutual obligations

Unilateral contracts are defined by the fact that only one party makes a promise that is contingent upon the performance of an act by the other party. In this type of contract, one party offers something of value (usually a promise) in exchange for a specific action (performance) from another party. The classic example of a unilateral contract is a reward offer, such as when someone promises to pay a reward for the return of a lost pet. The promise is only valid if the action of returning the pet is carried out. The essence of a unilateral contract lies in its structure—one party's obligation is fulfilled only when the other party performs the action. This distinguishes it from bilateral contracts, which involve mutual promises between both parties. Understanding this concept helps clarify how unilateral contracts operate, emphasizing that enforcement does not require reciprocal promises, which is a key characteristic defining such agreements.

3. In contract disputes, what is usually the first step for resolution?

- A. Seeking a formal legal resolution in court**
- B. Negotiating directly with the other party**
- C. Filing a complaint with regulatory authorities**
- D. Demanding financial restitution**

In contract disputes, the first step for resolution is typically negotiating directly with the other party. This approach focuses on open communication and the possibility of reaching a mutually agreeable solution without escalating the issue to formal legal proceedings. Negotiation allows both parties to understand each other's perspectives, concerns, and interests, fostering a collaborative atmosphere that can lead to a settlement without the need for costly and time-consuming litigation. By beginning with negotiation, parties retain control over the outcome and may preserve their relationship, which is often valuable in business contexts. Many agreements include clauses that encourage or require negotiation as a first step before pursuing more formal options, thereby promoting efficient dispute resolution. Engaging in negotiations demonstrates a willingness to resolve conflicts amicably and can often prevent further escalation of the dispute.

4. If an individual incurs \$15,000 in covered medical expenses under a Major Medical policy with a \$5,000 deductible and 80/20 coinsurance, how much will the insured have to pay?

- A. \$5,000**
- B. \$7,000**
- C. \$8,000**
- D. \$10,000**

To determine how much the insured will have to pay, it is crucial to break down the costs involved with the major medical policy. First, the deductible of \$5,000 needs to be satisfied. This amount is the portion that the insured must pay out of pocket before the insurance starts to contribute. After the insured pays the deductible, the remaining covered medical expenses are $\$15,000 - \$5,000 = \$10,000$. Next, the coinsurance provision comes into play. With an 80/20 coinsurance arrangement, the insurer pays 80% of the covered expenses, and the insured pays 20%. Therefore, on the remaining \$10,000, the insured is responsible for 20%, which amounts to $\$10,000 \times 0.20 = \$2,000$. Adding these costs together gives the total amount the insured will pay: the deductible of \$5,000 plus the coinsurance portion of \$2,000, totaling $\$5,000 + \$2,000 = \$7,000$. Thus, the insured is required to pay \$7,000 for the covered medical expenses after considering both the deductible and the coinsurance. This aligns with the correct choice.

5. What type of insurance aims primarily to cover loss of income due to disabilities?

- A. Term Insurance**
- B. Health Insurance**
- C. Life Insurance**
- D. Disability Income Insurance**

Disability Income Insurance is specifically designed to provide financial support to individuals who are unable to work due to a disabling condition. This type of insurance offers income replacement during the period an insured person is unable to earn income because of a disability. Unlike other insurance types, its main focus is on the loss of income rather than health-related expenses or life coverage. While term insurance provides a death benefit to beneficiaries upon the insured's passing and health insurance covers medical expenses, neither addresses the income aspect of being temporarily or permanently unable to work. Life insurance also pays upon the death of the insured but does not assist individuals during their working years in case of a disability. Disability Income Insurance fills a crucial gap by ensuring that the insured can maintain financial stability despite the loss of their income.

6. Which type of contract does not require a written document to be enforceable?

- A. Verbal contracts**
- B. Implied contracts**
- C. Executed contracts**
- D. Contracts of adhesion**

Implied contracts are agreements that are not explicitly stated but are inferred from actions, conduct, or circumstances of the parties involved. These contracts are enforceable without a written document because they arise from the mutual intentions of the parties, even if no formal agreement was explicitly articulated. For instance, if you go to a restaurant and order food, there is an implied contract that you will pay for the meal after it is served. While verbal contracts can also be enforceable, they are often subject to disputes regarding terms since oral agreements can be difficult to prove. Executed contracts refer to agreements that have been fully performed by all parties involved and thus do not pertain specifically to the need for written documentation. Contracts of adhesion are typically standard form contracts that one party drafts, leaving little room for negotiation, and while they often do not require signatures, enforceability may still depend on the context in which they are used.

7. What is the function of a "health maintenance organization" (HMO)?

- A. A type of life insurance**
- B. A type of health insurance plan that requires members to receive care from a network of providers for full benefits**
- C. A healthcare service that provides emergency care only**
- D. A plan with high premiums and low outright costs**

The function of a health maintenance organization (HMO) is to provide a type of health insurance plan that emphasizes preventive care and requires members to use a specific network of healthcare providers to receive full benefits. This structure helps to control healthcare costs and encourages coordinated care, as members are typically required to choose a primary care physician who then manages their overall healthcare and referrals to specialists within the network. This approach ensures that care is organized and follows established guidelines, ultimately promoting better health outcomes and efficient use of resources. The requirement to receive care from a network of providers is a key characteristic of HMOs, distinguishing them from other types of health insurance that may allow more flexibility in provider choice.

8. What type of retirement plan is typically defined by company profits shared with employees?

- A. Defined Contribution Plan**
- B. Profit-sharing Plan**
- C. Cash Balance Plan**
- D. Traditional IRA**

A profit-sharing plan is a type of retirement plan where a company contributes a portion of its profits to employees' retirement accounts. This model incentivizes employees by directly linking their retirement savings to the company's performance. In a profit-sharing plan, the contributions made can vary each year based on the company's profitability, which distinguishes it from more fixed plans like defined contribution plans that are typically funded annually at a set percentage. Employees benefit from this arrangement because they can receive a larger contribution in more profitable years, which can significantly boost their accumulated retirement savings. Additionally, the contributions from the employer may also grow tax-deferred until withdrawal in retirement, providing a valuable savings vehicle for employees. Other retirement options, such as defined contribution plans, have fixed contribution amounts not tied to profits, while cash balance plans involve a different structure where the employer provides a promised benefit in terms of account balances. A traditional IRA, on the other hand, is an individual retirement account that allows individuals to contribute a set amount annually, independent of employer profit sharing. Each of these alternatives serves different purposes, but none align as closely with the employer's practice of sharing profits with employees as a profit-sharing plan does.

9. What type of insurance is likely to offer the highest premiums due to the nature of its payouts?

- A. Term life insurance**
- B. Whole life insurance**
- C. Dread disease insurance**
- D. Accident insurance**

Whole life insurance is likely to offer the highest premiums among the options provided due to the benefits and guarantees it offers. This type of insurance is a permanent life policy that not only provides a death benefit but also includes a savings component that accumulates cash value over time. The premiums for whole life insurance are typically higher than those for term life insurance, which only provides coverage for a specified term and does not accumulate cash value. With whole life insurance, the insurer is committing to pay out either the death benefit or the accumulated cash value, which creates a larger financial risk for the insurer compared to term policies. Consequently, the higher premiums reflect the guarantees associated with whole life insurance, including the fixed death benefit, the lifelong coverage, and the guaranteed cash value accumulation. This intrinsic value of the policy can lead to higher overall premiums compared to other types of insurance like dread disease insurance and accident insurance, which usually have narrower scopes and less guaranteed payout potential.

10. Which type of contract allows a policyowner to sell their whole life insurance policy for more than its cash value?

- A. Life Settlement Contract**
- B. Accelerated Benefits Rider**
- C. Term Life Insurance Contract**
- D. Universal Life Contract**

A Life Settlement Contract is a specific financial agreement that enables a policyowner to sell their whole life insurance policy for an amount greater than its cash value. This arrangement often occurs when the policyholder no longer needs the insurance, cannot afford the premiums, or wants to liquidate the policy for cash. In a life settlement, a third party purchases the policy and assumes the premium payments, ultimately receiving the death benefit upon the insured's passing. In contrast, an Accelerated Benefits Rider is a provision within a life insurance policy that allows the policyholder to access a portion of the death benefit while still alive, typically due to a terminal illness or critical health conditions. This rider does not pertain to the outright sale of the policy. Term Life Insurance is designed to provide coverage for a specific period, offering no cash value accumulation. Therefore, it cannot be sold in the same manner as a whole life policy. A Universal Life Contract is a flexible premium, adjustable benefit type of permanent life insurance that builds cash value, but like term insurance, it does not inherently involve the sale of the policy for an amount exceeding its cash value mentioned in the context of life settlement agreements. Overall, the mechanism of a Life Settlement Contract is what enables the selling of a whole life