

Texas Life Insurance Practice Exam (Sample)

Study Guide



Everything you need from our exam experts!

Copyright © 2025 by Examzify - A Kaluba Technologies Inc. product.

ALL RIGHTS RESERVED.

No part of this book may be reproduced or transferred in any form or by any means, graphic, electronic, or mechanical, including photocopying, recording, web distribution, taping, or by any information storage retrieval system, without the written permission of the author.

Notice: Examzify makes every reasonable effort to obtain from reliable sources accurate, complete, and timely information about this product.

SAMPLE

Questions

- 1. What is a "face amount" in a life insurance policy?**
 - A. The total amount of premiums paid over the policy's life.**
 - B. The specified amount payable upon the insured's death.**
 - C. The cash value accumulated in the policy.**
 - D. The amount the insurer charges as a premium.**
- 2. What happens if a life insurance policy has an irrevocable beneficiary?**
 - A. The policyowner cannot change the beneficiary without consent**
 - B. The beneficiary can change their designation anytime**
 - C. The insurer can switch the beneficiary unilaterally**
 - D. The policy becomes invalid if the beneficiary dies**
- 3. How does "dual coverage" affect life insurance?**
 - A. It provides a lower premium for each policy**
 - B. Holding multiple policies can provide additional coverage but may lead to complications in claims and premiums**
 - C. It guarantees automatic approval for all health conditions**
 - D. It cancels out the need for a primary policy**
- 4. For what main role is the Texas Commissioner of Insurance responsible?**
 - A. Regulating life insurance policies only**
 - B. Overseeing the insurance market**
 - C. Marketing state-funded insurance products**
 - D. Setting insurance premium rates**
- 5. Who does not have an insurable interest in a life insurance policy?**
 - A. The policyholder**
 - B. The insured's spouse**
 - C. The insured's best friend**
 - D. The insured's business partner**

- 6. What are the tax implications of life insurance death benefits?**
- A. Generally, death benefits are not subject to income tax**
 - B. Death benefits are fully taxable to the beneficiary**
 - C. Only the interest earned on death benefits is taxable**
 - D. Benefits are taxed based on the insured's age at death**
- 7. What is the maximum number of employees allowed in a SIMPLE plan?**
- A. No more than 50**
 - B. No more than 75**
 - C. No more than 100**
 - D. No more than 150**
- 8. Which type of life insurance involves a flexible premium structure?**
- A. Term Life Insurance**
 - B. Whole Life Insurance**
 - C. Universal Life Insurance**
 - D. Fixed Life Insurance**
- 9. What is the term for the time period during which an annuitant contributes to an annuity?**
- A. Distribution phase**
 - B. Withdrawal period**
 - C. Accumulation period**
 - D. Investment phase**
- 10. When an insurer discovers the insured understated her age on the life policy application, what action will the insurer take?**
- A. Pay full death benefit**
 - B. Pay a reduced death benefit**
 - C. Void the policy**
 - D. Adjust future premiums only**

Answers

SAMPLE

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

SAMPLE

Explanations

SAMPLE

1. What is a "face amount" in a life insurance policy?

- A. The total amount of premiums paid over the policy's life.
- B. The specified amount payable upon the insured's death.**
- C. The cash value accumulated in the policy.
- D. The amount the insurer charges as a premium.

The face amount of a life insurance policy refers to the specified amount that is payable to the beneficiaries upon the death of the insured. This amount is clearly stated in the policy and represents the primary benefit that the policyholder's beneficiaries will receive when the insured passes away. It is a fundamental characteristic of life insurance, distinguishing the policy from other types of insurance. This concept is central to life insurance as it defines the financial protection provided to the insured's loved ones. Typically, the face amount does not change unless the policyholder opts for adjustments such as increasing coverage or adding riders. In contrast, the other options all pertain to different aspects of life insurance. The total amount of premiums paid over the policy's life is a cumulative figure reflecting what the policyholder has contributed but is unrelated to the benefit payable at death. Cash value, which accumulates over time in certain types of permanent life insurance, is distinct and may influence the policyholder's financial decisions, but it does not represent the death benefit. Lastly, the amount charged as a premium relates to what the policyholder pays to maintain the insurance coverage; it does not define the benefit amount provided upon death.

2. What happens if a life insurance policy has an irrevocable beneficiary?

- A. The policyowner cannot change the beneficiary without consent**
- B. The beneficiary can change their designation anytime
- C. The insurer can switch the beneficiary unilaterally
- D. The policy becomes invalid if the beneficiary dies

When a life insurance policy has an irrevocable beneficiary, it means that the beneficiary designation cannot be changed without the consent of the irrevocable beneficiary. This provision protects the rights of the beneficiary, ensuring that they maintain their entitlement to the policy benefits as specified. The existence of an irrevocable beneficiary creates a binding agreement that the policy owner cannot alter unilaterally, which means that if the policy owner wishes to change the beneficiary for any reason, they must obtain permission from the current irrevocable beneficiary. This setup provides security for the beneficiary but limits the policy owner's flexibility in managing their policy. In contrast to other options, the beneficiary does not possess the ability to alter their designation at will, nor can the insurer make changes to the beneficiary designation without consent. Additionally, the policy remains valid even if the irrevocable beneficiary dies; in that case, the benefits typically would either be paid to the contingent beneficiary or revert to the insured's estate, assuming there is an arrangement in place to address such scenarios.

3. How does "dual coverage" affect life insurance?

- A. It provides a lower premium for each policy
- B. Holding multiple policies can provide additional coverage but may lead to complications in claims and premiums**
- C. It guarantees automatic approval for all health conditions
- D. It cancels out the need for a primary policy

Holding multiple life insurance policies, often referred to as "dual coverage," does indeed provide additional coverage that can be very beneficial for the insured. This means that if one policy has a specific limit and the individual's needs exceed that amount, having an additional policy can help bridge that gap, ensuring that there is sufficient coverage for beneficiaries. However, this situation can also lead to complications. For instance, managing multiple policies might become cumbersome, especially when it comes to keeping track of premiums, terms, and conditions. If a claim needs to be processed, there could be difficulties coordinating between the insurers, which may delay payouts or create misunderstandings regarding benefit amounts. Moreover, having multiple policies means paying multiple premiums, which could strain an individual's budget if not managed properly. Therefore, while dual coverage offers the benefit of enhanced financial protection, it also introduces complexities that must be carefully navigated.

4. For what main role is the Texas Commissioner of Insurance responsible?

- A. Regulating life insurance policies only
- B. Overseeing the insurance market**
- C. Marketing state-funded insurance products
- D. Setting insurance premium rates

The primary responsibility of the Texas Commissioner of Insurance is to oversee the insurance market. This role involves ensuring that insurance companies operate in a manner that is fair, equitable, and compliant with the laws of Texas. The Commissioner is tasked with regulating all types of insurance, including life, health, property, and casualty, which allows for a comprehensive understanding of the insurance landscape within the state. By overseeing the insurance market, the Commissioner helps protect consumers, ensures that insurance providers remain solvent, and maintains a competitive insurance environment. This oversight is essential for safeguarding the interests of policyholders and ensuring that insurance companies fulfill their obligations. While regulating life insurance policies is a part of the Commissioner's responsibilities, it is not the sole focus, as the role encompasses much broader regulatory practices across all insurance sectors. Additionally, the Commissioner does not specifically market state-funded insurance products or set insurance premium rates directly; instead, they may review and approve the rates proposed by insurance companies to ensure they align with market conditions and consumer protection regulations.

5. Who does not have an insurable interest in a life insurance policy?

- A. The policyholder**
- B. The insured's spouse**
- C. The insured's best friend**
- D. The insured's business partner**

An insurable interest in a life insurance policy means that the policyholder has a legitimate interest in the continued life of the insured, often related to financial dependence or obligations. The concept is critical in life insurance to prevent moral hazard and ensure that the policyholder has a genuine reason for obtaining coverage on someone's life. The policyholder typically has an insurable interest in themselves or in those with whom they have a close financial or personal relationship, such as a spouse or business partner. The person who is being insured is often connected by these types of relationships, making it meaningful for the policyholder. In the case of a best friend, unless there is a significant shared financial obligation or dependency (which is rarely the case), the policyholder does not have an insurable interest. In most situations, friendships do not create an insurable interest, as they lack the financial stakes or legal obligations that characterize relationships like marriage or partnership in business. Therefore, the best friend does not meet the criteria for insurable interest, making them the correct answer.

6. What are the tax implications of life insurance death benefits?

- A. Generally, death benefits are not subject to income tax**
- B. Death benefits are fully taxable to the beneficiary**
- C. Only the interest earned on death benefits is taxable**
- D. Benefits are taxed based on the insured's age at death**

Death benefits from life insurance policies are typically not subject to income tax, which is why this option is the correct answer. When a life insurance policyholder passes away, the proceeds paid out to the beneficiaries are usually received tax-free. This tax advantage is a significant reason many individuals purchase life insurance, as it ensures that their beneficiaries receive the full amount intended, without the burden of taxes reducing that benefit. The principle behind this tax treatment is rooted in the idea that life insurance is meant to provide financial security and peace of mind for families during difficult times. While there can be exceptions to this general rule, such as in cases where the policyholder's estate exceeds the estate tax exemption limits or specific financial transactions concerning the policy, the standard remains that the death benefit itself is not considered taxable income. The other options either incorrectly represent the tax treatment of such benefits or introduce irrelevant conditions. Understanding these nuances can help clarify financial planning and the role of life insurance in someone's overall financial strategy.

7. What is the maximum number of employees allowed in a SIMPLE plan?

- A. No more than 50**
- B. No more than 75**
- C. No more than 100**
- D. No more than 150**

A SIMPLE (Savings Incentive Match Plan for Employees) plan is a type of retirement plan designed for small businesses, allowing them to provide a simple and effective way for their employees to save for retirement. The key feature of a SIMPLE plan is that it is particularly beneficial for businesses with a limited number of employees. To qualify for a SIMPLE plan, a business must have 100 or fewer employees who earned \$5,000 or more during the preceding calendar year. This limitation is in place to ensure that SIMPLE plans remain accessible and manageable for small business owners, allowing them to offer retirement benefits without the complexity and costs associated with larger plans. Therefore, businesses can implement a SIMPLE plan as long as they adhere to the maximum employee limit of 100. This makes it an attractive option for small businesses looking to support their employees' retirement savings.

8. Which type of life insurance involves a flexible premium structure?

- A. Term Life Insurance**
- B. Whole Life Insurance**
- C. Universal Life Insurance**
- D. Fixed Life Insurance**

The type of life insurance that involves a flexible premium structure is universal life insurance. This type of policy allows policyholders to adjust their premium payments and the death benefit amount based on their changing financial needs and goals. Universal life insurance is designed to provide not only a death benefit but also the potential to accumulate cash value over time. The flexible premium feature means that policyholders can choose how much they want to pay in premiums, within certain limits, which can be advantageous as their financial situation changes. As a result, they can increase or decrease their premium payments as their financial circumstances permit. In contrast, term life insurance generally has fixed premiums for the coverage duration chosen, while whole life insurance features fixed premiums and guaranteed cash value growth. Fixed life insurance, while not a standard term in the industry, would typically imply a policy with a set structure for premiums, making it less flexible than universal life insurance. Thus, universal life insurance stands out as the option that offers premium flexibility to policyholders.

9. What is the term for the time period during which an annuitant contributes to an annuity?

- A. Distribution phase**
- B. Withdrawal period**
- C. Accumulation period**
- D. Investment phase**

The time period during which an annuitant contributes to an annuity is referred to as the accumulation period. During this phase, the annuitant makes payments into the annuity, which can grow on a tax-deferred basis. This means that any earnings generated from the invested funds are not taxed until they are withdrawn, providing a significant advantage for long-term savings and retirement planning. The accumulation period can vary in duration depending on the specific terms of the annuity contract and the financial goals of the annuitant. Understanding the accumulation period is crucial because it sets the stage for the subsequent distribution phase, where the annuitant starts receiving payouts from the annuity. This distinction is essential in the context of retirement planning, as the accumulation phase is key for building up the necessary funds that will be accessible during retirement.

10. When an insurer discovers the insured understated her age on the life policy application, what action will the insurer take?

- A. Pay full death benefit**
- B. Pay a reduced death benefit**
- C. Void the policy**
- D. Adjust future premiums only**

When an insurer discovers that the insured understated her age on the life insurance policy application, the insurer typically pays a reduced death benefit rather than voiding the policy or paying out the full amount. This practice relates to the principle of equitable adjustments in the underwriting process. When the age is misrepresented, the insurer assesses the risk based on the information provided. If the insured's actual age is greater than what was stated, the premium paid would have been lower than what should have been charged for the correct age. As a result, the insurer would calculate the death benefit based on what the premiums would have purchased had the correct age been disclosed. This leads to the issuance of a death benefit that reflects the premium payments received rather than the full policy amount. This approach ensures fairness both to the insurer, who relied on the accuracy of the application in determining risk and premiums, and to the insured, ensuring they are still covered under the policy albeit at a benefit level commensurate with the premiums paid. The adjustment made by the insurer balances the misrepresentation while still honoring the existence of the policy.