

Vermont Life and Health Practice Exam (Sample)

Study Guide



Everything you need from our exam experts!

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SAMPLE

Questions

- 1. Which disability buy-sell agreement is most suitable for ABC Partnership, which has a limited number of partners?**
 - A. Entity purchase agreement**
 - B. Cross-purchase agreement**
 - C. Wait-and-see agreement**
 - D. Option agreement**
- 2. When does coverage become effective for a life insurance policy issued after a conditional receipt?**
 - A. Date of issuance of the conditional receipt**
 - B. The day the policy is delivered**
 - C. After the first premium payment**
 - D. At the end of the waiting period**
- 3. If a disability income policy has a cost-of-living adjustment rider, how often must benefits usually be increased?**
 - A. Every month**
 - B. Every two years**
 - C. At least once per year from when benefits begin**
 - D. At the discretion of the insurer**
- 4. In what way are preferred provider plans and indemnity plans similar?**
 - A. Both operate on a capitation basis**
 - B. Both pay on a fee-for-service basis**
 - C. Both require referrals for specialist care**
 - D. Both offer nationwide coverage**
- 5. Which statement best describes a limited payment whole life insurance?**
 - A. It only pays out at the end of a term**
 - B. It requires premiums to be paid for a limited time**
 - C. It accumulates cash value immediately**
 - D. It is only available to seniors**

- 6. Disability income policies provide protection against which form of loss?**
- A. Loss of property**
 - B. Economic death**
 - C. Loss of life**
 - D. Loss of employment**
- 7. How is the gain from a surrendered modified endowment contract treated for federal income tax purposes?**
- A. As tax-free income**
 - B. As taxable income with an additional penalty tax**
 - C. As a tax deduction**
 - D. As income eligible for exemption**
- 8. What feature of a deferred annuity initially charges a fee that reduces to zero after a certain period?**
- A. Surrender charge**
 - B. Withdrawal fee**
 - C. Maintenance fee**
 - D. Premium tax**
- 9. Under a long-term care rider, what benefit can an insured potentially access?**
- A. Higher dividend payouts**
 - B. Tax-free cash withdrawals**
 - C. Increased coverage limits**
 - D. Regular refund options**
- 10. If an insurance producer offers incentives for purchasing products, what practice is this an example of?**
- A. Rebating**
 - B. Coercion**
 - C. Misrepresentation**
 - D. Discrimination**

Answers

SAMPLE

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

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Explanations

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1. Which disability buy-sell agreement is most suitable for ABC Partnership, which has a limited number of partners?

- A. Entity purchase agreement**
- B. Cross-purchase agreement**
- C. Wait-and-see agreement**
- D. Option agreement**

In a partnership setting such as ABC Partnership, a cross-purchase agreement is particularly suitable when the partnership comprises a limited number of partners. This type of agreement allows each partner to purchase the share of a partner who becomes disabled and is unable to continue working. With a limited number of partners, the cross-purchase agreement streamlines the buy-sell process, as each partner is directly involved in purchasing the interest of their disabled counterpart. This not only simplifies the financial transactions but also ensures that the remaining partners maintain control over the partnership and its operations. Each partner has the responsibility to insure themselves and their share, which helps in managing risks associated with disability. In contrast, the entity purchase agreement generally involves a situation where the partnership itself is the buyer, pooling the disability benefits to buy out a disabled partner's share. While this can work in larger groups or partnerships, it may be less efficient for a smaller partnership, where individual ownership and responsibilities are clearer. The wait-and-see agreement offers more flexibility by providing options for both entity and cross-purchase arrangements, but in a situation with only a few partners, the straightforward nature of the cross-purchase agreement typically fits better. An option agreement typically allows for more varied arrangements, which might not be necessary or

2. When does coverage become effective for a life insurance policy issued after a conditional receipt?

- A. Date of issuance of the conditional receipt**
- B. The day the policy is delivered**
- C. After the first premium payment**
- D. At the end of the waiting period**

Coverage for a life insurance policy issued after a conditional receipt becomes effective on the date of issuance of the conditional receipt, provided that the applicant meets the underwriting requirements and is otherwise eligible for coverage at that time. A conditional receipt serves as a temporary coverage document, indicating that the insurance company will provide coverage as long as certain conditions are met, typically including the payment of the first premium and the applicant being in good health. This means that if the specified conditions are satisfied, the policyholder can rely on the coverage from the moment the conditional receipt is issued. It is crucial to understand this mechanism as it allows applicants to have insurance protection while their application is still under review, rather than having to wait for the policy to be formally issued and delivered.

3. If a disability income policy has a cost-of-living adjustment rider, how often must benefits usually be increased?

A. Every month

B. Every two years

C. At least once per year from when benefits begin

D. At the discretion of the insurer

A cost-of-living adjustment (COLA) rider in a disability income policy ensures that the benefits provided will be adjusted periodically to keep pace with inflation and the increasing cost of living. Typically, these adjustments are made at least once per year from the time the benefits begin. This annual adjustment serves to maintain the purchasing power of the benefits, ensuring that the insured receives an amount that can adequately support their needs over time, especially given that inflation can erode the value of fixed income payments. Frequency of adjustments can vary by policy, but the standard practice is to implement these changes annually. This ongoing adjustment mechanism is crucial for ensuring that individuals who are receiving disability benefits are not financially disadvantaged as time progresses. It's important to recognize that while some riders may not specify the frequency of adjustments in a way that is set in stone, at a minimum, annual increases are common across many policies with a COLA rider.

4. In what way are preferred provider plans and indemnity plans similar?

A. Both operate on a capitation basis

B. Both pay on a fee-for-service basis

C. Both require referrals for specialist care

D. Both offer nationwide coverage

Preferred provider plans and indemnity plans share a commonality in that they both pay for healthcare services on a fee-for-service basis. This approach means that providers are compensated for each individual service rendered to the patient, allowing for more flexibility and control over the services that patients receive. In both types of plans, when a member receives treatment, the provider bills the insurance company, and then the insurer pays a set percentage of the cost, leaving the member responsible for any remaining balance. The other potential similarities do not accurately characterize both types of plans. Capitation, where providers are paid a set amount per patient regardless of the number of services provided, only applies to certain managed care plans and is not a feature of traditional indemnity plans. The requirement for referrals for specialist care typically applies to managed care plans like Health Maintenance Organizations (HMOs) more than it does to indemnity plans or preferred provider organizations (PPOs). Lastly, while some preferred provider plans might offer broader networks, indemnity plans have traditionally provided more extensive nationwide coverage without such restrictions. Thus, it is the fee-for-service payment structure that aligns these two plan types effectively.

5. Which statement best describes a limited payment whole life insurance?

- A. It only pays out at the end of a term**
- B. It requires premiums to be paid for a limited time**
- C. It accumulates cash value immediately**
- D. It is only available to seniors**

Limited payment whole life insurance is designed so that the policyholder pays premiums for a specific, limited period of time rather than for their entire lifetime. This means that after the premium payment period is completed, the policy remains in force, and the insured is covered for life without any further premium payments required. This feature allows individuals to secure lifelong coverage while also relieving them of long-term premium obligations. The option that states it only pays out at the end of a term is inaccurate because limited payment whole life insurance can provide a death benefit at any point during the policyholder's life, not just at the end of a set term. The assertion regarding immediate cash value accumulation does not capture the essence of limited payment whole life insurance, as while it does accumulate cash value, the emphasis is on the limitation of premium payment duration. Lastly, the notion that it is only available to seniors is not correct, as limited payment whole life insurance is typically accessible to individuals of various age groups.

6. Disability income policies provide protection against which form of loss?

- A. Loss of property**
- B. Economic death**
- C. Loss of life**
- D. Loss of employment**

Disability income policies are specifically designed to provide financial support for individuals who are unable to work due to a disabling condition. This form of insurance addresses the financial consequences of being unable to earn an income as a result of illness or injury, a situation often referred to as "economic death." Economic death reflects the idea that, although the individual is physically alive, they are no longer able to generate income, which can be devastating financially. Disability income insurance compensates for this loss by replacing a portion of the policyholder's lost income, ensuring that they can maintain their standard of living despite their inability to work. The remaining options do not accurately represent the primary focus of disability income policies. Loss of property pertains to insurance products like homeowner's or renter's insurance, loss of life relates to life insurance, and loss of employment may connect more with unemployment insurance than with disability income regulations. Therefore, the coverage of these policies aligns closely with the concept of economic death, as it mitigates the financial impact of a person's disability on their ability to earn an income.

7. How is the gain from a surrendered modified endowment contract treated for federal income tax purposes?

A. As tax-free income

B. As taxable income with an additional penalty tax

C. As a tax deduction

D. As income eligible for exemption

When a modified endowment contract (MEC) is surrendered, the gain from that surrender is treated as taxable income for federal income tax purposes. The significant aspect of a modified endowment contract is that it does not follow the same tax treatment as traditional life insurance policies due to its funding levels. Specifically, when an MEC is surrendered, any gain — which is defined as the amount received over the investment in the contract — is included in gross income. Furthermore, if the policyholder is under the age of 59½, there is an additional 10% penalty tax on that gain. This treatment exists to discourage the use of life insurance policies as short-term investment vehicles rather than for the purpose of providing a death benefit. This specific approach to taxation is important for policyholders to understand, as it can significantly impact their financial decisions related to the surrender of such contracts. The tax rules surrounding MECs are designed to ensure they are used primarily for life insurance and not as tax-advantaged savings accounts.

8. What feature of a deferred annuity initially charges a fee that reduces to zero after a certain period?

A. Surrender charge

B. Withdrawal fee

C. Maintenance fee

D. Premium tax

The feature of a deferred annuity that initially charges a fee and then reduces to zero after a certain period is the surrender charge. A surrender charge is designed to compensate the insurance company for the costs incurred in setting up the annuity and for the potential loss of market value when withdrawals are taken too soon. This charge typically applies if the annuity owner withdraws funds or surrenders the contract within the early years of the agreement. As time progresses, the surrender charge generally decreases and is often structured to vanish after a specified duration, which incentivizes policyholders to stay invested for the long term. It's an important aspect of deferred annuities, as it balances the need for providing flexibility to the policyholder while also ensuring that the insurer can recoup initial costs. The other options—withdrawal fee, maintenance fee, and premium tax—do not typically have the same structure where they diminish to zero over time in the context of deferred annuities. A withdrawal fee might apply each time money is taken out, a maintenance fee usually covers ongoing administrative costs, and a premium tax is a tax based on the amount of premium paid, rather than being tied to the contract's duration.

9. Under a long-term care rider, what benefit can an insured potentially access?

- A. Higher dividend payouts**
- B. Tax-free cash withdrawals**
- C. Increased coverage limits**
- D. Regular refund options**

A long-term care rider is an important feature that can be added to certain life insurance policies, allowing the policyholder access to benefits while they are still living, specifically for long-term care costs. When a policyholder requires assistance with daily activities due to illness, injury, or cognitive impairment, they can tap into the funds that have been designated for this purpose through the rider. By accessing these benefits, the insured can utilize a portion of the life insurance policy's death benefit or specified rider benefits to cover long-term care expenses. Typically, long-term care riders allow for increased coverage limits specifically for care-related costs, thereby ensuring that individuals have financial support when they need it most. By having access to increased limits for long-term care expenses, policyholders have greater flexibility and security regarding their health care decisions as they age. In this context, options such as higher dividend payouts, tax-free cash withdrawals, and regular refund options are generally not associated with the function of a long-term care rider. Instead, these options are typical of different types of insurance products or investment accounts, showing why the specific benefit of increased coverage limits for long-term care costs is the most accurate answer.

10. If an insurance producer offers incentives for purchasing products, what practice is this an example of?

- A. Rebating**
- B. Coercion**
- C. Misrepresentation**
- D. Discrimination**

Offering incentives for purchasing insurance products is indeed an example of rebating. In the insurance industry, rebating typically refers to the practice where an agent or producer offers a portion of their commission or another form of benefit to a potential customer as an inducement to purchase a policy. This practice can create an unfair competitive advantage and may lead to unethical selling practices, as it may not be transparent to all potential buyers what motivates the transaction. This behavior is often regulated by state insurance laws, and in many jurisdictions, rebating is prohibited as it can disrupt market fairness and the actuarial principles that underlie insurance pricing. Rebate practices can manipulate the perceived value of a product, leading to requests for incentives rather than focusing on the actual benefits of the insurance coverage itself. The other options represent different unethical practices in insurance but do not apply in this context. Coercion refers to situations where a customer is pressured into purchasing a policy against their will, misrepresentation involves providing false information about a policy or its benefits, and discrimination pertains to unfair treatment of individuals based on race, gender, or other personal characteristics in underwriting or pricing policies. None of these describe the offering of incentives in the same way that rebating does.