Variable Life Licensing Practice Exam (Sample)

Study Guide

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Questions

1. **What do equity funds primarily invest in?**
   - **A. Bonds and fixed-income securities**
   - **B. Shares of stocks aiming for capital appreciation**
   - **C. Only real estate assets**
   - **D. Government securities**

2. **With traditional participating life insurance products, allocations in dividends are:**
   - **A. Not directly linked to the company's investment performance**
   - **B. Smoothened by the life company**
   - **C. Free from the highs and lows of investment return**
   - **D. All of the above**

3. **What is a characteristic of a unit trust?**
   - **A. It allows share trading like a stock**
   - **B. It pools money for investments on behalf of investors**
   - **C. It solely invests in high-risk assets**
   - **D. It provides guaranteed returns to investors**

4. **Under which condition would a policy owner usually see a higher surrender value?**
   - **A. When invested in non-participating policies**
   - **B. When the policy is held longer without loans**
   - **C. When market conditions favor low interest**
   - **D. When age of the insured is higher**

5. **Which statements about rebating are true?**
   - **A. Rebating enhances an agent's professionalism**
   - **B. Rebating is permitted in certain circumstances**
   - **C. Rebating involves special inducements for policy purchases**
   - **D. All statements are true**

6. **The administrative and mortality charge on the single premium is listed as what percentage?**
   - **A. 1%**
   - **B. 2%**
   - **C. 3%**
   - **D. 4%**

7. **The policy fee payable by a variable life insurance policy owner is intended to cover what?**
   - **A. The mortality costs of the insurance policy**
   - **B. The handling charges of investment managers**
   - **C. The cost of insuring each unit bought**
   - **D. The administrative expenses of the policy setup**

8. **How are the cash values of variable life policies calculated?**
   - **A. As fixed amounts outlined in the policy**
   - **B. Based on the investment performance of underlying assets**
   - **C. Determined by the total premiums paid**
   - **D. Calculated using historic dividend rates only**

9. **Which of the following allows policyholders to add more units to their account in variable life policies?**
   - **A. Regular premium payments**
   - **B. Single premium payments**
   - **C. Automatic reinvestment of dividends**
   - **D. Participation in investment growth**

10. **What does a flexible premium policy imply in a variable life insurance context?**
    - **A. The policyholder has the ability to adjust premium payments.**
    - **B. The policyholder is fixed to a premium payment schedule.**
    - **C. The policy is guaranteed to grow at a fixed rate.**
    - **D. The policyholder cannot withdraw funds.**

Answers

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

Explanations

1. What do equity funds primarily invest in?

A. Bonds and fixed-income securities

B. Shares of stocks aiming for capital appreciation

C. Only real estate assets

D. Government securities

Equity funds primarily invest in shares of stocks with the goal of achieving capital appreciation. This means that the primary objective of these funds is to increase the value of the investment over time through the appreciation of the stocks they hold. By investing in equity securities, equity funds provide investors with an opportunity to participate in the growth of companies and the stock market as a whole. Equity funds can vary in their investment strategies, focusing on different sectors, market capitalizations, or investment styles. However, the common thread is their focus on equity securities rather than fixed-income or real estate assets. This differentiation is key, as it highlights how equity funds aim for growth and potentially higher returns associated with the volatility of the stock market, rather than the more stable returns typically associated with bonds or real estate investments.

2. With traditional participating life insurance products, allocations in dividends are:

A. Not directly linked to the company's investment performance

B. Smoothened by the life company

C. Free from the highs and lows of investment return

D. All of the above

In traditional participating life insurance products, dividends are essentially a share of the insurer's profits that are paid to policyholders. One key aspect of these dividends is that they are not directly tied to the company's investment performance. This means that dividends can be influenced by several factors, including mortality experience, morbidity experience, and administrative expenses, rather than being a direct result of how well the company invests its funds. Furthermore, insurance companies often smooth out the dividend allocations over time. This smoothing process allows the insurer to provide a more stable and predictable dividend to policyholders, minimizing fluctuations that could occur due to volatile investment returns. This ensures that policyholders receive a more consistent benefit rather than one vastly affected by short-term market performance. Lastly, the concept of dividends being free from the highs and lows of investment return further reinforces the idea that policyholders are provided with a more stable and reliable return. While the performance of investments does influence the overall profitability of the insurer, the dividends declared are managed in such a way that they do not reflect the immediate ups and downs of the investment market. Combining these factors illustrates why all of the provided statements about the allocation of dividends in traditional participating life insurance products are accurate, ultimately leading to the conclusion that the correct answer is all

3. What is a characteristic of a unit trust?

A. It allows share trading like a stock

B. It pools money for investments on behalf of investors

C. It solely invests in high-risk assets

D. It provides guaranteed returns to investors

A unit trust is characterized primarily by its structure of pooling money from multiple investors to make collective investments. This setup allows individual investors to participate in a diversified portfolio that they may not be able to access or manage on their own due to limited capital or expertise. The pooling mechanism typically involves the trust raising funds by issuing units to investors, each representing a share of the overall investment pool. While options such as share trading, risk categorization, and guaranteed returns may apply to certain investment vehicles, they do not typically represent the core essence of a unit trust. For instance, unit trusts are not traded like stocks on an exchange; instead, they are bought and sold based on the net asset value as calculated at the end of the trading day. Additionally, unit trusts can invest in a range of assets, including both high-risk and low-risk options, but they do not limit themselves exclusively to high-risk assets. Lastly, returns from unit trusts are based on the performance of the underlying investments and are not guaranteed, making the option indicating guaranteed returns inaccurate for this context.

4. Under which condition would a policy owner usually see a higher surrender value?

A. When invested in non-participating policies

B. When the policy is held longer without loans

C. When market conditions favor low interest

D. When age of the insured is higher

The scenario in which a policy owner would usually see a higher surrender value is when the policy is held longer without loans. As time goes on, the cash value of a variable life insurance policy typically increases due to the accumulation of investment performance and interest. By avoiding loans against the policy, the cash value remains intact and continues to grow, leading to a higher surrender value if the policy owner decides to terminate the policy. Holding the policy longer allows for the potential appreciation of the cash value, as well as the possibility of rising investment returns, which are critical components of variable life policies. Since the policy does not have any loans taken out, there would be no reduction in the cash value that would normally occur when funds are withdrawn through loans, further enhancing the surrender value. In contrast, the other options focus on factors that are less favorable for increasing surrender value. Non-participating policies generally do not accumulate cash values in the same way that participating ones do. Low market interest would negatively affect investment returns, thereby decreasing the cash value. Lastly, the age of the insured does not inherently relate to the policy's cash value and surrender value; rather, it could influence other aspects of the policy such as premiums and insurability.

5. Which statements about rebating are true?

A. Rebating enhances an agent's professionalism

B. Rebating is permitted in certain circumstances

C. Rebating involves special inducements for policy purchases

D. All statements are true

Rebating involves offering special inducements or incentives to potential clients as a means of encouraging them to purchase an insurance policy. This practice often includes providing a portion of the agent's commission back to the policyholder or offering gifts, services, or other advantages that are not part of the policy's terms. The goal is to make the policy more attractive to prospective buyers, but it can lead to ethical concerns and regulatory scrutiny, particularly if it distorts the true value of the insurance product or undermines fair competition among agents. The other statements discuss aspects of rebating that do not align with its typical definition and implications. While some statements may reflect general sentiments about professionalism or regulatory circumstances, rebating is largely viewed through the lens of providing enticing additional benefits rather than enhancing professionalism or being broadly permissible. Understanding the nature of rebating highlights its contentious role in the insurance industry.

6. The administrative and mortality charge on the single premium is listed as what percentage?

A. 1%

B. 2%

C. 3%

D. 4%

The administrative and mortality charge on a single premium for variable life insurance is often set at 3%. This percentage is significant because it reflects the costs associated with maintaining the policy, including the administrative expenses incurred by the insurance company and the mortality risk associated with providing life coverage. Understanding this charge is crucial for policyholders because it impacts the overall performance of the policy and the amount of cash value that accumulates over time. When the policy stipulates a 3% charge, it essentially means that for every dollar contributed in premiums, 3 cents are allocated towards these costs, which can ultimately affect the investment component of the variable life policy. This understanding enables potential buyers to make informed decisions regarding their insurance needs and the implications of various charge percentages. Knowing the correct percentage helps in accurately assessing the policy's value and returns.

7. The policy fee payable by a variable life insurance policy owner is intended to cover what?

A. The mortality costs of the insurance policy

B. The handling charges of investment managers

C. The cost of insuring each unit bought

D. The administrative expenses of the policy setup

The policy fee in a variable life insurance policy is primarily intended to cover the administrative expenses associated with maintaining the policy. This fee helps to manage costs related to the policy's setup, including record-keeping, premium collection, and overall policy servicing. It ensures that the policyholder has access to the necessary administrative support and infrastructure that facilitate the management of their variable life contract. While other costs such as mortality costs and investment management fees may also be present within a variable life insurance policy, they are typically accounted for separately and not directly linked to the policy fee. The focus of the policy fee is specifically on the operational and administrative aspects of the policy, making it a vital component of the overall management of the insurance product.

8. How are the cash values of variable life policies calculated?

A. As fixed amounts outlined in the policy

B. Based on the investment performance of underlying assets

C. Determined by the total premiums paid

D. Calculated using historic dividend rates only

The cash values of variable life policies are calculated based on the investment performance of the underlying assets. In variable life insurance, the policyholder has a selection of investment options, typically in mutual funds or other investment vehicles, which can fluctuate over time. The cash value accumulates as the investments perform—so if the chosen investments grow in value, the cash value of the policy increases accordingly. Conversely, if the investments perform poorly, the cash value can decrease. This relationship between cash value and investment performance distinguishes variable life policies from other types of life insurance that may have fixed cash values. Therefore, the dynamic nature of the investments directly influences the cash value, making it essential for policyholders to understand the risks and potential rewards associated with their investment choices.

9. Which of the following allows policyholders to add more units to their account in variable life policies?

A. Regular premium payments

B. Single premium payments

C. Automatic reinvestment of dividends

D. Participation in investment growth

In the context of variable life policies, single premium payments allow policyholders to add more units to their account. A single premium payment refers to a one-time lump sum payment made by the policyholder to fund the policy. This injection of cash can directly purchase additional units or shares in the investment options provided by the policy. Moreover, single premium payments can be particularly advantageous for individuals looking to quickly increase their investment in the policy without the need for ongoing contributions. When the policyholder makes such a payment, it increases the cash value and potential growth of the death benefit, thereby enhancing the overall value of the policy. While regular premium payments do contribute to the policy's cash value and may also increase units over time, they do not facilitate the same immediate addition of units that a single premium can accomplish. Automatic reinvestment of dividends primarily pertains to the reinvestment of any earnings that the policy may generate rather than direct additional unit purchases. Participation in investment growth refers to the growth that may occur due to market performance but doesn't allow for direct additions of units to the account.

10. What does a flexible premium policy imply in a variable life insurance context?

A. The policyholder has the ability to adjust premium payments.

B. The policyholder is fixed to a premium payment schedule.

C. The policy is guaranteed to grow at a fixed rate.

D. The policyholder cannot withdraw funds.

In the context of variable life insurance, a flexible premium policy indicates that the policyholder has the ability to adjust premium payments according to their financial situation and needs. This flexibility allows the policyholder to increase or decrease the amount they contribute to the policy over time. Such a structure is advantageous because it permits policyholders to adapt their contributions based on changes in income, lifestyle, or financial goals, providing a level of control not typically available in fixed premium policies. Unlike a fixed premium schedule, where the policyholder is required to pay a specific amount at predetermined intervals, a flexible premium policy empowers individuals to have more discretion. This can also impact the cash value accumulation and death benefit, as additional premiums can enhance these aspects, while reduced payments can impact them negatively. In summary, the correct answer highlights the key feature of flexibility that characterizes variable life insurance policies, allowing policyholders to manage their financial commitments more dynamically.