**Course Title:** Principles of Financial Planning: Insurance Planning

**Test Title:** Principles of Financial Planning: Insurance Planning Review Test  
**Pool Title:** Insurance Planning - NP

***Question 1:*** *Question Title: The three stages in the financial lifecycle are:*

**The three stages in the financial lifecycle are:**

A. Always a function of age

***Incorrect. The three stages in the financial lifecycle are more a matter of a person's state of mind and objectives rather than a function of age.***

Points: 0

B. Mutually exclusive

***Incorrect. The three stages in the financial lifecycle may not necessarily be exclusive to one another since they quite often overlap.***

Points: 0

**C. More a state of mind than a function of age**

***Correct.***

Points: 10

D. All of the above choices

***Incorrect. While the three stages in the financial lifecycle tend to be a function of age, which is not always the case. They are more a matter of a person's state of mind and objectives. These stages may not necessarily be exclusive to one another either, since they quite often overlap.***

Points: 0

E. Both B. and C., but not A.

***Incorrect. While it is true the three stages in the financial lifecycle are more a matter of a person's state of mind and objectives rather than a function of age, they may not necessarily be exclusive to one another since they quite often overlap***

Points: 0

***Question 2:*** *Question Title: The Wealth Accumulation stage*

**The Wealth Accumulation stage of the financial lifecycle is typically NOT CHARACTERIZED by the following need or objective. [Choose the EXCEPTION]**

Liability coverage for debts

***Incorrect. In this stage, people are trying to build wealth and raise their standard of living. Their overriding concern is for strategies that help them either accumulate wealth or protect themselves and their families against risks that might prevent them from completing their drive for wealth.***

Points: 0

Retirement planning

***Incorrect. In this stage, people are trying to build wealth and raise their standard of living. Their overriding concern is for strategies that help them either accumulate wealth or protect themselves and their families against risks that might prevent them from completing their drive for wealth.***

Points: 0

**Minimizing estate tax consequences**

***Correct.***

Points: 10

Income replacement

***Incorrect. In this stage, people are trying to build wealth and raise their standard of living. Their overriding concern is for strategies that help them either accumulate wealth or protect themselves and their families against risks that might prevent them from completing their drive for wealth.***

Points: 0

Tax-deferred savings

***Incorrect. In this stage, people are trying to build wealth and raise their standard of living. Their overriding concern is for strategies that help them either accumulate wealth or protect themselves and their families against risks that might prevent them from completing their drive for wealth.***

Points: 0

***Question 3:*** *Question Title: The Wealth Maintenance stage*

**The Wealth Maintenance stage of the financial lifecycle is typically characterized by the following need(s) or objective(s):**

Expense planning

***Incorrect. While it is correct that expense planning is a characteristic of the Wealth Maintenance stage, it is not the only characteristic is the choices given.***

Points: 0

Earnings replacement

***Incorrect. While it is correct that earnings replacement is a characteristic of the Wealth Maintenance stage, it is not the only characteristic is the choices given.***

Points: 0

Charitable funding

***Incorrect. Charitable funding is not a typical characteristic of persons in the Wealth Maintenance stage of the financial lifecycle.***

Points: 0

All the above choices

***Incorrect. Charitable funding is not a typical characteristic of persons in the Wealth Maintenance stage of the financial lifecycle.***

Points: 0

**Both expense planning and earnings replacement, but not charitable funding**

***Correct.***

Points: 10

***Question 4:*** *Question Title: The Wealth Transfer stage*

**The Wealth Transfer stage of the financial lifecycle is typically characterized by the following need(s) or objective(s):**

Maximizing inheritance

***Incorrect. You are correct that maximizing inheritance is a typical characteristic of the Wealth Transfer stage, but it is not the only characteristic in the choices given.***

Points: 0

Minimizing estate tax consequences

***Incorrect. You are correct that minimizing estate tax consequences is a typical characteristic of the Wealth Transfer stage, but it is not the only characteristic in the choices given.***

Points: 0

Charitable funding

***Incorrect. You are correct that charitable funding is a typical characteristic of the Wealth Transfer stage, but it is not the only characteristic in the choices given***

Points: 0

**All the above choices**

***Correct.***

Points: 10

Maximizing inheritance and minimizing estate tax consequences, but not charitable funding

***Incorrect. You are correct that maximizing inheritance and minimizing estate tax consequences are typical characteristics of the Wealth Transfer stage, but people in this stage also wish to support their favorite charities.***

Points: 0

***Question 5:*** *Question Title: In which stage of the financial lifecycle*

**Think of the Financial Lifecycle as progressing from a Wealth Accumulation stage to a Wealth Maintenance stage, and finally to a Wealth Transfer stage. In which stage of the financial lifecycle is second-to-die insurance most likely to have the greatest utility:**

The Wealth Accumulation stage

***Incorrect. Second-to-die insurance is also known as “last survivor insurance. This policy is particularly useful for married couples who wish to provide funds for estate taxes when the second one dies, which is most likely to be a need of the Wealth Transfer stage of the financial lifecycle.***

Points: 0

The Wealth Maintenance Stage

***Incorrect. Second-to-die insurance is also known as “last survivor insurance. This policy is particularly useful for married couples who wish to provide funds for estate taxes when the second one dies, which is most likely to be a need of the Wealth Transfer stage of the financial lifecycle.***

Points: 0

**The Wealth Transfer stage**

***Correct.***

Points: 10

All three stages of the financial lifecycle

***Incorrect. Second-to-die insurance is also known as “last survivor insurance. This policy is particularly useful for married couples who wish to provide funds for estate taxes when the second one dies, which is most likely to be a need of the Wealth Transfer stage of the financial lifecycle.***

Points: 0

Either the Wealth Accumulation or Wealth Maintenance stage

***Incorrect. Second-to-die insurance is also known as “last survivor insurance. This policy is particularly useful for married couples who wish to provide funds for estate taxes when the second one dies, which is most likely to be a need of the Wealth Transfer stage of the financial lifecycle.***

Points: 0

***Question 6:*** *Question Title: Which of the following*

**Which of the following is/are good criteria for choosing a term life insurance policy?**

**Client currently has limited budget for premiums**

***Correct.***

Points: 10

Permanent coverage

***Incorrect. Term life insurance has no cash value and pays benefits only if death occurs during a stated term of time. Premiums are initially lower than permanent life insurance, making it more affordable for younger people.***

Points: 0

Tax-free cash value accumulation

***Incorrect. Term life insurance has no cash value and pays benefits only if death occurs during a stated term of time. Premiums are initially lower than permanent life insurance, making it more affordable for younger people.***

Points: 0

Aged client

***Incorrect. Term life insurance has no cash value and pays benefits only if death occurs during a stated term of time. Premiums are initially lower than permanent life insurance, making it more affordable for younger people.***

Points: 0

All the criteria above are good ones for choosing a term life insurance policy

***Incorrect. Term life insurance has no cash value and pays benefits only if death occurs during a stated term of time. Premiums are initially lower than permanent life insurance, making it more affordable for younger people.***

Points: 0

***Question 7:*** *Question Title: Term life insurance is usually*

**Term life insurance is usually most appropriate for which stage of the financial lifecycle?**

**Wealth Accumulation**

***Correct.***

Points: 10

Wealth Maintenance

***Incorrect. Term life insurance is not usually appropriate for the Wealth Maintenance stage of the financial lifecycle.***

Points: 0

Wealth Transfer

***Incorrect. Term life insurance is not usually appropriate for the Wealth Transfer stage of the financial lifecycle.***

Points: 0

Wealth Maintenance and Wealth Transfer only

***Incorrect. Term life insurance is not usually appropriate for the Wealth Maintenance or Wealth Transfer stages of the financial lifecycle.***

Points: 0

Wealth Accumulation and Wealth Transfer only

***Incorrect. Term life insurance is appropriate for the Wealth Accumulation stage of the financial lifecycle, but it is not usually appropriate for the Wealth Transfer stage.***

Points: 0

***Question 8:*** *Question Title: From the following list of policies*

**From the following list of policies, which must be sold by a licensed broker/dealer?**

1. **Universal Life**
2. **Variable Life**
3. **Whole Life**
4. **Term Life**

All the choices must be sold by a licensed broker/dealer

***Incorrect. Not all choices given in the list must be sold by a licensed broker/dealer.***

Points: 0

1 only

***A Universal Life policy need NOT be sold by a licensed broker/dealer.***

Points: 0

**2 only**

***Correct. Only the Variable Life policy must be sold by a broker/dealer.***

Points: 10

Both 1 and 2

***Incorrect. While it is correct that a Variable Life policy must be sold by a licensed broker/dealer, it is not correct that a Universal Life policy must be sold by a licensed broker/dealer.***

Points: 0

1, 2 and 3

***Incorrect. Only the Variable Life policy must be sold by a broker/dealer.***

Points: 0

***Question 9:*** *Question Title: Permanent life insurance*

**Cash values in a permanent life insurance policy grow on a deferred-tax basis.**

**True**

***Correct.***

Points: 10

False

***Incorrect. This is a true statement.***

Points: 0

***Question 10:*** *Question Title: Because it insures the life of two people*

**Because it insures the life of two people, second-to-die coverage is usually MORE expensive than writing two individual policies.**

True

***Incorrect. Because two people must die before the benefit payment is made, the insurer has deferred and reduced the risk. Two individual policies will pay a death benefit at the first and second death. Therefore, the price of purchase will be less.***

Points: 0

**False**

***Correct. Because two people must die before the benefit payment is made, the insurer has deferred and reduced the risk. Individual policies will pay a death benefit at the first and second death. Therefore, the price of purchase will be less.***

Points: 10

***Question 11:*** *Question Title: Disability coverage is usually limited*

**Disability coverage is usually limited to some percent of gross income.**

**True**

***Correct.***

Points: 10

False

***Incorrect. The amount of coverage available on disability coverage is usually restricted to 60-80 percent of current gross earnings.***

Points: 0

***Question 12:*** *Question Title: Universal life insurance policies*

**Universal life insurance policies allow policy owners to allocate investments among a number of funds.**

True

***Incorrect. This is not a true statement.***

Points: 0

**False**

***Correct.***

Points: 10

***Question 13:*** *Question Title: Term life insurance has cash value.*

**Term life insurance typically has cash value.**

True

***Incorrect. Term life insurance typically has no cash value. Very long-term policies may accrue modest cash value in the middle years of the policy term.***

Points: 0

**False**

***Correct. Term life insurance typically has no cash value. Very long-term policies may accrue modest cash value in the middle years of the policy term.***

Points: 10

***Question 14:*** *Question Title: Term life insurance:*

**Term life insurance:**

A. Expires after a specific period.

***Incorrect. You are correct that term life insurance expires after a specific period of time, but it is also true that it is typically renewable for the same amount of coverage and the premiums will increase over time.***

Points: 0

B. Builds up cash value.

***Incorrect. Term life insurance rarely builds up cash value.***

Points: 0

C. If renewable for the same amount of coverage, typically has increasing premiums over time.

***Incorrect. You are correct that Term Life Insurance premiums typically increase over time but it is also true that Term Life Insurance expires after a specific period.***

Points: 0

**D. Both A. and C.**

***Correct.***

Points: 10

E. A., B., and C.

***Incorrect. Term life insurance does not build up cash value.***

Points: 0

***Question 15:*** *Question Title: Permanent life insurance, such as whole life insurance:*

**Permanent life insurance, such as whole life insurance:**

A. Offers lifetime coverage.

***Incorrect. While it is true that Permanent Life Insurance, such as whole life insurance, offers lifetime coverage, it is also true that it builds up cash value and can be used as collateral for a loan.***

Points: 0

B. Builds up cash value.

***Incorrect. While it is true that Permanent Life Insurance, such as whole life insurance, can build up cash value, it is also true that it offers lifetime coverage and can be used as collateral for a loan.***

Points: 0

C. Can be used as collateral for a loan.

***Incorrect. While it is true that Permanent Life Insurance, such as whole life insurance, can be used as collateral for a loan, it is also true that it builds up cash value and offers lifetime coverage.***

Points: 0

**D. All of the above.**

***Correct.***

Points: 10

E. Both A. and B.

***Incorrect. While it is true that Permanent Life Insurance, such as whole life insurance, offers lifetime coverage and builds up cash value, it also can be used as collateral for a loan.***

Points: 0

***Question 16:*** *Question Title: In addition to providing death benefits*

**In addition to providing death benefits, certain types of life insurance policies appeal to investment-oriented clients because they offer the ability to:**

A. Defer taxes.

***Incorrect. In addition to providing death benefits and the ability to defer taxes, certain types of life insurance policies appeal to investment-oriented clients because they also offer the ability to choose among investment options as well as save for retirement.***

Points: 0

B. Choose among investment options.

***Incorrect. In addition to providing death benefits and the ability to choose among investment options, certain types of life insurance policies appeal to investment-oriented clients because they also offer the ability to defer taxes and save for retirement.***

Points: 0

C. Save for retirement.

***Incorrect. In addition to providing death benefits and the ability to save for retirement, certain types of life insurance policies appeal to investment-oriented clients because they also offer the ability to defer taxes and choose among investment options.***

Points: 0

**D. All of the above choices.**

***Correct.***

Points: 10

E. Both B. and C.

***Incorrect. In addition to these options, certain types of life insurance policies appeal to investment-oriented clients because they also offer the ability to defer taxes.***

Points: 0

***Question 17:*** *Question Title: Universal Life Insurance:*

**Universal Life Insurance:**

A. Provides flexible premium payments.

***Incorrect. While it is true Universal Life Insurance provides flexible premium payments, it is also true that it has cash value potential and a guaranteed interest rate on cash value.***

Points: 0

B. Has cash value potential.

***Incorrect. While it is true Universal Life Insurance has cash value potential, it is also true that it provides flexible premium payments and has a guaranteed interest rate on cash value.***

Points: 0

C. Has a guaranteed interest rate on cash value.

***Incorrect. While it is true Universal Life Insurance has a guaranteed interest rate on cash value, it is also true that it provides flexible premium payments and has cash value potential.***

Points: 0

**D. All of the above.**

***Correct.***

Points: 10

E. Both A. and B.

***Incorrect. While it is true Universal Life Insurance provides flexible premium payments and has cash value potential, it is also true that it has a guaranteed interest rate on cash value.***

Points: 0

***Question 18:*** *Question Title: Variable Life Contracts:*

**Variable Life Contracts:**

**A. Allow the policy owner to determine the asset allocation from a menu of investment alternatives.**

***Correct.***

Points: 10

B. Have guaranteed minimum rates of return.

***Incorrect. It operates much like any other investment account, allowing the owner to determine the asset allocation.***

Points: 0

C. Will never lose cash value.

***Incorrect. It operates much like any other investment account, allowing the owner to determine the asset allocation.***

Points: 0

D. None of the choices.

***Incorrect. It operates much like any other investment account, allowing the owner to determine the asset allocation.***

Points: 0

E. Both A. and B.

***Incorrect. It operates much like any other investment account, allowing the owner to determine the asset allocation.***

Points: 0

***Question 19:*** *Question Title: A client is seeking additional life insurance*

**A client is seeking additional life insurance to cover him well into his retirement years. In proposing a "limited-payment life insurance policy", you point out that the distinguishing characteristic of such policies is/are:**

The benefit payment to the beneficiary is limited under certain circumstances of death (such as suicide or participation in a riot).

***Incorrect. A limited-payment life policy is one where the premiums are paid for a specific number of years or until the insured reaches a specific age. At that point, the policy is paid-in-full. This would allow him to cease premium payments at retirement.***

Points: 0

The benefit payment is limited if death is due to a pre-existing condition at the time the policy is written.

***Incorrect. A limited-payment life policy is one where the premiums are paid for a specific number of years or until the insured reaches a specific age. At that point, the policy is paid-in-full. This would allow him to cease premium payments at retirement.***

Points: 0

**Premium payments cease at a certain point in time.**

***Correct.***

Points: 10

The benefit payment is limited by coverage under other policies.

***Incorrect. A limited-payment life policy is one where the premiums are paid for a specific number of years or until the insured reaches a specific age. At that point, the policy is paid-in-full. This would allow him to cease premium payments at retirement.***

Points: 0

Premium payment increases are limited to CPI increases.

***Incorrect. A limited-payment life policy is one where the premiums are paid for a specific number of years or until the insured reaches a specific age. At that point, the policy is paid-in-full. This would allow him to cease premium payments at retirement.***

Points: 0

***Question 20:*** *Question Title: A married couple is concerned that estate*

**A married couple is concerned that estate taxes will diminish their children's inheritance and they are seeking the most cost effective means of insuring against this possibility. Your best recommendation would be:**

A limited-payment policy.

***Incorrect. With a limited-payment policy, premiums cease at the end of a stated number of years or upon the insured reaching a specified age. When premiums end, the policy remains in force and is considered “paid up”. There is another option listed that is more specifically designed for this need and would probably be much more affordable.***

Points: 0

A joint-life policy.

***Incorrect. A joint-life policy is also referred to as “first-to-die” insurance, with benefits payable upon the first spouse’s death. However, the estate tax problems will occur upon the second spouse’s death.***

Points: 0

A single premium policy.

***Incorrect. There is nothing about paying a single premium that necessarily addresses their need. Another option is listed that is customarily chosen for this specific purpose.***

Points: 0

A modified-premium policy.

***Incorrect. With a modified-premium policy annual premiums change after specified periods of time 5/10/15/20 years. There is another option listed that is more specific to their particular need.***

Points: 0

**A second-to-die policy.**

***Correct. This policy will pay its benefits when the second spouse dies, which is when the liquidity will be needed for estate taxes.***

Points: 10

***Question 21:*** *Question Title: In explaining the operation of a universal life policy*

**In explaining the operation of a universal life policy, you explain that the following items influence the amount credited to a universal life's cash value with the EXCEPTION of:**

The insurer's expenses.

***Incorrect. The insurer’s expenses do influence the amount credited to a universal life’s cash value.***

Points: 0

Mortality charges.

***Incorrect. The mortality charges does influence the amount credited to a universal life’s cash value.***

Points: 0

**Earnings in the separate funds selected by the insured.**

***Correct. This is a feature of a variable life policy, not a universal policy.***

Points: 10

The size of the premiums paid by the insured.

***Incorrect. The size of the premiums paid by the insured does influence the amount credited to a universal life’s cash value.***

Points: 0

None of the above is an exception.

***Incorrect. One of the above items does NOT influence the amount credited to a universal life’s cash value.***

Points: 0

***Question 22:*** *Question Title: A client, who purchased a universal life policy*

**A client, who purchased a universal life policy from you, now asks you what is required to change the face amount of the policy. Since you do not have the policy in hand, you respond that this TYPICALLY REQUIRES:**

A. Approval by the insurer for any increase or decrease.

***Incorrect. While it is true that approval by the insurer for any increase or decrease is correct, it is also correct that evidence of continued insurability to increase the amount is typically required.***

Points: 0

B. Approval by the insurer only if the face amount is being increased.

***Incorrect. The approval by the insurer for any increase OR decrease is typically required, as well as evidence of continued insurability to increase the amount.***

Points: 0

C. Evidence of continued insurability to increase the amount.

***Incorrect. While it is true that it typically requires evidence of continued insurability to increase the amount of a universal life policy, it is also true that approval by the insurer is typically required.***

Points: 0

D. Both B. and C.

***Incorrect. While it is true that it typically requires evidence of continued insurability to increase the amount of a universal life policy, it is also true that approval by the insurer to increase OR decrease the amount of the policy is typically required***

Points: 0

**E. Both A. and C.**

***Correct.***

Points: 10

***Question 23:*** *Question Title: A 38-year-old investment savvy*

**A 38-year-old investment savvy woman with a husband and 3 children is looking to save for retirement and cover family expenses in the event of her death. Which insurance vehicle would be most appropriate?**

Disability Insurance.

***Incorrect. Because of her investment savvy, she can expect to obtain a higher expected return with one of the other types of insurance in the list.***

Points: 0

Term Insurance to age 65.

***Incorrect. Because of her investment savvy, she can expect to obtain a higher expected return with one of the other types of insurance in the list.***

Points: 0

**Variable Life Insurance.**

***Correct.***

Points: 10

Whole Life Insurance.

***Incorrect. Because of her investment savvy, she can expect to obtain a higher expected return with one of the other types of insurance in the list.***

Points: 0

Long-Term Care Insurance.

***Incorrect. Because of her investment savvy, she can expect to obtain a higher expected return with one of the other types of insurance in the list.***

Points: 0

***Question 24:*** *Question Title: Variable universal life insurance*

**Variable universal life insurance is characterized by all the following EXCEPT:**

Variable face amount.

***Incorrect. Variable universal life insurance would be characterized by this statement.***

Points: 0

**Inflexible level premiums.**

***Correct.***

Points: 10

Variable cash amount.

***Incorrect. Variable universal life insurance would be characterized by this statement.***

Points: 0

The owner assumes the investment risk.

***Incorrect. Variable universal life insurance would be characterized by this statement.***

Points: 0

Can only be sold by a licensed broker/dealer.

***Incorrect. Variable universal life insurance would be characterized by this statement.***

Points: 0

***Question 25:*** *Question Title: Which of the following is not a characteristic of renewable term life insurance?*

**Which of the following is not a characteristic of renewable term life insurance?**

The policy may be renewable conditionally, based on the health status and insurability of the insured, or guaranteed renewable, regardless of the health status or insurability of the insured.

***Incorrect. This is a characteristic of renewable term life insurance.***

Points: 0

Some policies will have two sets of guaranteed renewable rates; one for those who provide new evidence of insurability at each renewal date, and a higher schedule of rates for those who do not (or cannot).

***Incorrect. This is a characteristic of renewable term life insurance.***

Points: 0

The premiums will increase at each renewal period as the insured gets older.

***Incorrect. This is a characteristic of renewable term life insurance.***

Points: 0

Including the right to renew a term policy increases the cost of coverage.

***Incorrect. This is a characteristic of renewable term life insurance.***

Points: 0

**Renewable term is always guaranteed renewable to age 100.**

***Correct! Renewable term may be renewable to age 100, but policies will vary on age limits and may renew the policies conditionally.***

Points: 10

***Question 26:*** *Question Title: A term policy may or may not*

**A term policy may or may not include the right to convert the term policy to a "permanent" or whole life policy without evidence of insurability. The right to convert is usually limited by a period of years or prior to a certain age. Including the right to convert a term policy increases the cost of coverage.**

**True**

***Correct!***

Points: 10

False

***Incorrect.***

Points: 0

***Question 27:*** *Question Title: Which of the following is not*

**Which of the following is not a characteristic of whole life insurance?**

Guaranteed level premiums.

***Incorrect. This is a characteristic of whole life insurance.***

Points: 0

Accrual of cash values.

***Incorrect. This is a characteristic of whole life insurance.***

Points: 0

A guaranteed interest rate on cash values.

***Incorrect. This is a characteristic of whole life insurance.***

Points: 0

A guaranteed death benefit.

***Incorrect. This is a characteristic of whole life insurance.***

Points: 0

**Guaranteed dividends (return of premiums).**

***Correct! A whole life policy may or may not pay dividends. The dividends are not guaranteed, but primarily reflect the mortality, investment and administrative expense experience of the company.***

Points: 10

**Test Title:** Principles of Financial Planning: Insurance Planning Review Test  
**Pool Title:** Insurance Planning - GCA

***Question 28:*** *Question Title: Of the following insurance solutions*

**Of the following insurance solutions, which is useful in employee retention?**

1. **Buy-sell agreement**
2. **Deferred Compensation**
3. **Split-dollar arrangement**
4. **Key person life insurance**
5. **Key person disability insurance**

1 and 2.

a) ***Incorrect. While you are correct that deferred compensation is an insurance solution useful for employee retention, a buy-sell agreement is an insurance solution used for succession planning for the business, not employee retention.***

Points: 0

**2 and 3.**

***Correct.***

Points: 10

1, 2, and 3.

***Incorrect. While you are correct that deferred compensation and split-dollar arrangement are insurance solutions useful for employee retention, a buy-sell agreement is an insurance solution used for succession planning for the business, not employee retention.***

Points: 0

2, 3, 4, and 5.

***Incorrect. While you are correct that deferred compensation and split-dollar arrangement are insurance solutions useful for employee retention, a key person life insurance solution and key person disability insurance solution are used for key executive planning for the business, not employee retention***

Points: 0

All the choices

***Incorrect. Not all of the choices in the given list are solutions for employee retention.***

Points: 0

***Question 29:*** *Question Title: Of the following insurance solutions, which*

**Of the following insurance solutions, which is useful in succession planning for a small company?**

1. **Buy-sell agreement**
2. **Deferred Compensation**
3. **Split-dollar arrangement**
4. **Key person life insurance**
5. **Key person disability insurance**

**1 only**

***Correct.***

Points: 10

1, 4, and 5

***Incorrect. While you are correct that a buy-sell agreement is useful in succession planning for a small company, key person life insurance and key person disability insurance are both solutions for key executives.***

Points: 0

2 and 3

***Incorrect. Deferred compensation and split-dollar arrangement are insurance solutions useful for employee retention, not succession planning.***

Points: 0

3 only

***Incorrect. Split-dollar arrangements are an insurance solution useful for employee retention, not succession planning.***

Points: 0

4 and 5

***Incorrect. Key person life and key person disability insurance are both solutions for key executives.***

Points: 0

***Question 30:*** *Question Title: Of the following insurance solutions*

**Of the following insurance solutions, which is useful in planning for the risk associated with losing the services of a key executive with no company ownership?**

1. **Buy-sell agreement**
2. **Deferred Compensation**
3. **Split-Dollar arrangement**
4. **Key person life insurance**
5. **Key person disability insurance**

1 only

***Incorrect. A buy-sell agreement is useful in succession planning for a small company, not for key executive planning.***

Points: 0

1,4, and 5

***Incorrect. A buy-sell agreement is useful in succession planning for a small company, not to protect against the loss of a key executive planning.***

Points: 0

2 and 3

***Incorrect. Both Deferred Compensation and Split Dollar arrangement are insurance solutions for employee retention, not key executive planning.***

Points: 0

3, 4, and 5

***Incorrect. While you are correct that key person life insurance and key person disability insurance are both solutions for protecting against the loss of a key executive, a split-dollar arrangement is used in employee retention.***

Points: 0

**4 and 5**

***Correct.***

Points: 10

***Question 31:*** *Question Title: In a buy-sell agreement*

**In a buy-sell agreement, the company never owns the policy.**

True

***Incorrect. In a buy-sell agreement, the company may purchase the policy.***

Points: 0

**False**

***Correct.***

Points: 10

***Question 32:*** *Question Title: Life insurance policies*

**Life insurance policies can be used by businesses to:**

A. Increase corporate earnings.

***Incorrect. Life insurance policies cannot be used by businesses to increase corporate earnings.***

Points: 0

B. Compensate a company upon the death of a key employee.

***Incorrect. It is correct that Life insurance policies can be used by businesses to compensate a company upon the death of a key employee, but they may also be used to benefit employees.***

Points: 0

C. Benefit employees.

***Incorrect. It is correct that Life insurance policies can be used by businesses to benefit employees, but they may also be used to compensate a company upon the death of a key employee.***

Points: 0

D. All of the above.

***Incorrect. Life insurance policies cannot be used by businesses to increase corporate earnings.***

Points: 0

**E. Both b. and c.**

***Correct.***

Points: 10

***Question 33:*** *Question Title: Insurance Riders Provide:*

**Insurance Riders Provide:**

A. Flexibility in structuring a policy.

***Incorrect. In addition to providing flexibility in structuring a policy, Insurance Riders also provides the ability to change a policy without the necessity of rewriting the entire policy contract and can limit the exposure of the insurer.***

Points: 0

B. The ability to change a policy without the necessity of rewriting the entire policy contract.

***Incorrect. In addition to providing the ability to change a policy without the necessity of rewriting the entire policy contract, Insurance Riders also provides flexibility in structuring a policy and can limit the exposure of the insurer.***

Points: 0

C. Limitation of exposure by the insurer.

***Incorrect. In addition to providing limitation of exposure by the insurer, Insurance Riders also provide flexibility in structuring a policy and the ability to change a policy without the necessity of rewriting the entire policy contract.***

Points: 0

**D. All the above.**

***Correct.***

Points: 10

E. Both A. and B.

***Incorrect. Insurance Riders also provide limitation of exposure by the insurer.***

Points: 0

***Question 34:*** *Question Title: You are informed by your client*

**You are informed by your client that he is interested in an endowment policy. You immediately surmise that its appeal to him must be:**

A. The potential for establishing a charitable endowment.

***Incorrect. An endowment policy is one where the benefit is paid either when the insured dies or on a stated date if the insured lives until then.***

Points: 0

**B. The ability to receive the payout before death, if he is alive on a stated date.**

***Correct.***

Points: 10

C. The ability to get this out of his estate through an irrevocable designation of the beneficiary.

***Incorrect. An endowment policy is one where the benefit is paid either when the insured dies or on a stated date if the insured lives until then.***

Points: 0

D. The tax deductibility of the premium payments.

***Incorrect. An endowment policy is one where the benefit is paid either when the insured dies or on a stated date if the insured lives until then.***

Points: 0

E. A., C., and D.

***Incorrect. An endowment policy is one where the benefit is paid either when the insured dies or on a stated date if the insured lives until then.***

Points: 0

***Question 35:*** *Question Title: Which of the following is NOT*

**Which of the following is NOT a type of term life policy?**

Level

***Incorrect. Level term indicates that the death benefit remains constant throughout the term.***

Points: 0

Increasing

***Incorrect. Increasing term indicates there is an increasing death benefit during the term.***

Points: 0

**Standard**

***Correct.***

Points: 10

Convertible

***Incorrect. Convertible term allows the policy owner the right to convert to a permanent policy without requiring evidence of insurability.***

Points: 0

Renewable

***Incorrect. Renewable term can be renewed at the end of the term.***

Points: 0

***Question 36:*** *Question Title: An insurance salesperson*

**An insurance salesperson must be licensed as a broker/dealer to sell:**

**A. Variable life insurance.**

***Correct.***

Points: 10

B. Endowment insurance

***Incorrect. Because the purchaser assumes all of the investment risk, variable policies must be registered with the SEC and can only be sold by licensed broker dealers.***

Points: 0

C. Universal life insurance

***Incorrect. Because the purchaser assumes all of the investment risk, variable policies must be registered with the SEC and can only be sold by licensed broker dealers.***

Points: 0

D. Both A. and C.

***Incorrect. Because the purchaser assumes all of the investment risk, it is correct that variable policies must be registered with the SEC and can only be sold by licensed broker dealers. However, this is not the case with Universal Life Insurance.***

Points: 0

E. Both B. and C.

***Incorrect. Because the purchaser assumes all of the investment risk, variable policies must be registered with the SEC and can only be sold by licensed broker dealers. This is not true for Endowment insurance or Universal Life insurance.***

Points: 0

***Question 37:*** *Question Title: Which of the following is NOT*

**Which of the following is NOT characteristic of convertible term life insurance:**

**It requires evidence of insurability at the time of conversion.**

***Correct.***

Points: 10

The premium rate may be based on the insured's age at the time the coverage is converted.

***Incorrect. This statement IS a characteristic of Convertible Term life insurance. Convertible Term life insurance does not however require evidence of insurability at the time of conversion.***

Points: 0

Convertible policies are typically more expensive than straight term policies.

***Incorrect. This statement IS a characteristic of Convertible Term life insurance. Convertible Term life insurance does not however require evidence of insurability at the time of conversion.***

Points: 0

The premium rate may be based on the age of the insured at the time policy was purchased.

***Incorrect. This statement IS a characteristic of Convertible Term life insurance. Convertible Term life insurance does not however require evidence of insurability at the time of conversion.***

Points: 0

The conversion privilege is usually limited in some way.

***Incorrect. This statement IS a characteristic of Convertible Term life insurance. Convertible Term life insurance does not however require evidence of insurability at the time of conversion.***

Points: 0

***Question 38:*** *Question Title: If a client indicates he has a*

**If a client indicates he has a "decreasing term" policy, you can construe that:**

A. The policy has a declining cash surrender value during the term of the policy. .

***Incorrect. A decreasing term policy, which has no cash surrender value, is one that provides a death benefit that declines during the course of the term, although premiums usually remain the same.***

Points: 0

B. The premiums are getting smaller during the term of the policy. .

***Incorrect. A decreasing term policy, which has no cash surrender value, is one that provides a death benefit that declines during the course of the term, although premiums usually remain the same.***

Points: 0

**C. The death benefits are getting smaller during the term of the policy. .**

***Correct.***

Points: 10

D. Both A. and B.

***Incorrect. A decreasing term policy, which has no cash surrender value, is one that provides a death benefit that declines during the course of the term, although premiums usually remain the same.***

Points: 0

E. Both A. and C.

***Incorrect. A decreasing term policy, which has no cash surrender value, is one that provides a death benefit that declines during the course of the term, although premiums usually remain the same.***

Points: 0

***Question 39:*** *Question Title: Your client wants to purchase life insurance*

**Your client wants to purchase life insurance on his wife. His wife is fearful of an inherited tendency to contract cancer and wants to avoid the financial hardships of a protracted illness. To address his wife's concern, appropriate policy benefits to consider might be any of the following EXCEPT:**

**Waiver of premium for payor benefit.**

***Correct.***

Points: 10

Waiver of premium for disability benefit.

***Incorrect. This is a policy benefit that should be considered in this situation.***

Points: 0

Terminal illness benefit.

***Incorrect. This is a policy benefit that should be considered in this situation.***

Points: 0

Dread disease benefit.

***Incorrect. This is a policy benefit that should be considered in this situation.***

Points: 0

Long-term care benefit.

***Incorrect. This is a policy benefit that should be considered in this situation.***

Points: 0

***Question 40:*** *Question Title: Which of the following is not a characteristic*

**Which of the following is not a characteristic of whole life insurance?**

Guaranteed level premiums.

***Incorrect. This is a characteristic of whole life insurance.***

Points: 0

Accrual of cash values.

***Incorrect. This is a characteristic of whole life insurance.***

Points: 0

A guaranteed interest rate on cash values.

***Incorrect. This is a characteristic of whole life insurance.***

Points: 0

A guaranteed death benefit.

***Incorrect. This is a characteristic of whole life insurance.***

Points: 0

**Guaranteed dividends (return of premiums).**

***Correct! A whole life policy may or may not pay dividends. The dividends are not guaranteed, but primarily reflect the mortality, investment and administrative expense experience of the company.***

Points: 10

***Question 41:*** *Question Title: The level of insurance coverage needed*

**The level of life insurance coverage needed is typically determined by which one(s) of the following approaches?**

1. **Use a present value of the resources needed to maintain certain expenses, independent of whether they are one-time or ongoing.**
2. **Use the present value of all income relative to an individual and assume that figure as the insurance need.**
3. **Multiply the insured’s annual income by six to seven.**

a only

***Incorrect. This is not the only correct answer.***

Points: 0

b only

***Incorrect. This is not the only correct answer.***

Points: 0

a and b only

***Incorrect. These are not the only correct answers.***

Points: 0

b and c only

***Incorrect. These are not the only correct answers.***

Points: 0

**a, b and c**

***Correct.***

Points: 10

***Question 42:*** *Question Title: Most advisors agree that families require*

**Most advisors agree that families require about \_\_\_\_\_ percent of the income level they had prior to a disability.**

40% to 50%

***Incorrect.***

Points: 0

50% to 60%

***Incorrect.***

Points: 0

60% to 70%

***Incorrect.***

Points: 0

**70% to 80%**

***Correct.***

Points: 10

80% to 100%

***Incorrect.***

Points: 0