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Question: 1

MEC's are formidable retirement mediums with many strengths to boast, but there are also disadvantages to take into account. Which of the following is NOT a disadvantage of a Modified Endowment Contract (MEC)?

- A. FIFO does not apply.
- B. Policy loans are treated as ordinary income.
- C. A penalty is levied on withdrawal before age 59.5.
- D. There is a loss of tax-free death benefit privilege.

Answer: D

Explanation:

While all the other options are true disadvantages of a life insurance policy becoming an MEC, the core feature of tax-free death benefits going to the beneficiary does not change. The life insurance side of the MEC always remains exactly as it began.

Question: 2

Henry would like to use his life insurance policy as collateral on a loan at his local bank. The process which permits the bank to be paid upon his death is called which of the following?

- A. Indemnification
- B. Assignment
- C. Asset Liquefaction
- D. Settlement Agreement

Answer: B

Explanation:

Life insurance death benefits, and sometimes cash value, can be used as collateral for secured bank loans by assigning these sums to the bank in the event of a payout. This allows for lower interest rates from the bank by lowering the perceived risk of default.

Question: 3

Which of the following is an employer owned and funded account that can help pay for health care expenses?

- A. National Recoupment Accounts (NR-As)

- B. Flexible Spending Accounts (FSAs)
- C. Health Reimbursement Accounts (HRAs)
- D. Point of Service plans (POSs)

Answer: C

Explanation:

Both B and C serve as payment vehicles for medical expenses, with C being the employer- owned option.

Question: 4

Which policy provision stipulates the premium charges to be made in exchange for the guarantee of coverage by the insurance company?

- A. Consideration
- B. Incontestability
- C. Premium Payment
- D. Settlement Options

Answer: A

Explanation:

When money is exchanged for the guarantee of service or action, it is called consideration. In the case of insurance, coverage serves as the guarantee of action. If a person wants consideration, they buy a policy and pay the premium.

Question: 5

Against which primary benchmark is gross income measured to determine Medicaid eligibility?

- A. Federal Poverty Level (FPL)
- B. State Poverty Level (SPL)
- C. Cost of Living Index (CLI)
- D. Credit-Based Reporting (CBR)

Answer: A

Explanation:

Medicaid is a federal aid program based off a federal poverty level percentage for qualification and eligibility. It is the largest source of health coverage in the US.

Question: 6

Which of the following is NOT a benefit of a variable universal life insurance policy?

- A. Guaranteed interest rate
- B. Flexible premiums
- C. Opportunity for high returns
- D. Tax-free growth

Answer: A

Explanation:

Variable universal life policies are among the most versatile on the market as a fiscal vehicle for the insured. One can control how much one puts in and when. However, this is not a securities product, so there is no guarantee on interest. Each company is happy to provide a general forecast, but nobody can predict the market. With a proper approach and advisement from an accountant, the flexibility and utility of this policy are exceptional.

Question: 7

Which type of policy is used to circumvent the requirement of insurable interest when buying a life insurance product?

- A. Interest-sensitive whole life
- B. Limited-pay whole life
- C. Universal life
- D. Investor-owned life

Answer: D

Explanation:

Investor-owned life and stranger owned life (IOLI/STOLI) policies are used to bypass the normal requirement of needing insurable interest. These types of insurance are illegal in the United States.

Question: 8

Which of the following is NOT an element of a contract?

- A. Consideration
- B. Offer and Acceptance
- C. Compliant Parties
- D. Legal Purpose

Answer: C

Explanation:

The word choice should have been competent parties. It's not enough that the party simply be willing to participate in the contract—they have to also be of sound judgment.

Question: 9

Henry is meeting with his advisor about future social security benefits. Henry would like to know what age he must be before he can receive full social security benefits. What is the correct age?

- A. 62.5
- B. 65
- C. 67
- D. 72.5

Answer: C

Explanation:

While Henry certainly can receive social security benefits before 67, he will receive a reduced amount if he does. Full retirement age (FRA) is currently established at 67 for those born in 1960 or later.

Question: 10

Which of the following is the term for the period before a life insurance policy goes into effect?

- A. Confirmation Period
- B. Underwriting Review Period
- C. Elimination Period
- D. Probationary Period

Answer: D

Explanation:

Probationary periods are common with group life policies, since a new hire may be eligible to join a policy upon being hired. The insurer, however, may not intend to take on an immediate risk for an employee who may not stick around.



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