

Texas Funeral Prearrangement License Exam (Sample)

Study Guide



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SAMPLE

Questions

- 1. If the insurer's experience improves, what may the owner of an interest-sensitive whole life insurance policy be able to do?**
 - A. Increase the death benefit**
 - B. Withdraw cash value without penalty**
 - C. Pay lower premiums for the same benefits**
 - D. Convert to term life insurance**
- 2. What happens to the death benefit of a life insurance policy upon the insured's death?**
 - A. It can only be paid to the insured's estate**
 - B. It is subject to tax deductions**
 - C. It can be paid in multiple payment options**
 - D. It is immediately forfeited**
- 3. During which period would the insurance company typically NOT make a payment if purchase payments are halted by the owner?**
 - A. Accumulation Period**
 - B. Distribution Period**
 - C. Withdrawal Period**
 - D. Payout Period**
- 4. What kind of information is a GPL required to provide regarding funeral services?**
 - A. Funeral service statistics**
 - B. Detailed pricing for individual services**
 - C. Quality assurance measures in place**
 - D. Licensing and accreditation information**
- 5. Agents are expected to provide information on which of the following during policy presentations?**
 - A. Company sales statistics**
 - B. Material facts about the policies**
 - C. Consumer testimonials**
 - D. Market share data**

- 6. What is the latest time a collector can place a call to a consumer?**
- A. 10:00 p.m.**
 - B. 8:00 p.m.**
 - C. 9:00 p.m.**
 - D. 7:00 p.m.**
- 7. What may trigger the use of the waiver of premium rider on a policy?**
- A. Temporary job loss**
 - B. Policy loan borrowing**
 - C. Total disability of the insured**
 - D. Change of employment status**
- 8. What term describes making statements about a policy that could lead to a false conclusion?**
- A. Fraud**
 - B. Misrepresentation**
 - C. False advertisement**
 - D. Omission**
- 9. What has the most effect on the current interest rate used in a fixed annuity?**
- A. The earnings of the insurance company**
 - B. The benchmark interest rates**
 - C. The inflation rate**
 - D. The total premiums collected**
- 10. Under what circumstance might the tax-exempt status of death proceeds for a life insurance policy be lost?**
- A. If the policy is not paid in full**
 - B. If the policy is sold to a new owner**
 - C. If the beneficiary is changed**
 - D. If the insured has a pre-existing condition**

Answers

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

SAMPLE

Explanations

1. If the insurer's experience improves, what may the owner of an interest-sensitive whole life insurance policy be able to do?

- A. Increase the death benefit**
- B. Withdraw cash value without penalty**
- C. Pay lower premiums for the same benefits**
- D. Convert to term life insurance**

When an insurer's experience improves, it often means that the company has become more profitable or has seen lower claim rates than anticipated. This improved experience can lead to a more favorable financial situation for the insurer, which may, in turn, reflect in the offerings available to policyholders of interest-sensitive whole life insurance policies. Specifically, an owner of such a policy might be able to pay lower premiums for the same benefits. This is typically a result of the insurer's ability to maintain profitability while reducing costs related to claims and administrative expenses. Additionally, better performance may allow the insurer to offer more competitive pricing, which can benefit policyholders by making premiums more affordable without sacrificing coverage quality. While options like increasing the death benefit or converting to another policy type could be relevant under different circumstances, they are not directly tied to the insurer's improved experience in the same way that premium adjustments might be. Therefore, the ability to potentially lower premiums is the most appropriate outcome related to improved insurer performance in this context.

2. What happens to the death benefit of a life insurance policy upon the insured's death?

- A. It can only be paid to the insured's estate**
- B. It is subject to tax deductions**
- C. It can be paid in multiple payment options**
- D. It is immediately forfeited**

The correct answer is that the death benefit of a life insurance policy can be paid in multiple payment options. This is significant because policyholders often have flexibility in how their beneficiaries receive the funds following the insured's death. These options can include a lump sum payment, which provides the entire benefit at once, or structured payments over time, which might help beneficiaries manage their finances more effectively. This flexibility allows the beneficiaries to choose a payment method that best suits their financial needs and current circumstances, allowing for better long-term financial planning and support during a challenging time. The other scenarios presented are not applicable in the context of typical life insurance policies. Benefits do not have to be restricted to being paid only to the estate, nor do they automatically incur tax deductions upon payout, given that death benefits are generally not taxable as income to the beneficiaries. Moreover, the assertion that the benefit is immediately forfeited is incorrect, as the purpose of life insurance is to provide financial security through these death benefits.

3. During which period would the insurance company typically NOT make a payment if purchase payments are halted by the owner?

A. Accumulation Period

B. Distribution Period

C. Withdrawal Period

D. Payout Period

The accumulation period is the stage during which the policyholder makes payments into their insurance policy, allowing their investment to grow based on the terms of the agreement. If the owner halts these purchase payments, the insurance company typically does not make any additional payments or distributions to the policyholder during this phase. It's essential to understand that during the accumulation period, the funds are being built up, and without continued contributions, the policy will not grow, nor will the insurance company be liable for payouts to the policyholder until certain conditions are met or the policy transitions out of this initial phase. Once payments are resumed or the policyholder reaches another defined period, different rules and payment structures may come into play. In contrast, other periods referenced, such as the distribution, withdrawal, or payout periods, are specifically designed for managing funds and distributions to the policyholder, which is why they would allow for payments even if contributions were temporarily halted.

4. What kind of information is a GPL required to provide regarding funeral services?

A. Funeral service statistics

B. Detailed pricing for individual services

C. Quality assurance measures in place

D. Licensing and accreditation information

A General Price List (GPL) is a crucial document that funeral providers must present to consumers under the Funeral Rule enforced by the Federal Trade Commission. The correct answer recognizes that it is mandatory for the GPL to include detailed pricing for individual services. This transparency allows consumers to make informed decisions regarding their funeral options. The necessity for detailed pricing ensures that consumers are aware of the costs associated with various services and merchandise, such as embalming, cremation, and the use of facilities. By outlining this information clearly, the GPL fosters a sense of trust and accountability between the funeral service provider and the family making arrangements. This requirement aims to protect and inform consumers, allowing them to compare prices and services from different providers effectively. While the other options mention important aspects of funeral services, they do not align with the specific requirements of the GPL. Statistics, quality assurance measures, and licensing information, while valuable, do not address the core requirement of providing price listings, which is essential for consumer decision-making.

5. Agents are expected to provide information on which of the following during policy presentations?

- A. Company sales statistics**
- B. Material facts about the policies**
- C. Consumer testimonials**
- D. Market share data**

Providing material facts about the policies during presentations is essential for agents because it ensures that clients receive accurate, relevant, and transparent information. This includes details about the coverage, benefits, terms, and any limitations or exclusions associated with the policies being offered. Transparency builds trust between the agent and the client, allowing clients to make informed decisions about their prearranged funeral plans. Material facts are crucial because they not only help clients understand their options but also comply with legal and ethical standards in the industry. Agents have a responsibility to present policies honestly and comprehensively so that clients are fully aware of what they are purchasing. This focus on factual information supports informed decision-making, which is a core principle in the financial services industry, especially in sensitive areas such as funeral planning. While other aspects like consumer testimonials or market share data may provide context or additional insights, they are not considered essential elements to be covered during policy presentations. Focusing on factual details ensures that agents prioritize the client's right to know what they are entering into, which is paramount in maintaining professionalism and integrity in the field.

6. What is the latest time a collector can place a call to a consumer?

- A. 10:00 p.m.**
- B. 8:00 p.m.**
- C. 9:00 p.m.**
- D. 7:00 p.m.**

The correct answer to the question regarding the latest time a collector can place a call to a consumer is 9:00 p.m. This time is set in accordance with the Fair Debt Collection Practices Act (FDCPA), which establishes guidelines for the operation of debt collectors in the United States. Under the regulations specified by the FDCPA, collectors are prohibited from contacting consumers at inconvenient times. Specifically, calls cannot be made after 9:00 p.m. local time of the consumer unless there is prior consent or specific arrangements have been made. Understanding this timeframe is essential for ensuring compliance with legal standards that protect consumers from harassment and intrusive practices. This regulation is designed to respect the privacy and personal time of consumers, thereby fostering fair debt collection practices.

7. What may trigger the use of the waiver of premium rider on a policy?

- A. Temporary job loss**
- B. Policy loan borrowing**
- C. Total disability of the insured**
- D. Change of employment status**

The use of the waiver of premium rider is triggered by the total disability of the insured. This rider is a policy provision that allows the policyholder to stop paying premiums during a period of total disability, which ensures that the insurance coverage remains in force despite the insured's inability to work or earn income. This is particularly important as it provides financial relief and peace of mind in a difficult situation, maintaining the life insurance policy even when the insured can no longer afford premium payments due to their disability. In contrast, temporary job loss, policy loan borrowing, and change of employment status do not typically affect the premium payments in the same manner. These situations may impact the financial situation of the insured, but they do not inherently trigger the provisions of waiver of premium. Total disability specifically addresses a condition where the insured is unable to perform any work, thus making it the key factor for utilizing this rider.

8. What term describes making statements about a policy that could lead to a false conclusion?

- A. Fraud**
- B. Misrepresentation**
- C. False advertisement**
- D. Omission**

The term that describes making statements about a policy that could lead to a false conclusion is misrepresentation. Misrepresentation occurs when an individual or entity provides information that is misleading or incorrect, which can result in others drawing an inaccurate conclusion about a policy or service. This could be done intentionally or unintentionally, but the critical aspect is that the statements do not accurately reflect the true nature or provisions of the policy, potentially leading to confusion or deceit regarding what is being offered. In the context of funeral prearrangement, misrepresentation can have significant implications, as it may affect a family's understanding of the services, costs, and benefits associated with their funeral plans. Ensuring that information is presented clearly and truthfully is vital in maintaining trust and compliance with regulations in the funeral industry.

9. What has the most effect on the current interest rate used in a fixed annuity?

- A. The earnings of the insurance company**
- B. The benchmark interest rates**
- C. The inflation rate**
- D. The total premiums collected**

The most significant factor influencing the current interest rate used in a fixed annuity is primarily the earnings of the insurance company. Fixed annuities are contracts between the insurer and the policyholder, where the insurer guarantees a fixed rate of return on the premiums paid. The interest rate that the company can offer is closely tied to its overall earnings, which stem from its investment portfolio, administrative efficiencies, and other operational revenues. When an insurance company performs well and generates higher earnings, it is typically able to offer more competitive rates on its fixed annuities to attract customers. Conversely, if the company is underperforming or if its investment returns are low, it might have to lower the interest rates it offers on annuities to manage its financial health. Therefore, the company's earnings directly correlate with its capacity to provide attractive interest rates on fixed annuities, making it a key determinant. While aspects like benchmark interest rates, inflation, and total premiums collected can also influence rates, they do so in ways that are generally secondary to the insurer's ability to generate and sustain earnings effectively.

10. Under what circumstance might the tax-exempt status of death proceeds for a life insurance policy be lost?

- A. If the policy is not paid in full**
- B. If the policy is sold to a new owner**
- C. If the beneficiary is changed**
- D. If the insured has a pre-existing condition**

The tax-exempt status of death proceeds for a life insurance policy can be lost if the policy is sold to a new owner. This scenario is commonly referred to as a change of ownership, which can trigger different tax implications. When a policy is sold, the IRS may view the transaction as a sale, which could result in taxable gain compared to when the death benefit is received by the original beneficiary upon the death of the insured. In most cases, life insurance death benefits are paid to the designated beneficiaries income tax-free; however, if the policy has been transferred or sold, the new owner may not qualify for the same tax-exempt treatment that the original policyholder enjoyed. This situation is relevant for estate planning and tax consideration, where maintaining the tax-exempt status is a crucial factor.