Examples of exam questions – Life insurance

Competency: Recommend individual and group life insurance products adapted to the client's needs and situation (01 311).

Question 1

Sean is a smoker and travels frequently to developed countries to host scuba diving tours. In the past year, he received two traffic violations for running a red light and speeding. He drinks a glass of wine per week at social events. Sean is looking to buy life insurance.

After learning about his lifestyle, which aspect will make his insurance a rated policy?

1. Smoking status
2. Travel history
3. Avocations
4. Driving record
5. Drinking history

a) 1, 2, 3 and 4
b) 2, 3 and 4
c) 1, 3 and 5
d) 2 and 4

Correct answer: b)

Explanations

Answer a: **False**. A smoking status does not call for a rated policy, but rather a standard smoker rate that is higher than a standard non-smoker rate.

Answer b: **Correct answer**. Repeated trips, especially to politically unstable countries, are subject to a rated policy. Certain avocations, such as scuba diving, may also affect insurance rates. A driving record containing a number of violations or major violations often has a bearing on premium rating.

Answer c: **False**. The client drinks very little alcohol and this would not justify having a rated policy.

Answer d: **False**. It does not include the avocation element, which may be subject to a higher premium rate.

References

Relevant sections of exam preparation manual: *Life insurance*, 2nd edition, sections 9.4 and 9.5.3

Evaluated competency sub-component in Curriculum: 1.1 Determine the client's situation

Question 2
Mario and Danielle have been married for 10 years, are childless and have no desire to have children. Mario's annual net income is $120,000, and he has group life insurance for the same amount. Danielle's net income is $45,000 and she has no group insurance. Their home is valued at $320,000, and they currently have 20 years left on their $250,000 mortgage.

Mario would like to bequeath an amount of $100,000 to the hospice that cared for his parents. Danielle inherited $250,000 recently upon the death of her father, which they are using to maximize their registered retirement savings plan (RRSP) contributions and use all unused contribution room. In the event of his own death, Mario would like to leave the house to Danielle mortgage-free.

To meet Mario’s needs, what is the minimum amount of life insurance coverage he should buy?

a) $420,000
b) $300,000
c) $230,000
d) $100,000

Correct answer: c)

Explanations

Answers a and b:	**False**. They use the value of the residence ($320,000$) and not the mortgage amount ($250,000). Calculations: a: $320,000 + $100,000 = $420,000 b: $320,000 + $100,000 – $120,000 = $300,000
Answer c:	**Correct answer**. Mario's need is $250,000 for the mortgage, then $100,000 for the donation to the seniors' residence less the amount of the group insurance, $120,000. Calculation: $250,000 + $100,000 – $120,000 = $230,000
Answer d:	**False.** It does not take either the mortgage ($250,000) or the current group insurance ($120,000) into account.

References
Relevant sections of exam preparation manual: *Life insurance*, 2nd edition, 2015, section 10.1.1.1
Evaluated competency sub-component in Curriculum: 1.2 Assess the appropriateness of the client’s existing coverage in regards to his or her situation

Question 3

Tom is turning 63 this year and has already retired. He has sizable non-registered assets with large unrealized capital gains and is concerned about the tax consequences upon the sale of the assets. He comes to you for risk management advice.

Which of the following statements is correct regarding Tom's next action?

a) Under the risk avoidance technique, he can immediately apply capital losses.
b) Under the risk retention technique, he can choose to do nothing.
c) Under the risk transfer technique, he can transfer ownership to his son upon his death.
d) Under the risk reduction technique, he can invest aggressively to achieve a higher rate of return.

Correct answer: c)

Explanations

Answers a, b and d: **False**. They do not decrease or eliminate Tom's tax risk.

Answer c: **Correct answer.** According to section 1.3.4 of the reference manual, the best way to reduce or avoid a financial or tax risk is to transfer the risk to a third party.

References

Relevant sections of exam preparation manual: *Life insurance*, 2nd edition, 2015, section 1.3

Evaluated competency sub-component in Curriculum: 1.3 Articulate the client's needs based on the risks that could affect his or her financial situation

Question 4

You are completing a universal life application for your client Nixon. He has chosen guaranteed investment accounts as his investment option. He is going to minimally fund the policy. He asks you if there is any difference if he pays monthly or annually.

Which of the following is the correct answer?

a) Universal life has no modal factor and the long term cash value is the same, whether paid monthly or annually.
b) Universal life has modal factor and long-term cash value will be higher if paid annually.
c) Universal life has modal factor and long-term cash value will be higher if paid monthly.
d) Universal life has no modal factor and long-term cash value will be higher if paid annually.

Correct answer: a)

Explanations

Answer a:	**Correct answer**. The annual premium is the same as the annualized premium for a universal life policy because no modal factor is applied. Cash surrender values are based on investment fund returns and not on the premium payment conditions.
Answers b and c:	**False**. No modal factor applies to a universal life policy and the cash surrender value is not based on the premium payment conditions.
Answer d:	**False.** The cash surrender value is not based on the premium payment conditions.

References

Relevant sections of exam preparation manual: *Life insurance*, 2nd edition, 2015, section 4.2.1.2

Evaluated competency sub-component in Curriculum: 2.1 Analyze the types of contracts that meet the client's needs

Question 5

Jacky is single and will turn 24 this year. He doesn't have any dependents. He does not have any group coverage. He drives a motorcycle to work every day.

Which of the following riders or supplementary benefits should he add to his current individual insurance plan?

a) Accidental death and dismemberment
b) Accidental death and waiver of premium
c) Paid-up additions and guaranteed insurability benefit (GIB)
d) Term insurance and waiver of premium

Correct answer: a)

Explanations

Answer a:	**Correct answer**. Jacky's main risk is suffering a serious injury or even dying in a motorcycle accident.
Answers b, c and d:	**False.** One or the riders mentioned are not as high a priority as the two mentioned in a.

References

Relevant sections of exam preparation manual: *Life insurance*, 2nd edition, 2015, section 5.2.2

Evaluated competency sub-component in Curriculum: 2.2 Analyze the riders that meet the client's needs

Question 6

Ghislaine wishes to buy a $150,000 whole life insurance policy. She meets with her representative and completes an application form in which it is mentioned that she suffered minor health problems a few years ago. She also fills out a separate application form to obtain temporary coverage for 90 days pending the underwriter's final decision. She pays the first premium of $422. The insurer limits temporary coverage to $250,000 for all TIAs.

How much temporary coverage Ghislaine does obtain?

a) Zero
b) $150,000
c) $150,422
d) $250,000

Correct answer: b)

Explanations

Answers a, c and d:	**False**. They do not meet the criteria mentioned in section 9.3.2
Answer b:	**Correct answer**. Section 9.3.2 of the reference manual specifies that the maximum amount under the temporary insurance agreement is limited to the LESSER of the amount granted by the company and the amount of coverage requested in the application.

References

Relevant sections of exam preparation manual: *Life insurance*, 2nd edition, 2015, section 9.3.2

Evaluated competency sub-component in Curriculum: 3.1 Consider the impact of underwriting criteria as they apply to the client’s situation

Question 7

Cindy, who is age 22, just returned to the work force last week after giving birth to twins. She has limited disposable income. She is healthy now but her family history indicates the incidence of stroke. She would like some insurance coverage for her children's education in the event of her death.

What kind of plan would you recommend to Cindy?

a) A universal life with YRT to keep costs low so that the policy can accumulate cash value in the early stages.
b) A participating whole life with PUA rider, so both death benefit and cash value can increase in the long run.
c) A universal life with YRT and minimum funding option with child coverage rider so everybody can be protected.
d) A term 10 policy, with GIB rider, so coverage can be increased in the future.

Correct answer: d)

Explanations

Answer a: **False**. The client's ability to pay is limited. The client currently needs insurance coverage in the event of death rather than a policy that can accumulate cash value.

Answer b: **False**. The client's ability to pay is limited. Whole life coverage is too expensive and the client does not want to accumulate cash value. She only wants protection in the event of death.

Answer c: **False**. The client wants to guarantee the security of her children in the event of her death, not in the event of her children's death.

Answer d: **Correct answer**. At the moment the client has limited income, but the situation may change and she may want to increase coverage in the future regardless of her state of health.

References

Relevant sections of exam preparation manual: *Life insurance*, 2nd edition, 2015, section 5.1.4

Evaluated competency sub-component in Curriculum: 3.2 Propose a recommendation adapted on the client's needs and situation

Question 8

Your client is looking to buy a T-20 life insurance. You submitted the completed application to the insurance company. A few weeks later, the application is approved and the contract delivered to you.

At this stage, what should you do to complete the delivery process?

a) Complete the medical questionnaire, obtain a signed illustration, premium for the insurance, declaration of insurability and confirmation of delivery receipt from the client.
b) Complete the agent's comments section, obtain a premium for the insurance, declaration of insurability and confirmation of delivery receipt from the client.
c) Deliver the policy personally or by mail and obtain a premium for the insurance.
d) Meet the client, obtain the premium for the insurance, declaration of insurability and confirmation of delivery receipt from the client.

Correct answer: d)

Explanations

Answer a): **False.** The medical questionnaire had already filled in the application to the insurance company. The signed policy illustration is not necessary of a T-20 life insurance. The policyholder has to sign an illustration acknowledging that he understands the limitations of the illustration in case of policies that are very sensitive to the investment returns like the participating whole life and universal life policy outcomes.

Answer b): **False.** The agent's comments section had already completed in the application to the insurance company.

Answer c): **False**. The agent does not deliver the policy by mail or give it to somebody else than the applicant. He has to meet the applicant to ensure that nothing important has changed that would affect the insurability of life insured.

Answer d): **Correct answer.** To close the underwriting process, the agent has to meet the client, obtain the premium for the insurance after a carefully analyze the contract with him, and finally, obtain the declaration of insurability and confirmation of delivery receipt from the client.

References

Relevant sections of exam preparation manual: *Life insurance*, 2nd edition, 2015, section 9.9.1

Evaluated competency sub-component in Curriculum: 3.3 Confirm the requirements that must be met to implement the recommendation

Question 9

Marcel lives in Québec and purchased a $100,000 whole life insurance policy five years ago from ABF Insurance Company, through its agent Paul, an old friend. Paul contacted Marcel recently and proposed that he replace his existing policy with a whole life policy for the same amount, but from the company that Paul currently represents. Marcel agreed to sign the new application form.

What document is Paul required to have Marcel sign along with the new application form?

a) A personal letter
b) The document from the CLHIA
c) The LIRD
d) The Notice of Replacement of Insurance of Persons Contract

Correct answer: d)

Explanations

Answers a and b: **False**. A personal letter or a document from The Canadian Life and Health Insurance Association (CLHIA) do not meet legislative requirements.

Answer c: **False**. The life insurance replacement declaration (LIRD) only applies outside Québec.

Answer d: **Correct answer**. Marcel lives in Québec. To protect clients against churning and twisting, provincial legislation requires the client to receive and sign the Notice of Replacement of Insurance of Persons Contract.

References

Relevant sections of exam preparation manual: *Life insurance*, 2nd edition, 2015, section 12.4.2

Evaluated competency sub-component in Curriculum: 4.1 Validate the appropriateness of contract amendment, renewal and termination applications in regards to the client's situation

Question 10
Tom just submitted a death claim for both his father's individual universal life and group life policies. He would like to know if the death benefits are taxable.

How would you answer his question?

a) The death benefit for an individual is always tax-free. If the employer paid the group life premium portion, the premium would not be added to Tom's income and the death benefit is tax-free too.
b) The death benefit for individual and group life insurance is always tax-free.
c) If the universal life is classified as non-exempt policy, the death benefit is fully taxable. The group life death benefit is always tax-free.
d) An individual life insurance death benefit is always paid out tax-free. If the employer paid and deducted the group life insurance portion, the benefit becomes taxable.

Correct answer: b)

Explanations
Answer a: **False**. The group life insurance premium paid by the employer would be added to Tom's income.
Answer b: **Correct answer**. Death benefits from individual or group life insurance are always paid out tax-free.
Answer c: **False**. The death benefit from a universal life policy is paid out tax-free.
Answer d: **False**. The death benefit from group insurance, regardless of who paid the premium, is always tax-free.

References
Relevant sections of exam preparation manual: *Life insurance*, 2nd edition, 2015, section 7.1.1
Evaluated competency sub-component in Curriculum: 4.2 Inform the claimant of the claims process