Tennessee Insurance Practice Exam (Sample)

Study Guide

BY EXAMZIFY

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Questions

1. **What provision allows a Whole Life policy to remain active if the premium payment is not made and there is sufficient cash value?**

   A. Automatic Policy Loan

   B. Waiver of Premium

   C. Extended Term

   D. Settlement Option

2. **In a life insurance policy, which provision states who may select policy options and name a beneficiary?**

   A. Insured's rights

   B. Beneficiary rights

   C. Owner's rights

   D. Policyholder's rights

3. **Which type of life insurance provides coverage for a specified period and pays the lowest premiums?**

   A. Term Life

   B. Whole Life

   C. Universal Life

   D. Variable Life

4. **How long must Q be disabled to apply for Social Security disability benefits?**

   A. 3 months

   B. 5 months

   C. 6 months

   D. 10 months

5. **What feature allows individuals in a group Term Life policy to continue insurance after leaving the group?**

   A. Waiver of premium

   B. Conversion privilege

   C. Portability option

   D. Guaranteed renewability

6. Which type of insurance policy generally does not participate in profit sharing with its policyholders?

- A. Participating
- B. Non-participating
- C. Universal
- D. Variable

7. What is required for a policy to be voided due to misrepresentation?

- A. Discovery after two years
- B. Discovery during the Contestable period and proven material
- C. Discovery at any time by the insurer
- D. Discovery when premiums are unpaid

8. From which authority must an insurance application disclose the possibility of obtaining an investigative consumer report?

- A. Consumer Protection Bureau
- B. Fair Credit Reporting Act
- C. Insurance Regulatory Authority
- D. State Department of Insurance

9. When does a life insurance contract become effective if the initial premium is not collected?

- A. When the application is approved
- B. When the policy is issued
- C. When the producer delivers the policy and collects the initial premium
- D. When the coverage is applied for

10. At what point must a life insurance applicant be informed of their rights under the Fair Credit Reporting Act?

- A. At the time of policy renewal
- B. Upon completion of the application
- C. Before the application process begins
- D. Within 30 days of the application submission

Answers

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

Explanations

1. **What provision allows a Whole Life policy to remain active if the premium payment is not made and there is sufficient cash value?**

   A. Automatic Policy Loan

   B. Waiver of Premium

   C. Extended Term

   D. Settlement Option

The provision that allows a Whole Life policy to remain active even if the premium payment is not made, provided there is sufficient cash value, is known as the Automatic Policy Loan option. When a policyholder fails to make a premium payment, the insurer can automatically borrow the necessary funds from the policy's cash value to cover the premium due. This keeps the policy in force and ensures continued life insurance protection without requiring immediate out-of-pocket payment from the policyholder. The Automatic Policy Loan is particularly useful for individuals who may encounter temporary financial difficulties, as it helps to prevent a lapse in coverage. The amount borrowed is then deducted from the death benefit or cash value, and the policyholder will need to repay the loan with interest to restore the full value of the policy later. In contrast, other options like the Waiver of Premium allow for premium payments to be waived under specific circumstances, such as disability, rather than using the cash value to keep the policy active. Extended Term relates to converting the cash value into a term insurance policy instead of maintaining the original Whole Life policy. Settlement Options refer to how the death benefit is paid out after the insured's death and do not pertain to maintaining an active policy.

2. **In a life insurance policy, which provision states who may select policy options and name a beneficiary?**

   A. Insured's rights

   B. Beneficiary rights

   C. Owner's rights

   D. Policyholder's rights

The correct choice highlights the importance of ownership in a life insurance policy. The provision that states who may select policy options and name a beneficiary is typically referred to as the owner's rights. This is because the individual who owns the policy has the legal authority to make decisions regarding the policy, including who will receive the death benefit (the beneficiary) and what options may be exercised within the policy itself, such as changing coverage or adjusting premiums. Understanding this provision is crucial because it emphasizes the role of the policy owner in the insurance contract. The owner can be different from the insured individual, which is a common scenario in life insurance policies. For example, a parent may purchase a policy on a child's life, making themselves the owner while the child is the insured. While terms like insured's rights, beneficiary rights, and policyholder's rights might seem relevant, they do not accurately capture the full scope of decision-making authority in terms of selecting options and naming beneficiaries; those are specifically defined under the owner's rights provision. This understanding is essential for comprehending the dynamics of life insurance policies and the rights conferred to policy owners.

3. Which type of life insurance provides coverage for a specified period and pays the lowest premiums?

A. Term Life

B. Whole Life

C. Universal Life

D. Variable Life

Term life insurance is specifically designed to provide coverage for a specified period, such as 10, 20, or 30 years. One of the main features that makes term life particularly appealing is that it offers the lowest premiums compared to other types of life insurance. This is due to the fact that term life insurance provides coverage only for a predetermined term and does not build cash value over time. If the insured passes away during the term, the death benefit is paid out to the beneficiaries. However, if the term expires and the insured is still living, no benefit is received, nor is there any cash value accumulated. In contrast, whole life, universal life, and variable life insurance are designed to last for the entire life of the insured and typically come with higher premiums. These policies have a savings component and can accumulate cash value, adding to their cost. Thus, the appeal of term life insurance lies in its affordability and straightforward structure, making it suitable for those who want coverage without the added expenses associated with cash value accumulation.

4. How long must Q be disabled to apply for Social Security disability benefits?

A. 3 months

B. 5 months

C. 6 months

D. 10 months

To qualify for Social Security disability benefits, an individual must have a medically determinable physical or mental impairment that has lasted or is expected to last for at least 12 months. However, the Social Security Administration has a waiting period requirement that stipulates a five-month waiting period before benefits can begin. This means that the individual must be disabled for a minimum of five continuous months after a waiting period is met. As a result, the correct answer reflects the requirement that the person must be disabled for five months before they can start receiving Social Security disability benefits.

5. What feature allows individuals in a group Term Life policy to continue insurance after leaving the group?

A. Waiver of premium

B. Conversion privilege

C. Portability option

D. Guaranteed renewability

The conversion privilege is a key feature that enables individuals to continue their life insurance coverage when they leave a group Term Life policy. This option allows insured members to convert their group coverage into an individual policy without having to provide evidence of insurability, meaning they do not need to undergo any medical underwriting or provide health information. This is particularly beneficial for individuals who may have developed health issues while covered under the group plan, as it ensures they can maintain insurance protection even after separating from the group. Having this conversion privilege provides peace of mind and continuity of coverage, which can be vital for those who may face difficulties in obtaining new insurance in the future. Other options, while related to insurance and benefits, do not specifically address the continuation of coverage after leaving the group. For example, a waiver of premium generally relates to situations where the insured cannot pay due to certain conditions, whereas the portability option pertains to maintaining coverage in a different group context without converting to individual plans. Guaranteed renewability is a feature that allows policyholders to renew their policies regardless of health status but does not specifically enable continuation of group coverage after separation.

6. Which type of insurance policy generally does not participate in profit sharing with its policyholders?

A. Participating

B. Non-participating

C. Universal

D. Variable

A non-participating insurance policy is designed in such a way that it does not allow policyholders to share in the profits of the insurance company. In this type of policy, the insurer retains all the profits, which means that policyholders receive no dividends or additional benefits related to the company's profit performance. Non-participating policies typically offer a fixed premium and specified benefits, which makes them predictable for the insured. In contrast, participating policies do allow policyholders to receive dividends, derived from the insurer's profits, making their benefits variable based on the company's financial performance. Universal and variable policies can also offer different forms of benefits but are generally structured more around cash value accumulation and investment opportunities rather than profit sharing with policyholders. Therefore, the distinguishing feature of a non-participating policy is its lack of profit-sharing, which is why it is the correct answer.

7. What is required for a policy to be voided due to misrepresentation?

A. Discovery after two years

B. Discovery during the Contestable period and proven material

C. Discovery at any time by the insurer

D. Discovery when premiums are unpaid

For a policy to be voided due to misrepresentation, it is essential that the misrepresentation be discovered during the contestable period and that it be proven material. The contestable period typically lasts for the first two years of the policy, during which the insurer has the right to investigate and potentially deny claims based on misrepresentation or concealment. The reason this answer is correct lies in the nature of insurance contracts and how misrepresentations influence risk assessment. Material misrepresentation significantly alters the insurer's understanding of the risk involved and may lead them to issue a policy that they would not have otherwise approved. Therefore, if the insurer discovers the misrepresentation within this period, they can demonstrate that the incorrect information provided by the insured was indeed material to the policy's issuance. The emphasis on the contestable period is critical because once this period expires, insurers typically cannot deny claims based on misrepresentation unless it involves fraud. This highlights the importance of the timing of the discovery. Other choices do not align with the requirements for voiding a policy due to misrepresentation. For instance, discovering misrepresentation at any time, such as when premiums are unpaid, does not guarantee that the policy can be voided unless it falls within the stipulated contestable period and proves to

8. From which authority must an insurance application disclose the possibility of obtaining an investigative consumer report?

A. Consumer Protection Bureau

B. Fair Credit Reporting Act

C. Insurance Regulatory Authority

D. State Department of Insurance

The correct answer is the Fair Credit Reporting Act. This federal law mandates that when an insurance company, or any other entity, uses a consumer report to assess an individual's eligibility for insurance or other services, they must inform the applicant of the possibility of obtaining an investigative consumer report. This requirement is in place to ensure transparency and protect consumers' rights regarding their personal credit information. The Fair Credit Reporting Act establishes guidelines for reporting agencies and those who access consumer information, ensuring that consumers are aware of their rights and the procedures surrounding the collection and use of their data. Therefore, when an individual applies for insurance, the insurer must disclose that their information may be obtained from an investigative consumer report in compliance with this act. Understanding this requirement is essential for both consumers and those in the insurance industry, as it promotes informed decisions and upholds the standards of consumer protection.

9. When does a life insurance contract become effective if the initial premium is not collected?

A. When the application is approved

B. When the policy is issued

C. When the producer delivers the policy and collects the initial premium

D. When the coverage is applied for

The life insurance contract becomes effective when the producer delivers the policy and collects the initial premium. This is crucial because life insurance policies typically require the first premium to be paid at the time of delivery for coverage to take effect. Until the initial premium is collected, the insurer does not assume any risk. The application approval and policy issuance indicate that underwriting has accepted the risk, but without the initial premium being received, there is no binding contract or coverage in place. Similarly, the coverage applied for does not equate to active coverage — it merely signifies the applicant's intention to obtain insurance. Therefore, the process of delivering the policy and collecting the premium finalizes the contractual agreement and allows the insurance coverage to officially begin.

10. At what point must a life insurance applicant be informed of their rights under the Fair Credit Reporting Act?

A. At the time of policy renewal

B. Upon completion of the application

C. Before the application process begins

D. Within 30 days of the application submission

A life insurance applicant must be informed of their rights under the Fair Credit Reporting Act upon completion of the application. This timing is crucial because it ensures that individuals are aware of their rights and the implications of the information that may be collected about them as part of the application process. Being informed at this point allows applicants to make informed decisions regarding their insurance application and understand how their credit information might be used in the underwriting process. Providing this information at the completion of the application also aligns with the legal requirements to ensure transparency and maintain consumer rights. This is particularly important because it builds trust between the insurer and the applicant, reinforcing the notion that individuals have the right to know how their personal information is treated and used. While other timing options suggest different points in the process, they do not align with the requirements of the Fair Credit Reporting Act, which specifically mandates that applicants be informed upon the completion of their applications to ensure they are fully aware of their rights right before the insurer begins any credit-related evaluations.