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### **“Interest Sensitive Insurance Products: Their Tax Advantages and Marketing”**

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\_\_\_\_\_ **CE EXAM ANSWER SHEET, SIGNED (PAGE 3)**

\_\_\_\_\_ **COURSE COMPLETION LETTER REQUEST (PAGE 4)**

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**“Interest Sensitive Insurance Products: Their Tax Advantages and Marketing”**

**completed with DOHRN ONLINE ACCESSIBLE COURSE MATERIALS**

MY NAME IS: (PRINT clearly) \_\_\_\_\_

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**“Interest Sensitive Insurance Products: Their Tax Advantages and Marketing”**

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# “Interest Sensitive Insurance Products: Their Tax Advantages and Marketing”

## Self Study Examination

## 50 Questions

**Instructions:** This examination consists of 50 questions in multiple choice format. Four possible answers have been presented for each question. On your answer sheet indicate the best answer to each question. There is no penalty for guessing incorrectly.

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### QUESTIONS 1-3 REFER TO SECTION I "AN HISTORICAL PERSPECTIVE AND ECONOMICS DISCUSSION"

- 1) All of the following financial institutions are examples of "intermediaries" except:
- A) An Insurance Company
  - B) A Savings and Loan
  - C) A Jewelry Wholesaler
  - D) The New York Stock Exchange
- 2) Endowment insurance places primary emphasis upon
- A) Insurance protection
  - B) Cash accumulation
  - C) War bonds
  - D) Waiver of Premium
- 3) All of the following are characteristics of traditional Whole Life insurance except:
- A) Conservative rate of return
  - B) Tax deferred cash accumulation
  - C) Guaranteed premium cost
  - D) Only a limited death benefit is paid within the first year of issue.

### QUESTIONS 4 & 5 REFER TO "FIXED VS. VARIABLE RATES"

- 4) Concerning investments, the general rule of risk and reward is
- A) No risk means greatest returns
  - B) Lower returns means greater risk
  - C) Higher returns means a lessened risk
  - D) Higher returns means greater risk

- 5) Which of the following is a basic threat to investor principal?
- I) A very risky investment
  - II) T-Bills
  - III) A reduction in the purchasing power of a dollar due to inflationary pressures in the economy.
- A) I only
  - B) II only
  - C) I and III only
  - D) I, II and III

### QUESTION 6 REFERS TO "FUTURE AND PRESENT VALUE CONCEPTS"

- 6) If inflation exists over the passage of time, which of the following statements is true?
- A) A dollar today will be worth the same in 5 years
  - B) A dollar today will be worth more in 5 years
  - C) A dollar today will be worth less in 5 years
  - D) Cannot answer the question from the information provided in the question.

### QUESTIONS 7-11 REFER TO "UNIVERSAL LIFE"

- 7) Universal life must meet the definition of life insurance as set forth by
- A) Internal Revenue Code
  - B) National Association of Insurance Commissioners
  - C) National Association of Life Underwriters
  - D) The guidelines established from company to company by chief actuaries.

- 8) All of the following are types of loads charged by insurance companies for UL except:
- A) Fixed Percentage Charge
  - B) No Load
  - C) Back End Load
  - D) Front End Load
- 9) Universal life strives to separate insurance cost from other policy charges. This unique aspect to contract formation is known as
- A) Separation
  - B) Secularism
  - C) Transparency
  - D) Bundling
- 10) Which of the following IRC insurance taxation concepts apply to the UL contract?
- I) The Risk Corridor Test
  - II) Modified Endowment Contract
  - III) Limited Participation Constraint
- A) I only
  - B) I and II only
  - C) II and III only
  - D) I, II and III
- 11) One of the main criticisms concerning Universal Life is that it
- A) May be prone to a higher lapse rate than other forms of life insurance
  - B) Has too high of an insurance cost at younger ages
  - C) Exposes consumers to higher income taxes
  - D) Has no identifiable endowment point

### **QUESTIONS 12-14 REFER TO "VARIABLE LIFE"**

- 12) Which of the following is true about premium payments and Variable Life?
- A) They are fixed
  - B) They are variable
  - C) They are flexible
  - D) There is no grace period provision in the contract

- 13) Which of the following investment account alternatives might be found in a typical VL contract?
- A) A mutual stock fund account
  - B) A bond fund account
  - C) A guaranteed account
  - D) All of the above
- 14) By making a broader range of investment choices available to the variable life contract holder, it is hoped that diversification will lead to
- A) The spreading of investment risk
  - B) No short term fluctuations in value
  - C) Less exposure to errors and omissions lawsuits
  - D) Both A and B

### **QUESTION 15 REFERS TO "INTEREST SENSITIVE WHOLE LIFE"**

- 15) All of the following factors concerning the ISWL contract are true except:
- A) Premium cost is guaranteed
  - B) Cash value accumulates based on a current market fluctuating rate of return.
  - C) Cash value may be withdrawn without the requirement of paying any interest charges on the withdrawn funds.
  - D) Premium cost is level

### **QUESTIONS 16-17 REFER TO "COMPARING AND CONTRASTING PRODUCT"**

- 16) A consumer who selects Interest Sensitive Whole life over a Universal Life policy most likely considers which of the following policy attributes as being most important?
- A) Premium payment flexibility
  - B) Premium cost guarantees
  - C) The withdrawal feature
  - D) Current term cost mortality
- 17) The main rule in choosing an interest sensitive life insurance plan is to
- A) Select a plan where the agent gets a low commission
  - B) Buy a plan that best matches needs and philosophy
  - C) Avoid it altogether and buy 50 year level term
  - D) Buy whatever the insurance agent thinks is best

**QUESTIONS 18-19 REFER TO "SINGLE PREMIUM WHOLE LIFE"**

- 18) A main barrier to ownership of SPWL is
- A) The high initial cash outlay required for purchase
  - B) No or low risk to capital
  - C) No or low policy loading
  - D) Tax deferred cash accumulation
- 19) SPWL is not considered to be a Modified Endowment Contract if it was issued upon which of the following dates?
- A) March 1, 1990
  - B) June 20, 1989
  - C) June 21, 1988
  - D) June 20, 1988

**QUESTIONS 20-23 REFER TO "ANNUITY"**

- 20) A pure annuity is one which
- A) Stops at the death of the annuitant even if only one monthly payment has been made.
  - B) Liquidates an entire fund to either an annuitant or beneficiaries.
  - C) Guarantees that a fixed benefit will be paid for a specified number of years even if the annuitant dies prior to the specified time period.
  - D) Bases benefit payment on the longer of two lives
- 21) All of the following statements are true of a fixed annuity except:
- A) Money is invested by an insurance company in that company's general account.
  - B) Given inflationary pressures in an economy, the purchasing power of future benefits will be reduced.
  - C) The annuity owner makes all investment decisions regarding cash values.
  - D) Benefit payment can be tied to one or more lives.
- 22) Which of the following are options available to an annuity owner upon reaching retirement age?
- A) Taking a lump sum distribution
  - B) Annuitization
  - C) A combination of annuitization and lump sum distribution
  - D) All of the above

- 23) If an annuitant wishes a benefit guaranteed to pay the greatest possible regular fixed benefit for life, that person should select which of the following annuity types?
- A) Life with period certain
  - B) Joint and survivor
  - C) Pure
  - D) Cash refund

**QUESTIONS 24-25 ARE GENERAL DEFINITION TYPES WHOSE ANSWER CAN BE FOUND WITHIN THE CONTEXT OF SECTION I**

- 24) Financial institutions which solicit investment dollars from the general public for purposes of reinvestment are known as
- A) Insurance companies
  - B) Banks
  - C) Secondary marketplaces
  - D) Intermediaries
- 25) In general, when an insurance product is referred to as being "interest sensitive" it means
- A) Death benefits are not paid in full during times of high inflation.
  - B) Cash values earn a rate of return which fluctuates with current actual economic conditions.
  - C) Cash values earn lower percentage rates of return in highly inflationary periods.
  - D) Cash values earn higher percentage rates of return in lower inflationary periods.

**QUESTIONS 26-44 REFER TO SECTION II "QUALIFIED AND NON QUALIFIED MARKETS"**

- 26) Under provisions governing IRA Rollover, a rollover must be completed within how many days of receipt of the funds?
- A) Immediately
  - B) 30 Days
  - C) 60 Days
  - D) 90 Days
- 27) Essentially, non-qualified means
- A) Benefits which are received someday will probably be income taxable.
  - B) Contributions made are fully deductible from current income.
  - C) The plan selected is being funded with after-tax dollars.
  - D) There are no income tax advantages

**QUESTIONS 28-32 REFER TO "UNIVERSAL LIFE"**

*(IT IS ALSO SUGGESTED THAT YOU REFER TO THE PREVIOUS SECTION REGARDING INTEREST SENSITIVE INSURANCE PRODUCTS FROM SECTION I FOR ADDITIONAL INFORMATION IN ANSWERING THE QUESTIONS IN THIS SECTION)*

28) Under a Universal Life insurance policy, what is the tax treatment of the policy account as it accumulates?

- A) Income taxes are owed at the top marginal rate of the taxpayer who owns the policy.
- B) No income taxes are due immediately, they are deferred.
- C) There are no federal income tax advantages
- D) Tax deferred accumulation is not allowed if the policyowner is a high income individual.

29) Minimizing exposure to income taxation when removing income from a Universal Life policy account is best achieved with the concept known as a

- A) Partial wash Loan
- B) Ghost account
- C) Withdrawal
- D) Policy surrender

30) If a Universal Life policy was issued less than 15 years ago, what section of the Internal Revenue Code should be considered before removal of cash value is effected?

- A) Section 401 (k)
- B) Section 125
- C) Section 7702
- D) Section 410 (b)

31) If a Single Premium Universal Life plan is selected with an Option B death benefit and the insured dies, then which of the following statements is true?

- A) Part of the proceeds is income taxable
- B) All of the proceeds is income taxable
- C) All tax deferred cash value accumulation is taxable but the actual death benefit is not.
- D) The death benefit plus the tax deferred cash accumulation within the policy are all paid as proceeds and therefore both amounts are paid income tax free.

32) Universal Life is afforded all of the following income tax treatments except:

- A) Recovery of cost base before income is removed
- B) The same tax treatment applied to annuity for any withdrawn funds.
- C) Income tax free payment of proceeds
- D) Tax sheltered cash value accumulation

**QUESTION 33 & 34 REFER TO "VARIABLE LIFE"**

33) A variable life contract has greater restrictions on policy loans, than does traditional whole life because

- A) There are no cash value guarantees
- B) The premium charge is so low
- C) Loan repayment terms are so attractive
- D) Tax law imposes these restrictions

34) The tax treatment under a variable life contract lets the policy owner switch premium funds from one account to another, within the policy

- A) At reduced income tax rates
- B) After 3 years from policy issue
- C) With no income tax charge
- D) None of the above

**QUESTION 35 REFERS TO "INTEREST SENSITIVE WHOLE LIFE"**

35) Accessing cash values in an ISWL contract is most similar to which of the following policy types?

- A) Universal Life
- B) Variable Life
- C) Annuity
- D) Traditional Whole Life

**QUESTIONS 36 & 37 REFER TO "SINGLE PREMIUM WHOLE LIFE"**

36) All of the following taxation concepts are accurate as they apply to SPWL except:

- A) As of today, SPWL is a modified endowment contract.
- B) A 68 year old policy owner may borrow cash value without being charged a 10% tax penalty.
- C) SPWL issued prior to June 21, 1988 is not considered to be a modified endowment contract.
- D) a 58 year old policy owner may borrow cash value and he will be charged only a 10 % tax penalty.

37) The greatest caution to marketing SPWL is informing prospects of

- A) The potential for income taxes if dividends, income or cash withdrawals are made.
- B) The fact that the proceeds are income taxable
- C) The fluctuating mortality charges
- D) The suspension of normal contractual settlement options.

### QUESTIONS 38-40 REFER TO "ANNUITY"

38) The amount of money a consumer may place into a non-qualified annuity is

- A) Limited to 30% of adjusted gross income from the previous year.
- B) Unlimited
- C) Depends solely on estate taxation considerations
- D) Is limited to \$500,000 in a lifetime, according to IRC section 7702.

39) Before 1982, Annuity taxation was that money removed from annuity cash values

- A) Faced a stiff 25% tax penalty on top of high income tax rates, depending on individual tax bracket.
- B) Was treated on a Last-In, First-out basis
- C) Was treated on a First-In, First-out basis
- D) Was prohibited by law

40) In a non-qualified annuity, benefits received are only partially taxable because of the application of the tax principle known as

- A) Section 7702
- B) Partial Taxation of Benefit Rule
- C) PS 158 Table
- D) The Exclusion Ratio

### QUESTIONS 41-44 REFER TO "MISCELLANEOUS TAXATION CONCEPTS"

41) The concept known as "grandfathering" means

- A) Older males with grandchildren to enjoy special tax credits.
- B) Certainty as to future tax law as guaranteed by the U.S. Constitution.
- C) Historical reliance that future tax law changes will generally not affect investments made in the present under current tax law rules.
- D) There is a federal equivalent to the State "grandmother" rules.

42) Estate Planning is

- A) Far too time consuming and expensive for all but the wealthiest individuals.
- B) The concept whereby the State and Federal governments decide the distribution of a citizen's assets upon death.
- C) A time consuming, and sometimes expensive, process whereby an existing estate is transferred at death in a manner that attempts to minimize transfer costs and the general reduction in the value of that estate.
- D) Meant to enable all citizens the legal means by which they may avoid all transfer taxes on assets upon death in both State and Federal jurisdictions.

43) Which of the following methods of providing money to pay federal estate taxes is the least desirable?

- A) Using the proceeds from life insurance
- B) Use cash from existing liquid assets
- C) Sell stocks in a strong economy
- D) Liquidate real estate holdings in a high interest rate market.

44) Which of the following policies has the most advantageous income tax rule if a partial withdrawal or loan from existing cash values is elected by the policyowner?

- A) Universal Life
- B) Variable Life
- C) Interest Sensitive Whole Life
- D) Single Premium Whole Life

### QUESTIONS 46-50 REFER TO SECTION III: "MARKETING INTEREST SENSITIVE INSURANCE PRODUCTS"

45) From an insurance client viewpoint, the best insurance policy any agent can sell to a client is one which

- A) Maximizes agent commissions
- B) Has the lowest premium cost of all alternatives
- C) Best satisfies the main needs as expressed by the client.
- D) The client buys off a television advertisement

46) Target marketing is a good strategy for all of the following reasons except

- A) It helps the agent to focus on the needs of his or her client base more easily
- B) The agent tends to become more knowledgeable in his or her chosen area of expertise
- C) It confuses the agent about which market he or she should cultivate
- D) It should make the agent more productive

47) a person who is very conservative by nature would not be well served with which of the following products?

- A) Whole life
- B) Universal life
- C) Variable life
- D) Interest Sensitive Whole Life

48) The flexibility of the universal life contract makes it ideally suited to which of the following individual?

- A) Retiring businessman
- B) Thirty year-old new father
- C) A fifty-five year-old woman seeking a retirement plan
- D) None of the above

49) To market Universal Life insurance to a client as an investment while hiding the fact that the client is really buying life insurance is, under the laws of most states

- A) Perfectly legal
- B) An offense for which an agent could lose his license.
- C) Legal, if presented in the prescribed manner set forth by statute.
- D) None of the above

50) Which of the following products is most desirable for planning a guaranteed and fixed retirement income?

- A) Fixed annuity
- B) Variable annuity
- C) Variable Life
- D) Universal Life