

A CORRESPONDENCE STUDY COURSE
Reviewed and Approved by
State of Florida, Department of Insurance and Treasurer
Bureau of Licensing

INS 6

***Life, Health, and Annuity
Insurance***

A 40-Hour Life Agent Qualification Course

Prepared by

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***Developed by the University of Florida on Behalf of the
Institutions in the State University System of Florida***

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Correspondence Study Policy on Academic Freedom

The University of Florida defends the right of its faculty and students to express views on a full spectrum of issues. This principle of academic freedom is especially important in courses containing controversial subject matter. It extends to the Correspondence Study curriculum as well as to on-campus classes. Views expressed in this study guide should not be expected to represent a consensus of the University faculty and administration.

Remember:
Your official enrollment begins
the date tuition is paid.

Contents and Overview

Life, Health, and Annuity Insurance

Course Authors	7
-----------------------------	---

Course Introduction	9
----------------------------------	---

Objectives of the course, study materials, course textbooks and supplies, licensing information, course procedure, personal study schedule, submitting written assignments, course completion policy, out-of-state students, examinations, final examination and grading criteria, notice from the Department in Insurance, student expectations, how to obtain help, study hints, other course information and final comments.

Instructor’s Remarks	17
-----------------------------------	----

Personal Study Schedule	19
--------------------------------------	----

A planning aid to help you successfully complete the course.

Lessons

Lesson 1	Introduction to Life Insurance; The Need for Life Insurance	21
----------	---	----

The basic principle of life insurance; parties and components of the insuring process; mortality rates and tables.

Lesson 2	Permanent Life Insurance	31
----------	--------------------------------	----

Funds that build cash values; traditional versus contemporary permanent life insurance policies; features of adjustable life, variable life, and universal life insurance and their uses.

Lesson 3	Term Life Insurance and Other Plans	41
----------	---	----

Distinguishing features of term insurance contracts and combination policies.

Lesson 4	Annuities	49
----------	-----------------	----

Types of annuities and their purposes.

Lesson 5	Policy Provisions	59
	<i>Role of major provisions found in the life insurance contract; beneficiaries; the Uniform Simultaneous Death Act, common provision, and spendthrift clauses.</i>	
Lesson 6	Riders	67
	<i>Accidental death benefit; waiver of premium; disability income provisions.</i>	
Lesson 7	Premiums, Dividends, and Dividend Options	75
	<i>Concept of a premium; relationship between a level premium and a reserve; dividend options available to an insured.</i>	
Lesson 8	Nonforfeiture Options and Settlement Options	87
	<i>Financing nonforfeiture options; use of various nonforfeiture options; circumstances under which settlement options are used.</i>	
Lesson 9	Policy Loans; The Application	95
	<i>Legal distinction between warranties and representations; breach of warranty and misrepresentation; the effective date of a policy.</i>	
Lesson 10	Underwriting	103
	<i>How companies underwrite risk; factors considered in the risk selection and classification process.</i>	
Lesson 11	Claims; Group Life Insurance	111
	<i>Claims handling function; the group insurance mechanism; distinguishing between group and individual life insurance.</i>	
Lesson 12	Business Insurance; Retirement Plans	119
	<i>Keogh plans and IRA's; using life insurance to treat the risk of loss of a key employee.</i>	
Lesson 13	Tax Treatment of Life Insurance; Life Insurance Companies	127
	<i>Federal income tax and estate tax laws as they pertain to living and death benefits.</i>	

Lesson 14	Legal and Professional Aspects; Government Programs	137
	<i>How the insurance business is regulated; roles and functions of agents and brokers; Social Security eligibility requirements and benefits.</i>	
Lesson 15	Health and Disability Income Insurance	145
	<i>Loss exposures health insurance is designed to treat; disability and benefit packages available to treat loss exposure.</i>	
Lesson 16	Medical Expense Insurance, Health Insurance Organizations, and Health Insurance Policies	153
	<i>Benefits available under hospital, surgical, and other medical coverage; organizations that provide health insurance.</i>	
Lesson 17	Uniform Policy Provisions	161
	<i>Describing the various uniform policy provisions; optional policy provisions.</i>	
Lesson 18	The Application and Underwriting; Group Insurance and Special Plans	169
	<i>Components of a health insurance premium; legal doctrines of breach of warranty, misrepresentation, and concealment; underwriting health risks; group health insurance versus individual health insurance.</i>	
Lesson 19	Health Insurance: Social Programs and Insurance Taxation	177
	<i>Medicare and Medicaid programs; disability income provisions; Worker's Compensation programs; duties and responsibilities of a professional agent; prohibited agent practices.</i>	
Lesson 20	Florida Law	187
	<i>Florida law as it relates to group insurance, simultaneous death, mail-order insurance, regulation, variable annuities, agent qualification, time limit on certain defenses, and accidental bodily injury.</i>	

Course Wrap-Up and Preparation for the Final Examination	197
Final Examination Request Form	199
Glossary	201
Appendices	209
Appendix A: Whole Life Policy	211
Appendix B: Universal Life Policy	227
Appendix C: Decreasing Term Policy	247
Appendix D: Annual Renewable and Convertible Policy	261
Appendix E: Life Insurance Reinstatement Application	275
Appendix F: Wavier of Premium Rider	277
Appendix G: Accidental Death Benefit Rider	281
Appendix H: Life Insurance Application	283
Appendix I: Disability Income Policy	287
Appendix J: Hospitalization Policy	293
Appendix K: Health Insurance Reinstatement Application	303
Appendix L: Health and Disability Insurance Application	305
Appendix M: Medicare Supplement Policy	311
Appendix N: Student Handbook	315

Course Authors

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Dr. Nye received his Bachelor of Commerce and Master of Business Administration degrees from the University of British Columbia and his Doctor of Philosophy degree (in business and applied economics) from the University of Pennsylvania. His professional memberships include the American Risk and Insurance Association, the American Finance Association, the Financial Management Association, and the Risk Theory Seminar.

The author has drawn on diverse committee work, consultant work, and sponsored studies in preparing this course. He has served as a consultant to several insurance companies and Florida's state and local governments. Dr. Nye has conducted special studies of insurance-related issues for the Florida Legislature, the Department of Education, and the Department of Insurance. He is the author or co-author of several articles. His work has been published in, among other places, the *Journal of Risk and Insurance*, *Management Science*, and *Mathematical Programming Studies*.

Since this course was originally published in early 1983, Dr. Nye has been careful to modify it as necessary to assure its responsiveness to student needs. Consequently, it has undergone several revisions, each an improvement in some way over the last.

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Kevin is married to April and they have three sons. He is involved in his church, teaching Sunday School and working with the youth. He coaches little league baseball and a traveling team. He serves on STOP! Children's Cancer, S.O.C.K's and Alachua County School Board Advisory Board of Directors. He was an Eagle Scout in 1981. He also taught Risk Management at the University of Florida.

Course Introduction

Objective

Life insurance agents are professionals. Part of that professionalism comes from within the person and part comes from individual study to master selected topics. The primary purpose of this course is to help you master a number of topics in life and health insurance. This does not mean that you will become an expert in the fields of actuarial science, law, programming, etc. You won't. Rather, you will be exposed to, and master, a basic level of knowledge in life and health insurance.

In a moment I will describe the procedures you should follow to complete this course successfully. If you follow them, you can expect to acquire the working knowledge of life and health insurance required to pass Florida's life agent qualification examination.

Study Materials

You will work with the following materials during this course.

Required Textbooks:

Life and Health Basics (Indianapolis, Ind.: Pictorial Publishers, Current Edition).

James C. Fogarty, and Herbert F. Morgan eds. *Florida Life, Health and Variable Annuity Study Manual* (Florida Association of Life Underwriters and Dearborn Financial Institute, Inc.).

You will also work with various insurance forms and applications. (These are in Appendices A to M in this study guide.)

All of the above materials should be studied in detail in the order described below. *Life Basics* and *Health Basics* were selected because their design and structure are especially suited to individual study. I expect them to be more helpful to you than a traditional textbook. The *Florida Life, Health and Variable Annuity Study Manual* will test your general knowledge as

well as your knowledge of specific Florida law. Thus, it will reinforce and supplement your study of the Pictorial books. Finally, sample policies and forms are included in the appendices to this study guide. These, too, should be carefully studied at appropriate points in the course to gain an understanding of how insurance theory and principles are applied in practice.

A glossary of insurance terms is at the back of this study guide to further aid your study.

Course Procedure

The course consists of twenty lessons. Each lesson contains a reading assignment from the texts, usually a reading assignment on one of the policies, objectives, discussion, and then a written assignment that will test your understanding of the material. First, carefully review the lesson objectives and discussion. Then read the assigned text material and the appropriate policy or form, and, finally, complete the written assignment by marking your answers on the assignment cover sheet. (Assignment cover sheets are in the back of this study guide.)

The lessons must be completed in order, and the written assignments will be graded only if this requirement is met. **You may submit up to 3 written assignments per week.** The graded questions will be returned, and your instructor will comment, where appropriate, on your answers. Some assignments contain **optional** essay questions. You do not have to answer them to pass the course. They are provided to enrich the course material by challenging you to apply your knowledge to a situation and reason through to an answer. I will supply a suggested answer to the essay question on your grade report.

Personal Study Schedule

A personal study schedule has been provided to help you track your progress in the course and to prepare for deadlines. If you are planning to graduate, or have some other deadline by which you need your grade submitted, note that all written assignments and exams must be received by the Office of Correspondence study at least 30 days prior to that deadline. Ample time is needed for the instructor to grade your final written assignment and/or final exam and submit them back to the Office of Correspondence Study.

Use the personal study schedule and stick to it. Students who rush through the course typically do not receive favorable final grades. Note that your instructor is authorized to return written assignments to you without grading them if you submit more than the stated maximum number per week. Therefore, we encourage you to plan your study schedule wisely.

Written Assignments

Take particular care in preparing the written assignments you submit for grading. Follow the author's instructions. Complete the written assignment in the space provided. Then detach the completed assignment and submit for grading.

Submitting Written Assignments

There is a supply of blue assignment cover sheets in the back of this study guide. Attach a completed assignment cover sheet to each written assignment submitted. It is important that you keep a photocopy of your assignment in case it becomes lost in the mail. Should a loss occur, you will be responsible for resubmitting the lost assignment.

You may submit a maximum of three assignments per week, although a slower pace is recommended.

Mail, fax or drop off each written assignment for grading as soon as it is completed. Don't delay sending in a finished assignment while working on subsequent modules. Feedback on past assignments will help you in preparing future ones.

Please do not include administrative or financial paperwork in envelopes with assignments. Send these separately to the Office of Correspondence Study.

Course Completion Policy

All insurance courses are approved annually by the Department of Insurance; therefore, no extensions are permitted in these courses. You may complete this course at any time within a year of your enrollment date, but you may not extend your enrollment beyond a year.

Out-of-State Students

If you are using this course to meet Department of Insurance requirements for states other than Florida's, you should omit any reference to Florida Law. The general product knowledge in the course may be sufficient to meet your state's approval.

Examinations

To take an exam, complete the appropriate examination request form (in the study guide) and submit it to the Correspondence Study Office. Exams are administered under proctored supervision only. Refer to the Student Handbook in the Appendix of this study guide for approved testing sites and guidelines on selecting a proctor.

The tables and graphs in each lesson are to provide enrichment and depth in the topic and were obtained from the *1998 Life Insurance Fact Book Update* published by the American Council on Life Insurance. This information is useful in placing the programmed text instruction in the context of events in today's life insurance industry. The statistical information shown is not tested on the course examination or the state examination.

Final Examination and Grading Criteria

When all twenty assignments have been completed, you will be eligible to take the final examination. The final examination consists of 135 multiple-choice questions. You will have two hours to complete the exam. Successful completion of the course requires an average grade of 70 on your assignments and a passing grade (C or better) on the final examination. Your course grade will be determined by weighting your assignment score and final examination score 50 percent and 50 percent, respectively. The grading scale for the written assignments and the final examination is as follows:

A	=	90 - 100
B	=	80 - 89
C	=	70 - 79
D	=	60 - 69
E	=	Below 60

You must receive a 70% or better in this course to be eligible to take the State Insurance Exam.

Notice from the Department of Insurance

Effective October 1, 1990, the Institute for Instructional Research and Practice at the University of South Florida began administering and scoring the exams and issuing licenses for the Florida Department of Insurance. Upon completion of an exam, your answer sheet will be scanned immediately by machine. Passing standards are set by the Department of Insurance. If you pass the exam, you will be photographed and given a laminated license containing your picture.

For more information, please consult the enclosed publication “Examination and Licensure Requirements” or contact the Department of Insurance. Please note that the above information applies to the state examination, not the final examination in this course.

How to Obtain Help

For questions related to course content, contact the instructor. There is a space on your blue assignment cover sheet to write comments or questions for your instructor. For procedural information, students may contact the Correspondence Study Office.

Office of Correspondence Study Contact Information

The University of Florida Division of Continuing Education, Office of Correspondence Study is a national leader in offering award-winning correspondence courses.

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Fax: (352) 392-6950

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www.CorrespondenceStudy.ufl.edu

Study Hints

You may find these general study hints work well for you.

Take notes, read each section of text, make notes on pertinent material, and compile them in a notebook for future reference. If some words or concepts are new include these with definitions in the notebook.

Scan the study guide and reading assignment to gain an understanding of what is expected for completion of the lesson. Pay attention to study guide objectives, textbook headings, and summaries. Make a brief outline.

Question what is to be learned. Turn the main headings into questions, and answer these as you read. This engages you in an active role in studying the material.

Read your study guide and textbook assignment carefully. Visit the community or academic library to gather more information on the subject.

Recite answers to the questions at the end of each section. Discuss subject matter with peers or interested friends and family.

Review the outline you prepared. Be sure you understand the central ideas of each section.

Final Comments

This introduction was designed to acquaint you with the content, procedures, and standards for the course you are about to begin. I have tried to keep in mind that often you will be working alone on this material.

The Florida Department of Insurance has published an approved 40-hour life agent qualification study outline. This course study guide meets the Department's approved outline in all respects. All topics in the Department's outline are covered in this study guide. The largest portion of your time will be devoted to the study of life insurance. There are fifteen lessons on life insurance, four lessons on health insurance, and one lesson (the last) dealing specifically with Florida law. If you have comments or suggestions on this or any other section of the course, please write to me. In the meantime, start work, and GOOD LUCK!

Instructor's Remarks

Welcome to INS 6! If you are like most students, your reason for taking this course is to pass the Florida Examination for Life and Health Insurance. This course will help you achieve that goal and in some cases take you beyond the examination material. If you have not already done so, please read the first part of the study guide. It provides basic information on the course requirements and procedures.

The grading system on assignments is as follows. Each question is worth one point. Your assignment grade is the percent correct you earned on the assignment; e.g., 15 correct answers out of a possible 20 would be reported as a 75 on your grade report. Remember that in order to pass this course you must pass the final examination regardless of your assignment scores.

All of your grade reports will be computer generated. Using the computer allows me to provide a detailed response to every student on the problems and optional essay questions. I can also easily communicate with all my students during the course, should the need arise.

This edition continues our use of the Pictorial textbooks. They were highly recommended to us, and our review of the books confirmed our belief that they are especially suited to the needs of INS 6 students. We have tried to make the course material as error free as possible; however, you may encounter typographical errors as you work. Please let me know when this occurs so that future editions of the course can be corrected.

Personal Study Schedule

Utilize this study schedule to set a reasonable pace for yourself.

- Enter today's date at the top of the schedule.
- Record your deadline for course completion schedule.
- Insert the date(s) you intend to take the examination(s).
- Enter the dates you plan to mail in each written assignment.

Planning Schedule

START I began this course on _____.

Written Assignment	Projected Completion Date	Submission Date	Grade Received
1	_____	_____	_____
2	_____	_____	_____
3	_____	_____	_____
4	_____	_____	_____
5	_____	_____	_____
6	_____	_____	_____
7	_____	_____	_____
8	_____	_____	_____
9	_____	_____	_____
10	_____	_____	_____

Written Assignment	Projected Completion Date	Submission Date	Grade Received
11	_____	_____	_____
12	_____	_____	_____
13	_____	_____	_____
14	_____	_____	_____
15	_____	_____	_____
16	_____	_____	_____
17	_____	_____	_____
18	_____	_____	_____
19	_____	_____	_____
20	_____	_____	_____

FINAL EXAM I plan to take the final exam on _____.

DEADLINE My grade must be received by _____.

IMPORTANT: All written assignments and exams must be completed and received by the Office of Correspondence Study **THIRTY DAYS PRIOR TO YOUR GRADUATION DATE**, certification deadline, or other personal deadline.

Lesson 1

Introduction to Life Insurance; The Need for Life Insurance

Reading Assignment 1

Life Basics, Units One and Two

Fogarty and Morgan, eds. *Florida Life, Health and Variable Annuity Study Manual*,
Chapter 1

Note: Answer the questions at the end of each frame in the *Life Basic's* textbook. Try to do this **without** looking at the answers. It is important that you not only gain certain facts but that you also understand why a particular answer is correct. I suggest that you write the answers on a separate sheet of paper instead of in the book. Then, when you review the questions for the final examination, you can answer them without “prompting” and obtain a more accurate measure of your understanding of the material. Consult the textbooks or the glossary in the back of this study guide for definitions of life insurance terms.

Additional review of the material can be gained by answering the questions in the Progressive Quiz contained at the end of each chapter in the *Florida Life and Health Study Manual*. Taking these quizzes will reinforce the material you learned by studying the *Life Basic's* book.

Objectives

After you have completed this lesson you should be able to:

- Understand the basic principle of life insurance.
- Identify and explain the parties to and the components of the insuring process.
- Explain the development of mortality rates and tables and their relationship to the Law of Large Numbers.
- List and explain the various reasons for purchasing life insurance.

Discussion

The textbook explains the basic operation of the insuring process by explaining how the assessment process works and discussing the current system of basing insurance on prepayment of premiums rather than on assessments.

The parties to the insurance process are the policyholder, insurance company, and beneficiary, and their agreement is contained in a written document called the policy. Some contract features are briefly described, but we will discuss the policy in much more detail later in the course.

Basic information regarding mortality tables is provided. Note that the Law of Large Numbers is absolutely fundamental to the insurance process. It permits the insurance company to predict very accurately the number of individuals who will die in a particular year. Obviously, the company doesn't know which particular members of the group will die, but this information is not required for the successful operation of the insurance mechanism.

Life insurance is a unique product which uniquely satisfies the need for life insurance. For an individual, no substitutes exist in the marketplace to deal with the financial loss of premature death. Life insurance is the only effective way to handle this loss.

Life Insurance Purchases in the United States

Policies and certificates in thousands/Amounts in millions

Year	Individual ¹		Group		Total	
	Policies	Amount	Certificates	Amount	Policies	Amount
1940	17,872	\$10,039	285	\$691	18,157	\$10,730
1945	16,212	13,289,	681	1,265	16,893	14,554
1950	20,203	22,728	2,631	6,068	22,834	28,796
1955	21,928	37,169	2,217	11,258*	24,145	48,427*
1960	21,021	59,763	3,734	14,645	24,755	74,408
1965	20,429	90,781	7,007	51,385+	27,436	142,166+
1970	18,550	129,432	5,219	63,690+	23,769	193,122+
1975	18,946	194,732	8,146	95,190+	27,092	289,922+
1980	17,628	389,184	11,379	183,418	29,007	572,602
1981	17,629	484,412	11,923	346,702 *+	29,552	831,114*+
1982	16,964	587,342	11,930	250,532	28,894	837,874
1983	18,571	754,832	13,450	271,609	32,021	1,026,441
1984	18,407	821,258	14,605	293,521	33,012	1,114,779
1985	17,637	911,666	16,243	319,503*	33,880	1,231,169*
1986	17,116	934,010	17,507	374,741+	34,623	1,308,751*
1987	16,455	986,984	16,698	365,529	33,153	1,352,513
1988	15,796	996,006	15,793	410,848	31,589	1,406,854
1989	14,850	1,020,971	15,110	420,707	29,960	1,441,678
1990	14,199	1,069,880	14,592	459,271	28,791	1,529,151
1"1	13,583	1,041,706	16,230	573,953+	29,813	1,615,659+
1"2	13,452	1,048,357	14,930	440,143	28,382	1,488,500
IM	13,664	1,101,476	17,574	576,823	31,238	1,678,299
IM	13,835	1,051,187	18,3"	560,232	32,225	1,611,419
1"5	12,595	1,004,833	19,404	537,828	31,999	1,542,661
1996	12,022	1,035,336	18,761	614,565	30,783	1,649,901
1997	11,734	1,142,402	19,973	688,589	31,707	1,830,991

Sources. American Council of Life Insurance, LIMRA International Note: 1940-73 data exclude all credit life insurance. Beginning with 1974, data include long-term credit insurance (life insurance on loans of more than 10 years' duration). Data exclude revivals, increases, dividend additions, and reinsurance acquired.

*Includes Federal Employees' Group Life Insurance of \$1.9 billion in 1955, \$84.4 billion in 1981, and \$10.8 billion in 1985.

+Includes Servicemen's Group Life Insurance of \$27.8 billion in 1965, \$17.1 billion in 1970, \$1.7 billion in 1975, \$45.6 billion in 1986, and \$166.7 billion in 1991.

1 Includes industrial life insurance, which amounted to 87,000 policies and \$182 million in 1996.

People buy insurance for many reasons, but mainly to provide financial protection for their families if they themselves should die prematurely. A person creates an estate, or adds to one, with a life insurance policy, and the future of that estate is protected as the policy is maintained over the years.

Written Assignment 1

Instructions: Answer the following multiple-choice questions by choosing the best answer and marking your choice in the appropriate spot on the following answer sheet, then submit for grading. Be sure to fill out and attach an assignment cover sheet from the back of the study guide. There is no need to submit the questions with your assignment cover sheet. For example, if your answer to question 1 is “b,” mark your paper like this:

1.	a	<input checked="" type="radio"/> b	c	d
----	---	------------------------------------	---	---

Be sure to staple or attach your completed instructor’s record card to this first assignment. (The instructor’s record card will not be returned to you.)

1. “Spreading among many persons the result of financial loss created by an individual’s death, so each person’s cost is small” refers to the principle of:
 - a. Insurance.
 - b. Indemnity.
 - c. Risk.
 - d. None of the above.

2. What is a contract?
 - a. A written agreement enforceable by law
 - b. A written agreement involving two or more parties and a consideration
 - c. Neither a nor b
 - d. Both a and b

3. The money paid by a policyholder is called:
 - a. A premium.
 - b. A consideration.
 - c. The principal.
 - d. Both a and b.

4. The contract between an insurer and a policyholder is called a (an):
 - a. Bilateral contract.
 - b. Insurance policy.
 - c. Two-sided contract.
 - d. All of the above.

5. Why is a life insurance policy an aleatory contract?
- The insured's beneficiary may receive far more money than the total premiums paid.
 - Only the policyholder must live up to his side of the agreement.
 - The insurer can legally force the policyholder to pay his premium.
 - Either party may default on the agreement.
6. A life insurance contract is prepared by the insurer and is offered on a take-it-or-leave-it basis. What type of contract is this?
- Premium contract
 - Contract of adhesion
 - Both a and b
 - Neither a nor b
7. A life insurance company will pay a specified amount of money in return for a consideration. How will these payments be made to the beneficiary?
- \$100 monthly
 - Installment based on the survival probability of the beneficiary
 - Cash or equivalent income
 - Cash equivalent to the premiums that were paid
8. Phil took out a life insurance policy that stated that Paula would receive the money directly from the policy if Phil died. Paula is the contract's:
- Beneficiary.
 - Insurer.
 - Policyowner.
 - Agent.
9. Which is an example of the life insurance term "living benefits"?
- Paula receives \$12,000 when Phil dies.
 - When Phil reaches age 65, the insured, Phil, receives \$50,000 from his insurance company.
 - Phil's children receive monthly checks after Phil dies.
 - Paula dies at age 60 and her husband, age 65, begins to receive monthly checks from Paula's insurance company.
10. The mortality rate is the:
- Number of people who live past age 65 each year.
 - Life insurance premium.
 - Premium paid by people age 60 or older.
 - Average number of people who die each year.

11. According to the Law of Large Numbers, which insurance company would be able to predict most accurately the number of insureds who will die each year?
- Company A that insures 10,000 people of various ages
 - Company B that insures 50,000 people of various ages
 - Company C that insures 500,000 males age 40
 - Company D that insures 50,000 males age 40
12. All people are considered statistically dead at age:
- 99.
 - 100.
 - 88.
 - 102.
13. An estate, as it relates to life insurance, is a:
- Large house.
 - Definite sum of money.
 - Both a and b.
 - Neither a nor b.
14. What five obligations might a person leave behind when he dies?
- Debts, current bills, mortgage, death taxes, and final expenses
 - Mortgage, family living, death taxes, final expenses, and education
 - Funeral, medical, education, mortgage, and final expenses
 - Family living, savings, mortgage, education, and death taxes
15. Which is **not** normally part of a person's death taxes?
- Income taxes
 - Education taxes
 - Inheritance taxes
 - Estate taxes
16. Which creates an estate immediately upon an individual's death and guarantees that the estate created is for the full amount desired by the deceased?
- A savings account
 - Stocks
 - A life insurance policy
 - All of the above

17. Which describes the cash value accumulation in a life insurance policy?
- It is so small that it is worthless, but the policyowner can use it.
 - It can be used for loans or later as retirement income.
 - It cannot be used until the policy matures.
 - None of the above.
18. A life insurance policy's cash value can be used:
- As security for a loan.
 - To buy continued insurance protection.
 - As retirement income.
 - All of the above.
19. Which is an example of the cash accumulation value of a life insurance policy?
- Phil pays premiums until age 65. At that time his insurance runs out.
 - Paula pays premiums on her policy for 20 years. At that point, her agent tells her that she has over \$2,000 accumulated in her policy.
 - Both a and b.
 - Neither a nor b.
20. Which of the following should the ethical agent be able to answer after a sale?
- What are the client's needs?
 - Can the client afford it?
 - Does the client understand the product and its provisions?
 - Is this product in the client's best interest?
- I & III
 - I & IV
 - I, II, & IV
 - All of the above

Essay Questions (These are optional. You do not have to answer these questions.)

- Explain the principle of life insurance, and state the primary function of life insurance.
- Using your knowledge of life insurance mortality tables, explain the promises made by the company to the insured in a product called "term-to-100." Is the net single premium for a term-to-100 policy the same as for a whole life policy? Explain.

INS 6.I

Name _____

Social Security Number _____

Written Assignment 1 Answer Sheet

Record all your answers on this answer sheet. Detach and submit for grading. Be sure to fill out and attach an assignment cover sheet from the back of the study guide. **Also, for this first assignment only, please send in your completed instructor's record card.**

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|-----|---|---|---|---|-----|---|---|---|---|
| 1. | a | b | c | d | 11. | a | b | c | d |
| 2. | a | b | c | d | 12. | a | b | c | d |
| 3. | a | b | c | d | 13. | a | b | c | d |
| 4. | a | b | c | d | 14. | a | b | c | d |
| 5. | a | b | c | d | 15. | a | b | c | d |
| 6. | a | b | c | d | 16. | a | b | c | d |
| 7. | a | b | c | d | 17. | a | b | c | d |
| 8. | a | b | c | d | 18. | a | b | c | d |
| 9. | a | b | c | d | 19. | a | b | c | d |
| 10. | a | b | c | d | 20. | a | b | c | d |

