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Question 1

Question Type: **MultipleChoice**

Which of the following statements regarding variable life insurance policies is false?

Options:

A- Policyholders have voting rights similar to those of mutual fund investors.

B- Most policies have an expense guarantee provision that establishes a firm limit on how much the insurance company can increase administrative charges.

C- Insurance companies are required to give variable life policyholders at least 24 months from the date of purchase to switch to a traditional whole life policy without having to prove insurability.

D- The surrender value of a variable life insurance policy will always be less than its cash value.

Answer:

D

Explanation:

The false statement regarding variable life insurance policies is that the surrender value of a variable life insurance policy will always be less than its cash value. The surrender value of a variable life insurance policy is its cash value.

Question 2

Question Type: MultipleChoice

A settlement option associated with a variable life policy in which the insurance company guarantees that the beneficiary will receive equal payments over a specific length of time is known as a:

Options:

A- fixed-amount settlement.

B- fixed-period settlement.

C- life-income settlement.

D- guaranteed-payment settlement.

Answer:

B

Explanation:

A settlement option associated with a variable life policy in which the insurance company guarantees that the beneficiary will receive equal payments over a specific length of time is known as a fixed-period settlement. The amount that will be paid is uncertain, but the payments will continue for the period specified. With a life-income settlement option, the beneficiary will receive guaranteed payments for the rest of his life, but ''the rest of his life'' is not a specific length of time.

Question 3

Question Type: MultipleChoice

Ken has a variable life policy and recently learned that he can borrow against its cash value to help pay for some of the expenses he's incurring while pursuing a graduate degree.

Which of the following statements about the loan he can get is true?

Options:

A- Ken can borrow at most only 50% of the cash value, and only as long as he's had the policy for at least three years.

B- Since Ken is essentially borrowing his own money; the loan is interest-free.

C- Ken never has to repay the loan, but if he chooses not to do so, his wife, Barbie, won't get as much when he dies.

D- Ken has been misinformed. He cannot borrow against the cash value of a variable life policy because the cash values of these policies fluctuate constantly.

Answer:

C

Explanation:

The true statement is that Ken never has to repay the loan, but if he chooses not to do so, his wife, Barbie, won't get as much when he dies. He can borrow up to at least 75% of the cash value, but there is interest charged on the loan. (In essence, he's paying interest to himself, though.)

Question 4

Question Type: MultipleChoice

The subaccounts into which Mr. Sumrisk directed his variable life premiums have earned a 6% return. If the assumed interest rate was 7%:

i. the cash value of his policy increased.

ii. the death benefit associated with his policy decreased.

iii. the cash value of his policy decreased.

IV. the death benefit associated with his policy increased.

Options:

A- both I and II

B- both I and IV

C- both II and III

D- both III and IV

Answer:

A

Explanation:

If Mr. Sumrisk's subaccounts earned a 6% return and the assumed interest rate was 7%, then the cash value of his policy increased, but the death benefit associated with his policy decreased. The cash value of the policy increases when the separate account earns a positive return, regardless of the size of that return. The death benefit, however, depends on both the return earned on the separate account and the assumed interest rate. Since the separate account returned less, in this case, than the assumed interest rate, the death benefit decreased.

Question 5

Question Type: MultipleChoice

The premiums paid on which of the following are paid into the general account of an insurance company?

i. whole life

ii. universal life

iii. term life

IV. variable life

Options:

A- I only

B- I and III only

C- I, II, and III only

D- I, II, III, and IV

Answer:

C

Explanation:

Only the premiums paid on whole life, universal life and term life are paid into the general account of an insurance company. Variable life premiums go into the separate account.

Question 6

Question Type: **MultipleChoice**

Your client bought a variable annuity contract that has a 5% contingent deferred sales charge with a 7-year surrender period four years ago. He has been reading about bonus annuities and 1035 exchanges and has asked for your advice. You can tell him:

Options:

A- that it's a great idea, and you plan on how you're going to spend the unexpected income.

B- that although the exchange doesn't have any tax consequences, he'll be looking at a new, longer, surrender period.

C- that he'll have to pay the 5% deferred sales charge if he executes the exchange.

D- both B and C.

Answer:

D

Explanation:

If your client bought a variable annuity contract with a 7-year surrender period four years ago, you can tell him that even though there will be no tax consequences associated with the exchange, he'll have to pay the 5% deferred sales charge if he executes the exchange, and he'll be looking at a new, longer, surrender period-one of the less desirable features associated with bonus annuities.

Question 7

Question Type: MultipleChoice

Which of the following is not a cost associated with an investment in a variable annuity contract?

Options:

A- mortality and expense risk fee

B- investment management fee

C- state premium tax

D- All of the above are costs associated with an investment in a variable annuity contract.

Answer:

D

Explanation:

All of the choices are costs associated with an investment in a variable annuity contract. Nor is this an exhaustive list of the costs.

Question 8

Question Type: MultipleChoice

Which of the following payout options would provide an annuity owner with the biggest monthly check?

Options:

A- joint and last survivor

B- straight life

C- life with period certain

D- unit refund life

Answer:

B

Explanation:

The straight life payout option would provide an annuity owner with the biggest monthly check. Under this option, the annuity payments stop upon the death of the owner. All of the other options would require that the insurance company stand ready to continue payments beyond the owner's death.

This means more risk to the insurance company and, ergo, lower payments to the owner.

Question 9

Question Type: MultipleChoice

The mortality guarantee of a variable annuity contract:

Options:

A- guarantees a fixed death benefit amount will pay to your beneficiaries upon your death.

B- guarantees that you can receive a monthly check of a specified amount as long as you live.

C- guarantees that both you and a person you specify as your beneficiary will continue to receive payments as long as one of the two of you is alive.

D- None of the above is a true statement about the mortality guarantee of a variable annuity contract.

Answer:

D

Explanation:

None of the choices provided is a true statement about the mortality guarantee of a variable annuity contract. The mortality guarantee guarantees that you can receive a monthly check for as long as you live, but it does not guarantee that the check will be for a specified amount.

Question 10

Question Type: **MultipleChoice**

Your 53-year-old client, Ms. Antsy, just inherited $80,000 from her aunt and has decided to retire immediately. She wants to invest in something that will allow her to begin making withdrawals immediately, and she wants to be certain that she will continue to receive payments at least until she turns 62 and begins drawing social security. You should recommend Ms. Antsy invest in:

Options:

A- a single-payment deferred annuity.

B- a periodic-payment deferred annuity.

C- a single-payment immediate annuity.

D- none of the above.

Answer:

D

Explanation:

If Ms. Antsy is 53 years old and wants to invest in something that will allow her to begin making immediate withdraws and continue to make withdrawals until she turns 62 , you should recommend none of the choices provided. They are all annuities, and Ms. Antsy will be subject to a 10% penalty for withdrawing any amount prior to turning 59 .