

Chapter 1 Practice Problems

1. There are three types of insurance policies – Term Insurance, Whole Life Insurance, and Endowment Insurance. Please list below which type of insurance is associated with the following characteristics. The answer might be one type of insurance, two types of insurance or all three types of insurance.
 - a. Pays a lump sum benefit upon the death of the policyholder:
 - b. Pays a lump sum benefit if the policyholder lives a certain number of years:
 - c. Could terminate without paying any benefits:
 - d. Requires premiums to be paid by the policyholder:
 - e. May not be sold in certain countries:
2. By law, the person paying the premiums on a life insurance policy must face a financial loss upon the death of the policyholder.
 - a. What is the term for this concept?
 - b. Explain why this requirement is important.
3. There are three methods of funding Continuing Care Retirement Communities. List the three forms of funding and describe them in detail.
4. Describe the process of underwriting and why it is necessary.
5. Why are premiums always payable in advance?
6. How is a whole life annuity different from a term life annuity?
7. Traditional life insurance policies are often classified as Term Insurance, Whole Life Insurance, and Endowment Insurance. Which of these three types of policies will typically pay you a cash amount upon the termination of the contract while you are still alive?
8. Life annuities can be classified as Single Premium Deferred Annuities, Single Premium Immediate Annuities, or Regular Premium Deferred Annuities. Compare and contrast these three types of annuities. In other words, how are they the same and how are they different?
9. Structured settlements paid on a periodic basis address two risks that are present when a settlement is a single payment. Describe the two risks.
10. Traditional life insurance policies are often classified as Term Insurance, Whole Life Insurance, and Endowment Insurance. Compare and contrast these three types of policies. In other words, how are they the same and how are they different.
11. The purpose of underwriting is to classify potential insureds into homogeneous risk categories and to determine the appropriate premium level. Why is this important?
12. Under a structured settlement contract, replacement of income is normally less than 100%. List three reasons why.

13. Under lapse supported policies, the premiums are reduced because excess funds from lapsed contracts subsidize the remaining policies. State whether the following types of policies are lapse supported and explain your answer.
 - a. Term Insurance
 - b. Whole Life Insurance
 - c. Endowment Insurance
 - d. Life Annuities
 - e. Long Term Care Insurance
14. Describe insurable interest.
15. What is the process of gathering and evaluating the health of a potential insured prior to issuing them a contract called?
16. Describe how the off period works in Disability Income Insurance.
17. Recently, the design of life insurance products have radically changed. The textbook lists four reasons for those changes. Describe two of those four reasons. The description must be sufficient that I know you understand the reason.
18. How do policies sold through direct marketing differ from policies sold through brokers under a commission system?
19. What is the phenomenon where very high risk individuals buy life insurance in disproportionate number called?
20. For Disability Income Insurance, the monthly benefits are generally limited about 60% of the salary being replaced. Why?
21. Hybrid long term care and life insurance products have become popular in the United States. These products typically follow a return of premium approach or an accelerated benefit approach. Describe how each approach works.
22. Under both Long Term Care Insurance and Disability Income Insurance, there is an amount of time (for example 30 or 90 days) after the entry into a Long Term Care Facility or the onset of disability before the insurance company pays benefits. What is this time called?
23. For Long Term Care Insurance, payment of benefits are based on six Activities of Daily Living. Explain what must happen before benefits are payable. Also, list three of the six Activities of Daily Living.

24. Compare and contrast a joint life annuity with a last survivor annuity. In other words, how are these contracts similar and how are they different.
25. A type of annuity is based on the life of two people. One person is designated as the annuitant and the other as the insured. The annuity does not make payments if both people are alive. However, it will make payments to the annuitant as long as the annuitant is alive after the death of the insured. What is the name of this annuity?
26. There are four categories of residence in Continuing Care Retirement Communities. List and describe three of the four.
27. For Disability Income Insurance, disability may be based on an "Own Job" or "Any Job" definition. Define each term.