

Insurance Licensing

AZ-Insurance-Producer-Life

AZ Insurance Producer Life Exam



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Question: 1

Which of the following terms describes the fact that insurance contracts are contingent upon an uncertain event or loss?

- A. adhesion
- B. aleatory
- C. unilateral
- D. personal

Answer: B

Explanation:

An insurance contract is aleatory because the values ultimately exchanged between the insurer and insured depend on the occurrence of an uncertain event. The amount one party receives may therefore be substantially greater or smaller than the consideration supplied by that party.

For example, an insured could pay only one life insurance premium and die shortly afterward, requiring the insurer to pay the entire contractual death benefit. Conversely, an insured may pay premiums for many years without a death claim occurring during a term policy 's coverage period. The economic values exchanged are therefore not required to be equal.

This uncertainty differentiates an aleatory agreement from an ordinary commutative contract, in which the parties generally expect an approximately equivalent exchange of value at the time of contracting. An adhesion contract is one drafted primarily by one party and offered to the other substantially as written. A unilateral contract describes the insurer 's enforceable promise to perform when contractual conditions are satisfied. "Personal" is not the characteristic describing unequal exchange dependent on an uncertain event.

Because the question specifically focuses on a contract being contingent upon an uncertain event or loss, the applicable term is aleatory.

Study Guide Reference: General Insurance Concepts — aleatory contracts; characteristics of insurance contracts; uncertainty of loss and exchange of value.

Question: 2

The National Do Not Call List Registry guidelines permit a representative of an insurer to make telemarketing calls to consumers who purchased insurance from the company within

- A. 18 months after the purchase.
- B. 24 months after the purchase.
- C. 30 months after the purchase.
- D. 36 months after the purchase.

Answer: A

Explanation:

The federal Telemarketing Sales Rule recognizes an established business relationship exception to the National Do Not Call Registry requirements for certain live telemarketing calls. Where the relationship results from a consumer ' s purchase, rental, lease, or financial transaction with the seller, the seller may generally place qualifying calls for up to 18 months following the consumer ' s last transaction, payment, or delivery.

The Federal Trade Commission specifically confirms this 18-month established-business-relationship period. Importantly, the exception does not override a consumer ' s direct request that the particular company stop calling. If the consumer asks to be placed on that seller ' s company-specific do-not-call list, the company must honor that request even when an otherwise valid established business relationship exists.

The rule also distinguishes an established relationship based on a completed transaction from one arising merely from an inquiry or application. A consumer inquiry or application normally supports a shorter three-month period.

Therefore, for a consumer who purchased insurance from the company, the period tested by this question is 18 months, making A correct.

Study Guide Reference: Federal Laws and Regulations — National Do Not Call Registry; Telemarketing Sales Rule; established business relationships.

Question: 3

John and Mary are new parents in their twenties, with a large mortgage and monthly expenses. What type of policy would BEST suit their needs?

- A. Single Premium Whole Life.
- B. Limited Pay Whole Life.
- C. Term.
- D. Joint Life, Last to Die.

Answer: C

Explanation:

Term life insurance is generally the most appropriate choice when young parents require a relatively large amount of death-benefit protection while managing substantial current financial obligations. John and Mary are in their twenties, have a large mortgage, and face significant monthly expenses. Their immediate planning need is therefore high death-benefit protection at an affordable premium.

Term insurance provides pure death-benefit protection for a specified period without the cash-value component found in permanent insurance. Because the initial premium for a given death benefit is ordinarily lower than that of comparable permanent coverage, young families can obtain substantial protection for mortgage repayment, income replacement, children ' s expenses, and other temporary obligations.

Single-premium whole life requires a substantial up-front payment and would not fit the cash-flow characteristics described. Limited-pay whole life is permanent coverage with premiums compressed into a shorter payment period, generally producing higher scheduled premiums. Last-to-die coverage pays after the second insured dies and is more commonly associated with estate or legacy planning; it does not address the immediate financial loss caused by the first parent ' s premature death.

Accordingly, term insurance best matches the scenario.

Study Guide Reference: Types of Life Insurance Policies — term life; temporary protection; family income needs; permanent versus term insurance.

Question: 4

Policy proceeds can be obtained in a lump sum and invested to create

- A. a viatical settlement.
- B. a readjustment fund.
- C. an estate.
- D. a cleanup fund.

Answer: C

Explanation:

Life insurance proceeds may be paid to a beneficiary as a lump sum, meaning the insurer distributes the entire death benefit in one payment rather than retaining the proceeds under an installment or life-income settlement option. Once the beneficiary receives the lump sum, those proceeds can be invested or otherwise managed to establish an estate capable of producing income or meeting longer-term financial objectives.

This reflects one of the fundamental purposes of life insurance: it can create an immediate financial estate when the insured dies. A relatively small amount of premium can result in a substantial death benefit being available to beneficiaries at precisely the time when income replacement, debt repayment, education funding, or other financial resources may be required.

A viatical settlement is fundamentally different; it involves the sale of an existing life insurance policy by a living policyowner to a third party. A readjustment fund refers to funds intended to help survivors adjust financially after death, while a cleanup fund generally addresses final expenses and short-term obligations.

Therefore, where policy proceeds are received in a lump sum and invested as a continuing capital resource, the correct answer is an estate.

Study Guide Reference: Life Insurance Policy Provisions, Options, and Riders — death proceeds; lump-sum settlement; settlement options; creation of an estate.

Question: 5

Which of the following dividend options will increase the death benefit?

- A. Extended term.
- B. Guaranteed insurability.
- C. Accelerated endowment.
- D. Paid-up additions.

Answer: D

Explanation:

Under the paid-up additions dividend option, dividends from a participating life insurance policy are used to purchase additional increments of fully paid permanent life insurance. Each addition requires no further premium and has its own cash value and death benefit. Consequently, paid-up additions increase both the policy ' s total death benefit and its accumulated cash value.

Paid-up additions can themselves participate in future dividends when the insurer ' s contract provides for participation, allowing the additional insurance and policy value potentially to compound over time.

The other choices do not describe the applicable dividend option. Extended term is principally a nonforfeiture option under which cash value is used to purchase term insurance, rather than a dividend option designed to increase the permanent death benefit. Guaranteed insurability is a rider that permits the insured to purchase additional coverage at specified dates or events without new evidence of insurability. Accelerated endowment is not the standard dividend choice that directly purchases additional permanent death-benefit protection.

The standard dividend options include cash, reduction of premium, accumulation at interest, and paid-up additions. Of these, paid-up additions directly purchase additional insurance and therefore increase the amount payable at death.

Study Guide Reference: Life Insurance Policy Provisions, Options, and Riders — participating-policy dividends; paid-up additions; dividend options; increased death benefits.

Question: 6

What is the primary reason a business should purchase key person insurance?

- A. Reward an executive
- B. Offset financial losses
- C. Reduce taxable income
- D. Insure all employees

Answer: B

Explanation:

Key person life insurance is purchased by a business to protect itself against the economic consequences of the premature death of an individual whose services are materially important to the organization. The business normally applies for, owns, pays the premiums on, and is beneficiary of the policy covering the key employee or executive.

The primary objective is to provide funds that can offset financial losses resulting from the key person ' s death. Such losses may include reduced revenue, interruption of operations, costs associated with recruiting and training a replacement, loss of important customer or lender relationships, and difficulties completing projects that depended on the insured ' s expertise.

Key person insurance is not primarily intended as an executive reward; executive bonus arrangements serve that purpose more directly. Nor is the objective to insure every employee. Coverage is specifically directed toward individuals whose death could create a significant economic impact on the organization. Premiums paid for key person coverage in which the business is directly or indirectly the beneficiary generally do not create the ordinary business-expense deduction suggested by choice C.

Therefore, the core function is to provide liquidity to offset business losses caused by the death of a key individual.

Study Guide Reference: Life Insurance Basics — business uses of life insurance; key person insurance; business-loss protection.

Question: 7

Under the exclusion clause, which is a scenario that would NOT be covered if death resulted?

- A. A spectator at an auto race
- B. A fare-paying passenger in a regularly-scheduled airline
- C. Commercial pilot or crew member
- D. Army officer killed in the line of duty

Answer: C

Explanation:

Traditional life insurance aviation exclusions, where included in a policy, distinguish ordinary commercial passengers from individuals who actively participate in aviation. A person traveling as a fare-paying passenger on a regularly scheduled commercial airline is ordinarily treated as an ordinary passenger and is not excluded solely because death results from an aviation accident.

A commercial pilot or crew member, however, actively participates in aviation and historically represents the category to which an aviation exclusion or aviation limitation may apply. Consequently, among the alternatives, Commercial pilot or crew member is the best answer to the question asking which scenario would not be covered under the relevant exclusion concept.

Merely attending an automobile race as a spectator does not make the individual a participant in hazardous racing activity. Similarly, being an Army officer “killed in the line of duty” does not by itself establish that the death resulted from an excluded act of war. A specific war or military exclusion would have to be applied according to its wording and cause-of-death requirements.

The question is therefore testing the distinction between ordinary passenger aviation and active aviation participation.

Study Guide Reference: Life Insurance Policy Provisions, Options, and Riders — exclusions; aviation risks; hazardous activities; war-related exclusions.

Question: 8

Which type of policy contains both a minimum and target premium?

- A. universal life
- B. graded premium life
- C. whole life
- D. adjustable life

Answer: A

Explanation:

Universal life insurance is a flexible-premium permanent life insurance contract in which the policyowner generally has discretion over the amount and timing of premium payments, provided sufficient policy value exists to cover mortality charges, expenses, and other deductions required to keep the contract in force.

Universal life illustrations commonly distinguish between a target premium and a minimum premium or minimum funding amount. The target premium is an insurer-determined amount intended to fund the policy according to assumed interest, mortality, expense, and benefit assumptions. It is not necessarily the minimum amount that can be accepted or the amount guaranteed to keep coverage in force indefinitely. A lower payment may be permitted if policy values are adequate, while additional funding may also be required when actual policy performance is less favorable.

Traditional whole life normally uses fixed scheduled premiums rather than a minimum-and-target premium structure. Graded-premium life uses predetermined premium increases during the early policy years. Adjustable life permits modification of certain contract features but is not the product principally identified by minimum and target premium terminology.

Accordingly, the terminology in the question specifically identifies universal life.

Study Guide Reference: Types of Life Insurance Policies — universal life; flexible premiums; target premiums; mortality charges; cash-value funding.

Question: 9

Which provides for the continuation of a business if the owner dies prematurely?

- A. Key employee life insurance
- B. Executive bonuses
- C. Deferred compensation
- D. Buy-sell funding

Answer: D

Explanation:

A buy-sell agreement funded with life insurance is specifically designed to facilitate an orderly transfer of a deceased business owner's ownership interest and thereby promote business continuity. The owners establish an agreement defining what will happen to an owner's interest following death, and life insurance supplies the liquidity needed to purchase that interest from the deceased owner's estate or beneficiaries.

In a cross-purchase arrangement, individual owners generally insure one another and use the proceeds to purchase the deceased owner's interest. In an entity-purchase arrangement, the business owns the policies and purchases the deceased owner's interest. In either structure, life insurance funding helps prevent ownership from passing unintentionally to heirs who may have no involvement in the business and reduces the need for surviving owners to raise substantial cash immediately after death.

Key employee insurance instead protects the business against economic loss caused by the death of an important employee; it does not itself establish transfer of ownership. Executive bonus and deferred-compensation arrangements are employee-benefit or compensation techniques rather than business-succession mechanisms.

Question: 10

Under a Universal Life insurance policy, a corridor represents the

- A. gap between the total death benefit and the policy's cash value.

- B. time allotted to the insured to convert a group policy to an individual policy.
- C. percentage of benefits paid to each of the policy ' s beneficiaries.
- D. stipulated time period that a policy may be reinstated after it has lapsed.

Answer: A

Explanation:

In universal life insurance, the corridor represents the required difference between the policy ' s cash value and its total death benefit. In practical terms, it maintains a specified amount of net amount at risk between accumulated policy value and the death benefit payable by the insurer.

As cash value increases, the death benefit may need to increase as well so that the contract continues to satisfy the statutory relationship between cash value and death benefit required for treatment as life insurance. The applicable corridor percentage generally varies according to age and the tax-law framework under which the policy qualifies.

The corridor is therefore not related to conversion of group life insurance. Group conversion involves a limited period following termination of eligible group coverage during which an individual contract may be obtained. It is also unrelated to allocation of proceeds among multiple beneficiaries or to the reinstatement period available following lapse.

Universal life questions frequently test the distinction between cash value, death-benefit options, mortality charges, and the net amount at risk. The corridor specifically concerns the relationship between the first two.

Accordingly, the corridor is the gap between the policy ' s total death benefit and its cash value.

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