

# Virginia State Life, Health and Annuities Practice Exam (Sample)

## Study Guide



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**SAMPLE**

## **Questions**

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- 1. Home health care benefits typically do NOT include coverage for?**
  - A. Nursing care**
  - B. Wheelchairs**
  - C. Physical therapy**
  - D. Prescription medication**
- 2. What is NOT a responsibility of a producer during the underwriting process?**
  - A. Collecting documents from clients**
  - B. Selecting the final approval date**
  - C. Assessing risk factors**
  - D. Submitting applications**
- 3. Which product typically offers tax-deferred growth of cash value?**
  - A. Term life insurance**
  - B. Health insurance**
  - C. Whole life insurance**
  - D. Auto insurance**
- 4. What effect does interest income have upon insurance premiums?**
  - A. Increases premium**
  - B. Decreases premium**
  - C. Levels the premium**
  - D. Adjusts premium on a quarterly basis**
- 5. What happens when the policyowner borrows against the cash value of his life insurance policy?**
  - A. The policy remains unchanged**
  - B. The policy proceeds would be reduced by the outstanding loan balance**
  - C. The loan must be repaid immediately**
  - D. The available cash value increases**

**6. When replacing a client's existing life insurance policy, what is the advisable action for an agent?**

- A. Surrender the existing policy immediately**
- B. Wait until the new policy is issued and delivered**
- C. Notify the client of the potential tax implications**
- D. Advise the client to keep both policies for coverage**

**7. In insurance, what is the term for a clause that limits coverage in the event of specific circumstances?**

- A. Exclusion**
- B. Inclusion**
- C. Limitation**
- D. Provision**

**8. Field underwriting by a producer may result in which of the following?**

- A. Disclosure of the applicant's previous claims**
- B. Disclosure of hazardous activities of the applicant**
- C. Approval of the insurance application**
- D. Rejection of the application without cause**

**9. Distributions made from a Health Savings Account (HSA) for non-qualified medical expenses incur a penalty of what percentage?**

- A. 10%**
- B. 15%**
- C. 20%**
- D. 25%**

**10. What is considered the collateral on a life insurance policy loan?**

- A. The applicant's employment status**
- B. The policy's cash value**
- C. The insured's credit rating**
- D. The paid premiums**

## **Answers**

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

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## **Explanations**

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**1. Home health care benefits typically do NOT include coverage for?**

- A. Nursing care**
- B. Wheelchairs**
- C. Physical therapy**
- D. Prescription medication**

Home health care benefits are designed to provide a range of services that assist individuals in their homes, often as part of a post-hospitalization recovery plan or for ongoing chronic care. Benefits typically include skilled nursing care, physical therapy, and medical equipment like wheelchairs, which are considered essential for the patient's recovery and ability to remain at home. Prescription medication, however, is generally not covered under home health care benefits. This type of benefit focuses on rehabilitative services and direct medical care in the home setting, while prescription medications are often covered under separate drug benefit plans or health insurance policies. These plans may have specific formularies and rules regarding medication coverage, but they do not fall under the umbrella of home health care benefits, which are more concerned with therapeutic and nursing care. Thus, while the other options involve direct patient care or necessary medical equipment related to home care services, prescription medication coverage is typically excluded from these home health care benefits.

**2. What is NOT a responsibility of a producer during the underwriting process?**

- A. Collecting documents from clients**
- B. Selecting the final approval date**
- C. Assessing risk factors**
- D. Submitting applications**

During the underwriting process, a producer plays a key role in ensuring that applications for insurance coverage are properly submitted and that all necessary information is gathered to assess risk. Collecting documents from clients is essential to provide a complete picture of the applicant's health, lifestyle, and financial situation. Assessing risk factors is another critical responsibility, as the producer must help underwriters understand the potential risks involved in insuring the individual or entity. Submitting applications is part of the producer's duties, as they are responsible for ensuring that all information is accurately conveyed to the underwriting team. However, selecting the final approval date is not a responsibility of the producer. This aspect of the process is typically handled by the underwriters or the insurance company, as they take into consideration various factors, such as the results of their analysis and the time taken to complete the underwriting process. By understanding the roles involved in underwriting, producers can effectively support the process while allowing underwriters to make informed decisions independently.

**3. Which product typically offers tax-deferred growth of cash value?**

- A. Term life insurance**
- B. Health insurance**
- C. Whole life insurance**
- D. Auto insurance**

Whole life insurance is a product that typically offers tax-deferred growth of cash value. This type of insurance not only provides a death benefit but also includes a savings component known as cash value. As premiums are paid, a portion is allocated to build this cash value, which grows at a guaranteed rate over time. Importantly, the growth of cash value in whole life insurance is tax-deferred, meaning that the policyholder does not have to pay taxes on the earnings as they accumulate within the policy. This characteristic makes whole life insurance an attractive option for individuals looking to accumulate savings in a tax-advantaged manner while also having life insurance coverage. Term life insurance, health insurance, and auto insurance do not provide cash value accumulation, and therefore do not offer the benefit of tax-deferred growth. Term life insurance is purely a death benefit product with no cash value, while health and auto insurance are designed to cover medical expenses or vehicle damage, respectively, without any investment or cash value component. Thus, whole life insurance stands out as the correct answer due to its dual function of providing both life coverage and a tax-deferred savings feature.

**4. What effect does interest income have upon insurance premiums?**

- A. Increases premium**
- B. Decreases premium**
- C. Levels the premium**
- D. Adjusts premium on a quarterly basis**

Interest income plays a significant role in the calculation of insurance premiums. When an insurance company collects premiums from policyholders, it invests that money to earn interest income. This investment income can help offset the costs of claims and operating expenses. As a result, when an insurance company earns a substantial amount of interest income, it can reduce the amount of premiums necessary to cover future claims. This means that the premiums charged to policyholders may decrease because the insurer is capable of relying on the returns generated from their investments, leading to potentially lower costs for the consumers. The correct answer reflects the relationship between interest income and premium levels: a higher interest income typically results in lower premiums. This understanding is crucial for both insurance agents and consumers navigating the insurance landscape, as it underscores the financial dynamics of the insurance industry.

**5. What happens when the policyowner borrows against the cash value of his life insurance policy?**

- A. The policy remains unchanged**
- B. The policy proceeds would be reduced by the outstanding loan balance**
- C. The loan must be repaid immediately**
- D. The available cash value increases**

When a policyowner borrows against the cash value of a life insurance policy, the outstanding loan balance will indeed reduce the death benefit that the beneficiaries receive upon the insured's passing. The loan does not need to be repaid immediately; rather, it accumulates interest, and the outstanding balance will be deducted from the policy's death benefit if the loan is not repaid before the policyowner dies. The idea is that the borrowed funds can be accessed without affecting the health of the policy itself, but any amount borrowed will impact the overall value of the death benefit available to beneficiaries. Therefore, understanding how borrowing against cash value works is crucial in managing a life insurance policy effectively, as it influences both the policy's value and its intended financial support for beneficiaries.

**6. When replacing a client's existing life insurance policy, what is the advisable action for an agent?**

- A. Surrender the existing policy immediately**
- B. Wait until the new policy is issued and delivered**
- C. Notify the client of the potential tax implications**
- D. Advise the client to keep both policies for coverage**

When an agent is involved in replacing a client's existing life insurance policy, it is advisable to wait until the new policy is issued and delivered before taking any action on the existing policy. This approach is essential because it protects the client from a lapse in coverage that could occur if the existing policy is prematurely surrendered or terminated. Waiting until the new policy is officially in place ensures that the client has continuous coverage and avoids potential gaps that might leave them uninsured if something were to happen during the transition period. In addition, it allows the client to review the benefits and terms of the new policy thoroughly, ensuring it meets their needs before abandoning the existing coverage. This strategy also aligns with best practices in insurance sales, where the agent should prioritize the client's interests and maintain transparency throughout the process. An agent who follows this method fosters trust with their client by demonstrating a commitment to ensuring their financial security and well-being.

**7. In insurance, what is the term for a clause that limits coverage in the event of specific circumstances?**

- A. Exclusion**
- B. Inclusion**
- C. Limitation**
- D. Provision**

The term that accurately describes a clause that restricts coverage under certain circumstances is an exclusion. Exclusions are vital components of insurance policies as they clearly outline specific situations, conditions, or types of losses that the insurance will not cover. This helps both the insurer and the insured understand the boundaries of the policy and avoid any misunderstandings regarding what is included or not included in coverage. For instance, a health insurance policy may have exclusions for particular pre-existing conditions, or a homeowner's insurance might exclude coverage for flood damage. Understanding these exclusions allows policyholders to make informed decisions about their insurance needs and to seek additional coverage if necessary. In contrast, inclusion refers to what is covered under a policy, limitations set caps on the amount the insurer will pay, and provisions are general terms and clauses that describe the rights and responsibilities of both the insurer and the policyholder. These concepts, while related, do not specifically address the limitation of coverage due to certain circumstances.

**8. Field underwriting by a producer may result in which of the following?**

- A. Disclosure of the applicant's previous claims**
- B. Disclosure of hazardous activities of the applicant**
- C. Approval of the insurance application**
- D. Rejection of the application without cause**

Field underwriting is a critical step in the insurance application process where the producer gathers information about the applicant to assess risk. This process allows the producer to identify elements that could affect the underwriting decision. When it comes to hazardous activities, these represent behaviors or pursuits that could increase the risk of claims being made against a policy. By disclosing such information during the underwriting phase, the producer helps the insurance company evaluate the overall risk associated with insuring the applicant. This ultimately contributes to the decision-making process regarding whether the application will be approved and under what terms. In summary, revealing the hazardous activities of the applicant is a key aspect of field underwriting, as it directly impacts risk assessment and ensures that underwriters have comprehensive, accurate information to make informed decisions.

**9. Distributions made from a Health Savings Account (HSA) for non-qualified medical expenses incur a penalty of what percentage?**

- A. 10%**
- B. 15%**
- C. 20%**
- D. 25%**

Distributions made from a Health Savings Account (HSA) for non-qualified medical expenses incur a 20% penalty. This percentage is specifically designed to discourage the use of HSA funds for non-health-related expenses, thus promoting the intended purpose of the account which is to save for qualified medical costs. If an individual withdraws money from an HSA for non-qualified expenses before the age of 65, they will face this penalty in addition to paying ordinary income tax on the distribution. After reaching the age of 65, while the penalty no longer applies, non-qualified distributions will still be subject to regular income tax. Understanding the consequences of non-qualified withdrawals is essential for managing HSA funds effectively and ensuring compliance with tax regulations.

**10. What is considered the collateral on a life insurance policy loan?**

- A. The applicant's employment status**
- B. The policy's cash value**
- C. The insured's credit rating**
- D. The paid premiums**

The collateral on a life insurance policy loan is the policy's cash value. This value represents the amount of money that accumulates in a permanent life insurance policy, such as whole life or universal life, as premiums are paid and investment returns are credited. When a policyholder takes out a loan against their life insurance policy, the insurer typically uses the cash value as collateral because it can be accessed and used to cover the outstanding loan balance if the policyholder defaults on the loan. This arrangement allows policyholders to borrow against their policy without needing to provide other forms of collateral, as the cash value inherently serves that purpose. In contrast, the other options do not provide the necessary collateral for a life insurance loan. The applicant's employment status and the insured's credit rating do not directly relate to the policy's cash value or assure the insurer of repayment. Paid premiums represent payments made into the policy but do not serve as collateral in the context of a loan against the cash value.