Tennessee Insurance Practice Exam (Sample)

Study Guide

Everything you need from our exam experts!

Questions

1. **What is the maximum number of employees eligible for an employer to start a SIMPLE retirement plan?**
   - **A. 50**
   - **B. 75**
   - **C. 100**
   - **D. 150**

2. **Which statement is correct about a policy loan?**
   - **A. It does not accrue interest**
   - **B. Interest is waived for the first year**
   - **C. Past-due interest is added to the total debt**
   - **D. Loan amounts cannot exceed cash value**

3. **What happens to the cash value in a Whole Life policy if the policyholder stops paying premiums?**
   - **A. The cash value is forfeited**
   - **B. The cash value can still be accessed**
   - **C. The cash value increases significantly**
   - **D. Cash value is transferred to the beneficiary**

4. **What is the tax consequence for an employee who rolls over her 401(k) distribution into an IRA?**
   - **A. The distribution is tax-exempt**
   - **B. It incurs a 10% penalty**
   - **C. The distribution is subject to federal income tax withholding**
   - **D. The rollover avoids any tax consequences**

5. **Taking receipt of premiums and holding them for the insurance company is an example of what type of responsibility?**
   - **A. Legal responsibility**
   - **B. Fiduciary responsibility**
   - **C. Contractual responsibility**
   - **D. Administrative responsibility**

6. **Which aspect is not typically covered by Major Medical insurance policies?**
   - **A. Acute care services**
   - **B. Emergency medical treatments**
   - **C. Elective cosmetic surgery**
   - **D. Chronic condition management**

7. **Which provision of a life insurance policy will pay a stated benefit amount if a person is blinded in an industrial accident?**
   - **A. Waiver of Premium provision**
   - **B. Accidental death and dismemberment clause**
   - **C. Total and Permanent Disability provision**
   - **D. Life Benefits Adjustment clause**

8. **Consumer reports requested during the application process can help determine what?**
   - **A. The applicant's entire medical history**
   - **B. The probability of making timely premium payments**
   - **C. The applicant's credit score**
   - **D. The amount of coverage needed**

9. **Who has the authority to change a revocable beneficiary in an insurance policy?**
   - **A. Insured**
   - **B. Policyowner**
   - **C. Beneficiary**
   - **D. Insurance agent**

10. **Which factor does NOT influence an applicant's need for life insurance?**
   - **A. Number of dependents**
   - **B. Self-maintenance expenses**
   - **C. Current health status**
   - **D. Existing debts**

Answers

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

Explanations

1. What is the maximum number of employees eligible for an employer to start a SIMPLE retirement plan?

A. 50

B. 75

C. 100

D. 150

A Savings Incentive Match Plan for Employees (SIMPLE) retirement plan is typically designed for small businesses to encourage employee participation in retirement savings. The critical feature that defines eligibility for establishing a SIMPLE plan is based on the number of employees. An employer can set up a SIMPLE retirement plan if they have 100 or fewer employees who earned $5,000 or more in compensation during any two preceding calendar years. The plan provides an accessible way for small businesses to offer retirement benefits without the complexities and costs associated with larger retirement plans. The option indicating 100 employees reflects this regulation and aligns with the guidelines established for SIMPLE plans, ensuring that smaller employers can provide essential retirement savings options to their employees effectively. Other numbers do not meet the criteria specified in IRS regulations for SIMPLE plans.

2. Which statement is correct about a policy loan?

A. It does not accrue interest

B. Interest is waived for the first year

C. Past-due interest is added to the total debt

D. Loan amounts cannot exceed cash value

A policy loan is a type of loan that a policyholder can take against their life insurance policy's cash value. When a policyholder borrows against their policy, the loan does accrue interest over time. If the interest is not paid when due, it accumulates and is added to the total amount owed, which is why the statement that past-due interest is added to the total debt is accurate. This means if the policyholder does not pay the interest owed on the loan, that unpaid interest will compound, increasing the overall loan balance that must be repaid in the future. This could potentially lead to a situation where the total amount owed exceeds the initial loan amount plus the interest accrued, especially if the loan remains unpaid over an extended period. Regarding the other statements, interest does accrue on a policy loan, typically from the beginning, which discounts the idea that it does not accrue interest or that interest is waived for the first year. Additionally, the total amount that can be borrowed is limited to the available cash value in the policy, making it incorrect to say that loan amounts cannot exceed cash value, as it is fundamentally true that loans usually are capped at the cash value minus any outstanding loans. Thus, the assertion that past-due interest

3. What happens to the cash value in a Whole Life policy if the policyholder stops paying premiums?

A. The cash value is forfeited

B. The cash value can still be accessed

C. The cash value increases significantly

D. Cash value is transferred to the beneficiary

In a Whole Life policy, if the policyholder stops paying premiums, the cash value can still be accessed. Whole Life policies accumulate cash value over time, which is a key feature of these types of life insurance. If premiums are not paid, the policyholder typically has options to utilize the cash value. For example, the insured can take a loan against the cash value or use the cash value to cover the premium payment, keeping the policy in force. Alternatively, if the policyholder decides to surrender the policy, they will receive the accumulated cash value. It's important to note that while the cash value is still accessible, the policy may lapse if not managed properly, thus potentially impacting the death benefit. However, the ability to access the accumulated cash value allows the policyholder some financial flexibility even in situations where premium payments are no longer being made.

4. What is the tax consequence for an employee who rolls over her 401(k) distribution into an IRA?

A. The distribution is tax-exempt

B. It incurs a 10% penalty

C. The distribution is subject to federal income tax withholding

D. The rollover avoids any tax consequences

When an employee rolls over her 401(k) distribution into an IRA, the tax consequence is that the rollover generally avoids immediate federal income tax liability. This means that there are no taxes owed at the time of the rollover, as long as the rollover is executed properly. However, the correct response is that the distribution may be subject to federal income tax withholding, which reflects the IRS regulations on 401(k) distributions. Generally, when you receive a distribution from a 401(k), the plan administrator is required to withhold 20% for federal income tax unless the entire amount is directly rolled over into another qualified plan, such as an IRA. If the employee chooses to have the distribution withheld for taxes, that could impact their immediate tax consequences, even though the rollover itself can be tax-deferred. Understanding this context allows employees to make informed decisions regarding their retirement funds and the implications of rolling over distributions to minimize potential tax consequences.

5. Taking receipt of premiums and holding them for the insurance company is an example of what type of responsibility?

A. Legal responsibility

B. Fiduciary responsibility

C. Contractual responsibility

D. Administrative responsibility

The act of taking receipt of premiums and holding them for the insurance company exemplifies fiduciary responsibility. This type of responsibility arises when one party is entrusted to act on behalf of another and has a legal and ethical obligation to act in that party's best interest. In the context of insurance, agents or brokers are often tasked with collecting premiums from clients and must safeguard those funds. The fiduciary relationship requires them to manage the premiums carefully and ensure they are remitted to the insurance company, highlighting the trust placed in them by both the insurer and the insured. In contrast, legal responsibility pertains to the broader obligations under the law, which may not specifically involve fiduciary duties. Contractual responsibility would refer to obligations arising from a formal agreement, rather than the trust implicit in holding clients' funds. Administrative responsibility typically involves the management and organizational tasks related to the operation of the insurance business, not specifically the handling of premiums and the associated trust.

6. Which aspect is not typically covered by Major Medical insurance policies?

A. Acute care services

B. Emergency medical treatments

C. Elective cosmetic surgery

D. Chronic condition management

Major Medical insurance policies are designed to cover a wide range of healthcare services, particularly those that are necessary and urgent for the patient's health. These policies generally include coverage for acute care services, which address sudden or severe medical issues, and emergency medical treatments, which are critical for life-threatening situations. They also encompass chronic condition management, assisting patients who require ongoing treatment for conditions like diabetes or heart disease. On the other hand, elective cosmetic surgery is not typically covered by Major Medical insurance policies. This type of surgery is often not deemed medically necessary and is usually performed based on personal preference rather than urgent health needs. Therefore, this aspect is excluded from the coverage of standard Major Medical policies, focusing instead on essential medical care that directly impacts a person's health and quality of life.

7. Which provision of a life insurance policy will pay a stated benefit amount if a person is blinded in an industrial accident?

A. Waiver of Premium provision

B. Accidental death and dismemberment clause

C. Total and Permanent Disability provision

D. Life Benefits Adjustment clause

The Accidental Death and Dismemberment clause is a specific provision that provides financial benefits in the event of certain accidental injuries, including those that result in the loss of limbs or impairment of senses, such as blindness. This clause typically pays out a stated benefit amount when an insured individual suffers an injury, like blindness, due to an accident. In the context of life insurance policies, this provision serves to protect policyholders from the severe financial impact that can result from such life-altering events. It recognizes the loss of function or quality of life as significant as death, thereby providing the insured or their beneficiaries with a monetary benefit to aid in their financial situation post-accident. The other provisions mentioned serve different purposes. The Waiver of Premium provision allows policyholders to stop making premium payments when they become disabled, but it does not pay out a lump sum for specific injuries. The Total and Permanent Disability provision offers benefits to individuals who are permanently unable to work due to disability, which may or may not include blindness specifically, but is more about the broader inability to perform any gainful work. The Life Benefits Adjustment clause typically deals with payment adjustments after certain events but is not specifically designed for dismemberment or loss of eyesight due to an accident.

8. Consumer reports requested during the application process can help determine what?

A. The applicant's entire medical history

B. The probability of making timely premium payments

C. The applicant's credit score

D. The amount of coverage needed

Consumer reports requested during the application process serve as valuable tools for insurers to evaluate the risk associated with potential policyholders. One of the primary aspects assessed through these reports is the applicant's likelihood of making timely premium payments. When an insurer analyzes a consumer report, it typically includes crucial financial information, such as payment history, outstanding debts, and overall creditworthiness. This information allows insurers to predict the applicant's financial behavior and reliability in paying premiums on time. A strong credit history often correlates with responsible financial management, which indicates a higher probability of timely payments. The other options do not align with the purpose of consumer reports in the insurance application process. While medical history, credit score, and coverage amounts are relevant to the overall insurance risk evaluation, consumer reports specifically focus on financial behavior rather than medical history, and they evaluate credit, but they don’t directly determine the coverage needed. Thus, reliance on consumer reports primarily aids in forecasting the applicant's capacity and likelihood to maintain premium payments punctually.

9. Who has the authority to change a revocable beneficiary in an insurance policy?

- **A. Insured**
- **B. Policyowner**
- **C. Beneficiary**
- **D. Insurance agent**

The policyowner possesses the authority to change a revocable beneficiary in an insurance policy. This is because the policyowner holds the rights to make decisions about the policy, including the designation of beneficiaries. A revocable beneficiary designation allows the policyowner to change the beneficiary at any time without needing the approval of the current beneficiary. While the insured may also be the policyowner, their role as the insured does not automatically grant them the authority to make changes to the policy benefits. The beneficiary does not have the ability to change their status or claim rights on the policy without the policyowner's consent. An insurance agent serves as an intermediary and does not have the authority to alter the policy terms unless explicitly granted that power by the policyowner.

10. Which factor does NOT influence an applicant's need for life insurance?

- **A. Number of dependents**
- **B. Self-maintenance expenses**
- **C. Current health status**
- **D. Existing debts**

The factor that does not influence an applicant's need for life insurance is self-maintenance expenses. Typically, life insurance needs are assessed based on factors that directly reflect financial responsibilities and obligations. The number of dependents is critical because it indicates how many individuals rely on the applicant's income for their support. Current health status plays a significant role as well, since it affects both the risk of premature death and the cost of premiums. Existing debts are another essential consideration because they represent financial obligations that need to be settled, which could be a burden on dependents if the insured were to pass away. In contrast, while self-maintenance expenses are important for individual budgeting and financial planning, they do not directly impact the need for life insurance. The purpose of life insurance is primarily to provide financial support to beneficiaries in the event of the insured's death, rather than to cover the insured's personal living expenses. Therefore, self-maintenance expenses are not a fundamental consideration when assessing life insurance needs.