Chapter 10
Financial Planning with Life Insurance

True / False Questions

1. Purchasing a life insurance policy is a basic and inexpensive task.
True False

2. Life insurance benefits may be used to pay off a home mortgage or other debts at the time of death.
True False

3. The sooner a person is likely to die, the lower the premiums he or she will pay.
True False

4. Life expectancy for men is longer than that for women.
True False

5. All individuals need life insurance.
True False

6. The "Nonworking" spouse method of estimating life insurance includes factors such as Social Security and liquid assets.
True False

7. The "Family Need" method of estimating life insurance includes factors such as Social Security and liquid assets.
True False

8. Mutual life insurance companies specialize in the sale of nonparticipating policies.
True False

9. Another name for straight term is renewable return-of-premium term.
True False

10. Decreasing term pays less to the beneficiary as time passes.
True False

11. Return-of-Premium term pays out all premiums plus interest to a beneficiary.
True False

12. A Limited Payment Policy is a whole life policy that requires premiums to be paid for a certain period.
True False

13. Premium payments are fixed with a Variable Life Policy.
True False

14. The beneficiaries of someone who dies by suicide will never be eligible to receive any benefits from his or her life insurance policy.
True False

15. Competition among companies with comparable policies can affect the price a company charges for life insurance.
True False

16. An interest-adjusted index is a method of evaluating the cost of life insurance by taking into account the time value of money.
True False

17. The lower the interest-adjusted index, the lower the cost of a life insurance policy.
True False

18. If you change your mind about your insurance policy, you have 60 days to return it to receive a refund of your premium.
True False

19. The most common settlement option for a life insurance program is the lump-sum payment.
True False

20. If you switch life insurance policies, you will automatically still be insurable.
True False

21. Annuities are most beneficial for individuals who expect to live only a short time.
True False

22. An investment in an annuity is the same as an investment in a certificate of deposit.
True False

Multiple Choice Questions

23. A person who is named to receive the benefits from an insurance policy is a(n)
A. Contract
B. Beneficiary
C. Policyholder
D. Insurer
E. child

24. Most people buy life insurance to
A. Pay off a mortgage
B. Protect the people who depend on the insured from financial losses caused by his or her death
C. Pay for a vacation
D. Spend money
E. Pay taxes

25. Which of the following households most likely has the *greatest* need for life insurance?
A. Single adult living alone
B. Adult child living with parents
C. Retired couple with a pension
D. Household with children
E. Independently wealthy adult.

26. Judy and James have a four year-old child. They plan to purchase life insurance using the formula: Current income × 7 × 70 percent. Which method are they using to determine their life insurance needs?
A. Easy method
B. Dual Income, No Kids method
C. Formal calculation method
D. Nonworking spouse method
E. Family needs method

27. Jeff and Erica have two children. They plan to purchase life insurance using the formula: (18 - youngest child's age) × $10,000. Which method are they using to determine their life insurance needs?
A. Easy method
B. Dual Income, No Kids method
C. Formal calculation method
D. Nonworking spouse method
E. Family needs method

28. Donald and Charlene are married and do not have any children. Each plans to continue to work after the other one dies. Which method are they using to determine their life insurance needs?
A. Easy method
B. Dual Income, No Kids method
C. Formal calculation method
D. Nonworking spouse method
E. Family needs method

29. Francisco and Maria have three children and want to complete a detailed worksheet to determine the amount of life insurance they need to purchase. Which method are they using to determine their life insurance needs?
A. Easy method
B. Dual Income, No Kids method
C. Formal calculation method
D. Nonworking spouse method
E. Family needs method

30. About ___ percent of the U.S. life insurance companies are *stock* companies?
A. 5 percent
B. 25 percent
C. 50 percent
D. 75 percent
E. 95 percent

31. You want to purchase a life insurance policy that pays a dividend. What kind of policy would you want to purchase?
A. Dividend policy
B. Nonparticipating policy
C. Mutual policy
D. Participating policy
E. Stock policy

32. Todd plans to purchase a life insurance policy from a stock life insurance company. What kind of policy would he plan to purchase?
A. Dividend policy
B. Nonparticipating policy
C. Mutual policy
D. Participating policy
E. Stock policy

33. Jeanne wants to purchase a life insurance policy with guaranteed premiums. What kind of policy would she want to purchase?
A. Dividend policy
B. Nonparticipating policy
C. Mutual policy
D. Participating policy
E. Stock policy

34. Another name for temporary life insurance is:
A. Whole life
B. Straight life
C. Ordinary life
D. Term
E. Cash value life

35. Which of the following is NOT a type of permanent insurance?
A. Whole life
B. Straight life
C. Ordinary life
D. Term life
E. Cash value life

36. Another name for permanent life insurance is:
A. Whole life
B. Renewable term
C. Convertible term
D. Decreasing term
E. Credit life

37. Which of the following is NOT temporary insurance?
A. Whole life
B. Renewable term
C. Convertible term
D. Decreasing term
E. Multiyear level

38. If you want to purchase term insurance, you will receive all of the following *except*
A. Protection against loss of life for a specified term
B. Cash value
C. Temporary insurance
D. A benefit during the period it covers, such as 1, 5, 10, or 20 years
E. A policy whose coverage stops after a period of time

39. Which of the following is NOT a type of permanent life insurance?
A. Whole life
B. Variable life
C. Universal life
D. Adjustable life
E. Decreasing term life

40. If you have a renewable term policy,
A. You may not purchase insurance once your term ends
B. Your premium may increase because you will be older
C. Your premium will not increase because your policy is renewable
D. You can convert your policy to a permanent type at the end of the term
E. None of the above are correct

41. If you have a multiyear level term policy,
A. You can convert your policy to a permanent type at the end of the term
B. You policy will continue for one year
C. Your premium will be the same for the duration of your policy
D. Your premium will not increase when you renew it
E. None of the above are correct

42. If you have a conversion term policy,
A. Your premium will not increase when you renew it
B. You can convert your policy from permanent to term at any time
C. You can convert your term policy to a permanent policy
D. Your policy will have the same premium as other term policies
E. Your premium will be higher than a whole life policy premium

43. This term life policy will guarantee that you will pay the same premium for the duration of your policy
A. Renewable term
B. Multiyear level term
C. Decreasing term
D. Limited payment
E. Single year term

44. Another name for a straight term policy is
A. Renewable term
B. Multiyear level term
C. Decreasing term
D. Limited payment
E. Single year term

45. Which of the following is NOT a feature of whole life insurance?
A. It accumulates cash value
B. It provides both a death benefit and a savings component
C. The policy will return all premiums if you survive to the end of the policy
D. You must pay interest on any outstanding policy loans
E. The policy requires that you pay a specified premium each year for the rest of your life

46. What is the most *positive* feature of whole life insurance listed below?
A. You must pay interest on any loans
B. You pay premiums each year for the rest of your life
C. It is more expensive than term insurance
D. It builds cash value
E. It is permanent life insurance

47. Megan wants to purchase a life insurance policy that will allow her to invest in stock. Which of the following policies should she buy?
A. Adjustable Life
B. Group Life
C. Limited Life
D. Universal Life
E. Variable Life

48. Molly is thinking about buying a life insurance policy, but she is not sure about how much she will need in the next few years. Which of the following policies would meet her needs?
A. Adjustable Life
B. Group Life
C. Limited Life
D. Universal Life
E. Variable Life

49. Polly wants the opportunity to change the amount she pays for her annual premium through the life of her insurance policy without changing her coverage. Which of the following policies would meet her needs?
A. Adjustable Life
B. Group Life
C. Limited Life
D. Universal Life
E. Variable Life

50. Pam just started working at XYZ Widget Company and finally wants to get insurance coverage. She does not want to take a medical exam to get coverage because she has some underlying health conditions and is concerned that she might not qualify for a policy. Which of the following life insurance policies should she apply for?
A. Adjustable Life
B. Group Life
C. Limited Life
D. Universal Life
E. Variable Life

51. Which of the following is a poor choice for the amount of protection offered for an individual?
A. Group Life
B. Term
C. Credit life
D. Endowment Life
E. Adjustable Life

52. Wendy has had a life insurance policy for five years. She was recently divorced. Which of the following provisions should she take action on?
A. Incontestability clause
B. Misstatement of age provision
C. Naming a beneficiary
D. Policy reinstatement
E. The grace period

53. Which of the following provisions requires the policyholder to pay overdue premiums with interest in order to have coverage?
A. Incontestability clause
B. Misstatement of age provision
C. Naming a beneficiary
D. Policy reinstatement
E. The grace period

54. Fred bought life insurance when he was 47, although he told the insurance company that he was 42. He has since died. Which of the following provisions will affect the amount of money his beneficiaries will receive?
A. Incontestability clause
B. Misstatement of age provision
C. Naming a beneficiary
D. Policy reinstatement
E. The grace period

55. Georgia was supposed to pay her premium by the 15th of the month. Which of the following provisions allows her to keep her coverage if she is a couple of weeks late with paying her premium?
A. Incontestability clause
B. Misstatement of age provision
C. Naming a beneficiary
D. Policy reinstatement
E. The grace period

56. Fred bought life insurance five years ago. He forgot to tell them that he had a heart condition, and, as a result of that condition, he recently died. Which of the following provisions prevents the life insurance company from refusing to pay his beneficiaries because of his original misrepresentation?
A. Incontestability clause
B. Misstatement of age provision
C. Naming a beneficiary
D. Policy reinstatement
E. The grace period

57. The policy loan provision means that
A. An individual can take out a loan on his term policy.
B. The death benefit will be increased by the amount of an outstanding policy loan.
C. The policyowner can borrow any amount up to the cash value of the policy.
D. The beneficiary can borrow any amount up to the total benefit.
E. No interest will accumulate for any loans related to life insurance.

58. Amy bought a life insurance policy and named Ben as her beneficiary. She has since died. Who will receive the benefits from her policy?
A. Ben
B. Ben's beneficiaries
C. Her contingent beneficiaries
D. Her parents
E. None of the above

59. Bonnie is most concerned about being able to buy additional insurance without undergoing medical exams. Which of the following riders should she consider?
A. Waiver of premium disability benefit
B. Accidental death benefit
C. Guaranteed insurability option
D. Cost-of-living protection
E. Accelerated benefits

60. Bill is worried about being able to pay his premium if he is totally and permanently disabled before age 60. Which of the following riders should he consider?
A. Waiver of premium disability benefit
B. Accidental death benefit
C. Guaranteed insurability option
D. Cost-of-living protection
E. Accelerated benefits

61. Frank, age 38, was hit by a car and died. Which of the following riders provided an additional benefit for his heirs?
A. Waiver of premium disability benefit
B. Accidental death benefit
C. Guaranteed insurability option
D. Cost-of-living protection
E. Accelerated benefits

62. A young employee is buying individual life insurance and is worried about the impact inflation will have on his life insurance coverage. Which of the following riders should he consider?
A. Waiver of premium disability benefit
B. Accidental death benefit
C. Guaranteed insurability option
D. Cost-of-living protection
E. Accelerated benefits

63. Mildred was diagnosed with terminal cancer and knows that she doesn't have long to live. Which of the following riders would allow her to receive cash now?
A. Waiver of premium disability benefit
B. Accidental death benefit
C. Guaranteed insurability option
D. Cost-of-living protection
E. Accelerated benefits

64. What is the most important part of an insurance agent's job?
A. Sell you the highest level of coverage available.
B. Collect premiums for the insurance contract.
C. Tell you why his product is better than the competitor's.
D. Help you select the proper kind of protection within your financial boundaries.
E. Convince you to buy the policy that will pay him the highest commission.

65. Which of the following is NOT important when buying life insurance?
A. Buying from a financially strong company
B. Buying from professionally qualified representatives
C. Ignoring the reputations of local agencies
D. Working with a representative who will help you select the proper kind of protection within your financial boundaries
E. Asking family or friends for recommendations to choose an insurance company

66. Which of the following is NOT a factor that affects the price a company charges for a life insurance policy?
A. The company's cost of doing business
B. The return on investments
C. The mortality rate it expects among its policyholders
D. The policy features
E. All of the above affect the price

67. All of the following are major rating agencies for insurance *except*
A. A.M. Best
B. Dun & Bradstreet
C. Moody's
D. Standard & Poor's
E. Weiss Research

68. After you purchase a life insurance contract, you have a "free-look" period that lasts
A. 3 days
B. 5 days
C. 10 days
D. 30 days
E. 60 days

69. The settlement option that pays the life insurance proceeds in equal periodic payments for a specified number of years after your death is called
A. Lump-sum payment
B. Limited installment payment
C. Final life payment
D. Life income option
E. Proceeds left with the company

70. The settlement option that pays the life insurance proceeds to the beneficiary for as long as she or he lives is called
A. Lump-sum payment
B. Limited installment payment
C. Final life payment
D. Life income option
E. Proceeds left with the company

71. The settlement option in which the company acts as trustee and pays interest to the beneficiary is called
A. Lump-sum payment
B. Limited installment payment
C. Final life payment
D. Life income option
E. Proceeds left with the company

72. Which of the following products allows an individual to receive payments beginning now?
A. Term insurance
B. Deferred annuity
C. Whole life insurance
D. Immediate annuity
E. Universal life insurance

73. Which of the following statements is correct?
A. A deferred annuity allows an individual to receive payments from an annuity immediately.
B. A deferred annuity allows an individual to receive payments from a life insurance policy immediately.
C. A life insurance policy allows an individual to receive payments from an annuity at once.
D. A deferred annuity allows an individual to receive payments from a life insurance policy at some future date.
E. An immediate annuity allows an individual to receive payments from an annuity beginning at once.

74. Which of the following statements is INCORRECT?
A. A deferred annuity allows an individual to receive payments from an annuity at some future date.
B. An immediate annuity allows an individual to receive payments from an annuity beginning at once.
C. A life insurance policy allows the beneficiary to receive proceeds at some future date.
D. An annuity is more advisable for people in poor health than for those who are likely to live longer than average.
E. An insurance company will calculate the annual amounts to pay each person for an annuity.

75. Which of the following allows an individual to receive a fixed amount of income over a certain period of time, or over his or her life?
A. Fixed annuity
B. Term insurance
C. Whole insurance
D. Variable annuity
E. 401(k)

76. Which of the following allows an individual to receive an amount of income that will change based on the income received from investments over a certain period of time, or over his or her life?
A. Fixed annuity
B. Term insurance
C. Whole life insurance
D. Variable annuity
E. 401(k)

77. Which of the following statements is correct?
A. It is better to fund a fixed annuity before fully funding your IRA, Keogh, or 401(k).
B. The timing for payments of a variable annuity are variable.
C. It is better to fund a variable annuity before fully funding your IRA, Keogh, or 401(k).
D. A fixed annuity is one where the investments made into the annuity are variable.
E. It is better to fund an IRA, Keogh, or 401(k) before buying an annuity.

78. Annuities are often purchased for
A. 401(k) plans
B. Certificates of deposit
C. Individual retirement accounts (IRAs)
D. Term life insurance plans
E. Whole life insurance plans

79. The Tax Reform Act of 1986
A. Preserved the tax advantage of annuities but curtailed deductions for IRAs.
B. Allowed whole life insurance policies to be sold.
C. Identified annuities to be the same as certificates of deposit.
D. Allowed annuities to be purchased for individual retirement accounts.
E. Made all annuities tax free.

80. Stephanie is the wage earner in a "typical family" with $30,000 gross annual income. Use the Easy Method to determine how much insurance she should carry.
A. $30,000
B. $147,000
C. $210,000
D. $300,000
E. $490,000

81. Holly and Matt want to use the "Nonworking" spouse method to determine the amount of life insurance coverage. If their youngest child is 3 years old, how much do they need?
A. $15,000
B. $18,000
C. $30,000
D. $150,000
E. $180,000

82. Tim and Tammy are updating their financial plan and are concerned that they might not have enough life insurance coverage for their family, which includes two children, ages 5 and 12. They have determined that their annual income is $60,000 and their net worth is now $150,000. What is the amount of life insurance they should carry using the *Easy Method*?
A. $130,000
B. $294,000
C. $420,000
D. $600,000
E. $735,000

83. Tim and Tammy are updating their financial plan and are concerned that they might not have enough life insurance coverage for their family, which includes two children, ages 5 and 12. They have determined that their annual income is $60,000 and their net worth is now $150,000. What is the amount of life insurance they should carry using the "Nonworking" Spouse Method?
A. $130,000
B. $294,000
C. $420,000
D. $600,000
E. $735,000

84. Marianne and Roger are in good health and have reasonably secure careers. Each earns $45,000 annually. They own a home with a $100,000 mortgage; they owe $20,000 for their car loans, and have $6,000 in student loans. If one should die, they think that funeral expenses would be $10,000. What is their total insurance needs using the DINK method?
A. $10,000
B. $63,000
C. $73,000
D. $136,000
E. $181,000

Essay Questions

85. People buy life insurance for many reasons. List three.

86. Describe two of the methods used to determine the amount of life insurance needed.

87. Don and Diane are updating their financial plan and are concerned that they might not have enough life insurance coverage for their family, which includes two children, ages 4 and 8. They have determined that their annual income is $50,000 and their net worth is now $150,000. Using the *"Nonworking" spouse method*, calculate the amount of life insurance they should carry.

88. Don and Diane are updating their financial plan and are concerned that they might not have enough life insurance coverage for their family, which includes two children, ages 4 and 8. They have determined that their annual income is $50,000 and their net worth is now $150,000. Using the *Easy Method*, calculate the amount of life insurance they should carry.

89. Don and Diane are updating their financial plan and are concerned that they might not have enough life insurance coverage for their family, which includes two children, ages 4 and 8. They have determined that their annual income is $50,000 and their net worth is now $150,000. Using both the Easy Method and the "Nonworking" spouse method, calculate the amount of life insurance they should carry. Remember that they want to be certain that they have enough coverage, so explain your answer.

90. Contrast permanent and temporary insurance. Provide at least two characteristics that are unique to each.

91. Explain why whole life insurance is like buying a house and term insurance is like renting an apartment.

92. What is a group life insurance policy and who can benefit from it?

93. Wendy purchased a life insurance policy years ago and listed her husband as her beneficiary. Since then, they had three children, she was divorced, and remarried. However, she never updated her list of beneficiaries for her life insurance policy. What will happen to her benefits? Why?

94. Explain three of the following riders:
a. Waiver of premium disability benefit
b. Accidental death benefit
c. Guaranteed insurability option
d. Cost-of-living protection
e. Accelerated benefits
f. Second-to-die

95. What are two things you should consider before buying life insurance?

96. What is the difference between a fixed annuity and a variable annuity?

97. What is the difference between an immediate annuity and a deferred annuity?

98. Compare and contrast life insurance and annuities.

Chapter 10 Financial Planning with Life Insurance Answer Key

True / False Questions

1. *(p. 321)* Purchasing a life insurance policy is a basic and inexpensive task.
FALSE

Life insurance is one of the most important and expensive purchases to be made.

Bloom's: Comprehension
Difficulty: Easy
Learning Objective: 1
Topic: Life insurance

2. *(p. 322)* Life insurance benefits may be used to pay off a home mortgage or other debts at the time of death.
TRUE

Bloom's: Knowledge
Difficulty: Easy
Learning Objective: 1
Topic: Life insurance

3. *(p. 322)* The sooner a person is likely to die, the lower the premiums he or she will pay.
FALSE

The sooner a person is likely to die, the *higher* his premiums will be.

Bloom's: Knowledge
Difficulty: Easy
Learning Objective: 1
Topic: Life insurance

4. *(p. 322)* Life expectancy for men is longer than that for women.
FALSE

Life expectance for women is longer than for men.

Bloom's: Knowledge
Difficulty: Medium
Learning Objective: 1
Topic: Life insurance

5. *(p. 322)* All individuals need life insurance.
FALSE

Single people who live alone or with their parents usually have little or no need for life insurance.

Bloom's: Knowledge
Difficulty: Easy
Learning Objective: 1
Topic: Life insurance needs

6. *(p. 323)* The "Nonworking" spouse method of estimating life insurance includes factors such as Social Security and liquid assets.
FALSE

The definition is for the "Family Need" method.

Bloom's: Knowledge
Difficulty: Medium
Learning Objective: 1
Topic: Life insurance needs

7. *(p. 323)* The "Family Need" method of estimating life insurance includes factors such as Social Security and liquid assets.
TRUE

Bloom's: Knowledge
Difficulty: Medium
Learning Objective: 1
Topic: Life insurance needs

8. *(p. 326)* Mutual life insurance companies specialize in the sale of nonparticipating policies.
FALSE

Mutual life insurance companies specialize in participating policies that provide a dividend.

Bloom's: Knowledge
Difficulty: Hard
Learning Objective: 2
Topic: Life insurance policies

9. *(p. 327)* Another name for straight term is renewable return-of-premium term.
FALSE

Another name is multiyear level term.

Bloom's: Knowledge
Difficulty: Medium
Learning Objective: 2
Topic: Life insurance policies

10. *(p. 327)* Decreasing term pays less to the beneficiary as time passes.
TRUE

The benefit paid decreases over time, not the premium.

Bloom's: Knowledge
Difficulty: Medium
Learning Objective: 2
Topic: Life insurance policies

11. *(p. 327)* Return-of-Premium term pays out all premiums plus interest to a beneficiary.
FALSE

Return-of-Premium term returns all premiums if you survive to the end of the policy term.

Bloom's: Knowledge
Difficulty: Medium
Learning Objective: 2
Topic: Life insurance policies

12. *(p. 328)* A Limited Payment Policy is a whole life policy that requires premiums to be paid for a certain period.
TRUE

Bloom's: Knowledge
Difficulty: Medium
Learning Objective: 2
Topic: Life insurance policies

13. *(p. 328)* Premium payments are fixed with a Variable Life Policy.
TRUE

Bloom's: Knowledge
Difficulty: Medium
Learning Objective: 2
Topic: Life insurance policies

14. *(p. 332)* The beneficiaries of someone who dies by suicide will never be eligible to receive any benefits from his or her life insurance policy.
FALSE

After two years, beneficiaries receive the full value of death benefits.

Bloom's: Knowledge
Difficulty: Medium
Learning Objective: 3
Topic: Provisions

15. *(p. 335)* Competition among companies with comparable policies can affect the price a company charges for life insurance.
TRUE

Bloom's: Knowledge
Difficulty: Easy
Learning Objective: 3
Topic: Buying life insurance

16. *(p. 335)* An interest-adjusted index is a method of evaluating the cost of life insurance by taking into account the time value of money.
TRUE

Bloom's: Knowledge
Difficulty: Medium
Learning Objective: 3
Topic: Buying life insurance

17. *(p. 335)* The lower the interest-adjusted index, the lower the cost of a life insurance policy.
TRUE

Bloom's: Knowledge
Difficulty: Hard
Learning Objective: 3
Topic: Buying life insurance

18. *(p. 336)* If you change your mind about your insurance policy, you have 60 days to return it to receive a refund of your premium.
FALSE

The "free-look" period is 10 days.

Bloom's: Knowledge
Difficulty: Hard
Learning Objective: 3
Topic: Buying life insurance

19. *(p. 336)* The most common settlement option for a life insurance program is the lump-sum payment.
TRUE

Bloom's: Knowledge
Difficulty: Easy
Learning Objective: 3
Topic: Buying life insurance

20. *(p. 336)* If you switch life insurance policies, you will automatically still be insurable.
FALSE

You may have to meet medical and other qualification requirements.

Bloom's: Comprehension
Difficulty: Medium
Learning Objective: 3
Topic: Buying life insurance

21. *(p. 339)* Annuities are most beneficial for individuals who expect to live only a short time.
FALSE

Annuities are most beneficial for those who expect to live longer than average.

Bloom's: Comprehension
Difficulty: Medium
Learning Objective: 4
Topic: Annuities

22. *(p. 339)* An investment in an annuity is the same as an investment in a certificate of deposit.
FALSE

Bloom's: Knowledge
Difficulty: Easy
Learning Objective: 4
Topic: Annuities

Multiple Choice Questions

23. *(p. 322)* A person who is named to receive the benefits from an insurance policy is a(n)
A. Contract
B. Beneficiary
C. Policyholder
D. Insurer
E. child

Bloom's: Comprehension
Difficulty: Medium
Learning Objective: 1
Topic: Life insurance

24. *(p. 322)* Most people buy life insurance to
A. Pay off a mortgage
B. Protect the people who depend on the insured from financial losses caused by his or her death
C. Pay for a vacation
D. Spend money
E. Pay taxes

Although benefits may be used for several of the answers, most people buy life insurance for answer B.

Bloom's: Comprehension
Difficulty: Hard
Learning Objective: 1
Topic: Life insurance

25. *(p. 322)* Which of the following households most likely has the *greatest* need for life insurance?
A. Single adult living alone
B. Adult child living with parents
C. Retired couple with a pension
D. Household with children
E. Independently wealthy adult.

Bloom's: Comprehension
Difficulty: Medium
Learning Objective: 1
Topic: Life insurance needs

26. *(p. 323)* Judy and James have a four year-old child. They plan to purchase life insurance using the formula: Current income × 7 × 70 percent. Which method are they using to determine their life insurance needs?
A. Easy method
B. Dual Income, No Kids method
C. Formal calculation method
D. Nonworking spouse method
E. Family needs method

Bloom's: Comprehension
Difficulty: Medium
Learning Objective: 1
Topic: Life insurance needs

27. *(p. 323)* Jeff and Erica have two children. They plan to purchase life insurance using the formula: (18 - youngest child's age) × $10,000. Which method are they using to determine their life insurance needs?
A. Easy method
B. Dual Income, No Kids method
C. Formal calculation method
D. Nonworking spouse method
E. Family needs method

Bloom's: Comprehension
Difficulty: Medium
Learning Objective: 1
Topic: Life insurance needs

28. *(p. 323)* Donald and Charlene are married and do not have any children. Each plans to continue to work after the other one dies. Which method are they using to determine their life insurance needs?
A. Easy method
B. Dual Income, No Kids method
C. Formal calculation method
D. Nonworking spouse method
E. Family needs method

Bloom's: Comprehension
Difficulty: Easy
Learning Objective: 1
Topic: Life insurance needs

29. *(p. 323)* Francisco and Maria have three children and want to complete a detailed worksheet to determine the amount of life insurance they need to purchase. Which method are they using to determine their life insurance needs?
A. Easy method
B. Dual Income, No Kids method
C. Formal calculation method
D. Nonworking spouse method
E. Family needs method

Bloom's: Comprehension
Difficulty: Medium
Learning Objective: 1
Topic: Life insurance needs

30. *(p. 326)* About ___ percent of the U.S. life insurance companies are *stock* companies?
A. 5 percent
B. 25 percent
C. 50 percent
D. 75 percent
E. 95 percent

Bloom's: Knowledge
Difficulty: Medium
Learning Objective: 2
Topic: Life insurance companies

31. *(p. 328)* You want to purchase a life insurance policy that pays a dividend. What kind of policy would you want to purchase?
A. Dividend policy
B. Nonparticipating policy
C. Mutual policy
D. Participating policy
E. Stock policy

Bloom's: Comprehension
Difficulty: Medium
Learning Objective: 2
Topic: Life insurance policies

32. *(p. 328)* Todd plans to purchase a life insurance policy from a stock life insurance company. What kind of policy would he plan to purchase?
A. Dividend policy
B. Nonparticipating policy
C. Mutual policy
D. Participating policy
E. Stock policy

Bloom's: Comprehension
Difficulty: Hard
Learning Objective: 2
Topic: Life insurance policies

33. *(p. 328)* Jeanne wants to purchase a life insurance policy with guaranteed premiums. What kind of policy would she want to purchase?
A. Dividend policy
B. Nonparticipating policy
C. Mutual policy
D. Participating policy
E. Stock policy

Bloom's: Comprehension
Difficulty: Hard
Learning Objective: 2
Topic: Life insurance policies

34. *(p. 328)* Another name for temporary life insurance is:
A. Whole life
B. Straight life
C. Ordinary life
D. Term
E. Cash value life

Bloom's: Knowledge
Difficulty: Easy
Learning Objective: 2
Topic: Life insurance policies

35. *(p. 328)* Which of the following is NOT a type of permanent insurance?
A. Whole life
B. Straight life
C. Ordinary life
D. Term life
E. Cash value life

Bloom's: Comprehension
Difficulty: Medium
Learning Objective: 2
Topic: Life insurance policies

36. *(p. 327)* Another name for permanent life insurance is:
A. Whole life
B. Renewable term
C. Convertible term
D. Decreasing term
E. Credit life

Bloom's: Knowledge
Difficulty: Easy
Learning Objective: 2
Topic: Life insurance policies

37. *(p. 327)* Which of the following is NOT temporary insurance?
A. Whole life
B. Renewable term
C. Convertible term
D. Decreasing term
E. Multiyear level

Bloom's: Knowledge
Difficulty: Easy
Learning Objective: 2
Topic: Life insurance policies

38. *(p. 327)* If you want to purchase term insurance, you will receive all of the following *except*
A. Protection against loss of life for a specified term
B. Cash value
C. Temporary insurance
D. A benefit during the period it covers, such as 1, 5, 10, or 20 years
E. A policy whose coverage stops after a period of time

Bloom's: Comprehension
Difficulty: Medium
Learning Objective: 2
Topic: Life insurance policies

39. *(p. 328)* Which of the following is NOT a type of permanent life insurance?
A. Whole life
B. Variable life
C. Universal life
D. Adjustable life
E. Decreasing term life

Bloom's: Knowledge
Difficulty: Medium
Learning Objective: 2
Topic: Life insurance policies

40. *(p. 327)* If you have a renewable term policy,
A. You may not purchase insurance once your term ends
B. Your premium may increase because you will be older
C. Your premium will not increase because your policy is renewable
D. You can convert your policy to a permanent type at the end of the term
E. None of the above are correct

Bloom's: Analysis
Difficulty: Medium
Learning Objective: 2
Topic: Life insurance policies

41. *(p. 327)* If you have a multiyear level term policy,
A. You can convert your policy to a permanent type at the end of the term
B. You policy will continue for one year
C. Your premium will be the same for the duration of your policy
D. Your premium will not increase when you renew it
E. None of the above are correct

Bloom's: Analysis
Difficulty: Medium
Learning Objective: 2
Topic: Life insurance policies

42. *(p. 327)* If you have a conversion term policy,
A. Your premium will not increase when you renew it
B. You can convert your policy from permanent to term at any time
C. You can convert your term policy to a permanent policy
D. Your policy will have the same premium as other term policies
E. Your premium will be higher than a whole life policy premium

Bloom's: Analysis
Difficulty: Hard
Learning Objective: 2
Topic: Life insurance policies

43. *(p. 327)* This term life policy will guarantee that you will pay the same premium for the duration of your policy
A. Renewable term
B. Multiyear level term
C. Decreasing term
D. Limited payment
E. Single year term

Bloom's: Knowledge
Difficulty: Medium
Learning Objective: 2
Topic: Life insurance policies

44. *(p. 327)* Another name for a straight term policy is
A. Renewable term
B. Multiyear level term
C. Decreasing term
D. Limited payment
E. Single year term

Bloom's: Knowledge
Difficulty: Medium
Learning Objective: 2
Topic: Life insurance policies

45. *(p. 328)* Which of the following is NOT a feature of whole life insurance?
A. It accumulates cash value
B. It provides both a death benefit and a savings component
C. The policy will return all premiums if you survive to the end of the policy
D. You must pay interest on any outstanding policy loans
E. The policy requires that you pay a specified premium each year for the rest of your life

Bloom's: Comprehension
Difficulty: Medium
Learning Objective: 2
Topic: Life insurance policies

46. *(p. 328)* What is the most *positive* feature of whole life insurance listed below?
A. You must pay interest on any loans
B. You pay premiums each year for the rest of your life
C. It is more expensive than term insurance
D. It builds cash value
E. It is permanent life insurance

Although all are true about whole life insurance, the most positive feature is that it builds cash value.

Bloom's: Analysis
Difficulty: Medium
Learning Objective: 2
Topic: Life insurance policies

47. *(p. 330)* Megan wants to purchase a life insurance policy that will allow her to invest in stock. Which of the following policies should she buy?
A. Adjustable Life
B. Group Life
C. Limited Life
D. Universal Life
E. Variable Life

Bloom's: Comprehension
Difficulty: Medium
Learning Objective: 2
Topic: Life insurance policies

48. *(p. 330)* Molly is thinking about buying a life insurance policy, but she is not sure about how much she will need in the next few years. Which of the following policies would meet her needs?
A. Adjustable Life
B. Group Life
C. Limited Life
D. Universal Life
E. Variable Life

Bloom's: Comprehension
Difficulty: Medium
Learning Objective: 2
Topic: Life insurance policies

49. *(p. 330)* Polly wants the opportunity to change the amount she pays for her annual premium through the life of her insurance policy without changing her coverage. Which of the following policies would meet her needs?
A. Adjustable Life
B. Group Life
C. Limited Life
D. Universal Life
E. Variable Life

Bloom's: Comprehension
Difficulty: Medium
Learning Objective: 2
Topic: Life insurance policies

50. *(p. 330)* Pam just started working at XYZ Widget Company and finally wants to get insurance coverage. She does not want to take a medical exam to get coverage because she has some underlying health conditions and is concerned that she might not qualify for a policy. Which of the following life insurance policies should she apply for?
A. Adjustable Life
B. Group Life
C. Limited Life
D. Universal Life
E. Variable Life

Bloom's: Comprehension
Difficulty: Hard
Learning Objective: 2
Topic: Life insurance policies

51. *(p. 330)* Which of the following is a poor choice for the amount of protection offered for an individual?
A. Group Life
B. Term
C. Credit life
D. Endowment Life
E. Adjustable Life

Bloom's: Comprehension
Difficulty: Hard
Learning Objective: 2
Topic: Life insurance policies

52. *(p. 332)* Wendy has had a life insurance policy for five years. She was recently divorced. Which of the following provisions should she take action on?
A. Incontestability clause
B. Misstatement of age provision
C. Naming a beneficiary
D. Policy reinstatement
E. The grace period

Bloom's: Comprehension
Difficulty: Medium
Learning Objective: 3
Topic: Provisions

53. *(p. 332)* Which of the following provisions requires the policyholder to pay overdue premiums with interest in order to have coverage?
A. Incontestability clause
B. Misstatement of age provision
C. Naming a beneficiary
D. Policy reinstatement
E. The grace period

Bloom's: Comprehension
Difficulty: Medium
Learning Objective: 3
Topic: Provisions

54. *(p. 332)* Fred bought life insurance when he was 47, although he told the insurance company that he was 42. He has since died. Which of the following provisions will affect the amount of money his beneficiaries will receive?
A. Incontestability clause
B. Misstatement of age provision
C. Naming a beneficiary
D. Policy reinstatement
E. The grace period

Bloom's: Comprehension
Difficulty: Easy
Learning Objective: 3
Topic: Provisions

55. *(p. 332)* Georgia was supposed to pay her premium by the 15th of the month. Which of the following provisions allows her to keep her coverage if she is a couple of weeks late with paying her premium?
A. Incontestability clause
B. Misstatement of age provision
C. Naming a beneficiary
D. Policy reinstatement
E. The grace period

Bloom's: Comprehension
Difficulty: Medium
Learning Objective: 3
Topic: Provisions

56. *(p. 332)* Fred bought life insurance five years ago. He forgot to tell them that he had a heart condition, and, as a result of that condition, he recently died. Which of the following provisions prevents the life insurance company from refusing to pay his beneficiaries because of his original misrepresentation?
A. Incontestability clause
B. Misstatement of age provision
C. Naming a beneficiary
D. Policy reinstatement
E. The grace period

Bloom's: Comprehension
Difficulty: Hard
Learning Objective: 3
Topic: Provisions

57. *(p. 332)* The policy loan provision means that
A. An individual can take out a loan on his term policy.
B. The death benefit will be increased by the amount of an outstanding policy loan.
C. The policyowner can borrow any amount up to the cash value of the policy.
D. The beneficiary can borrow any amount up to the total benefit.
E. No interest will accumulate for any loans related to life insurance.

Bloom's: Comprehension
Difficulty: Medium
Learning Objective: 3
Topic: Provisions

58. *(p. 332)* Amy bought a life insurance policy and named Ben as her beneficiary. She has since died. Who will receive the benefits from her policy?
A. Ben
B. Ben's beneficiaries
C. Her contingent beneficiaries
D. Her parents
E. None of the above

Bloom's: Comprehension
Difficulty: Medium
Learning Objective: 3
Topic: Provisions

59. *(p. 333)* Bonnie is most concerned about being able to buy additional insurance without undergoing medical exams. Which of the following riders should she consider?
A. Waiver of premium disability benefit
B. Accidental death benefit
C. Guaranteed insurability option
D. Cost-of-living protection
E. Accelerated benefits

Bloom's: Comprehension
Difficulty: Medium
Learning Objective: 3
Topic: Waivers

60. *(p. 332-333)* Bill is worried about being able to pay his premium if he is totally and permanently disabled before age 60. Which of the following riders should he consider?
A. Waiver of premium disability benefit
B. Accidental death benefit
C. Guaranteed insurability option
D. Cost-of-living protection
E. Accelerated benefits

Bloom's: Comprehension
Difficulty: Medium
Learning Objective: 3
Topic: Waivers

61. *(p. 333)* Frank, age 38, was hit by a car and died. Which of the following riders provided an additional benefit for his heirs?
A. Waiver of premium disability benefit
B. Accidental death benefit
C. Guaranteed insurability option
D. Cost-of-living protection
E. Accelerated benefits

Bloom's: Comprehension
Difficulty: Medium
Learning Objective: 3
Topic: Waivers

62. *(p. 333)* A young employee is buying individual life insurance and is worried about the impact inflation will have on his life insurance coverage. Which of the following riders should he consider?
A. Waiver of premium disability benefit
B. Accidental death benefit
C. Guaranteed insurability option
D. Cost-of-living protection
E. Accelerated benefits

Bloom's: Comprehension
Difficulty: Medium
Learning Objective: 3
Topic: Waivers

63. *(p. 333)* Mildred was diagnosed with terminal cancer and knows that she doesn't have long to live. Which of the following riders would allow her to receive cash now?
A. Waiver of premium disability benefit
B. Accidental death benefit
C. Guaranteed insurability option
D. Cost-of-living protection
E. Accelerated benefits

Bloom's: Comprehension
Difficulty: Medium
Learning Objective: 3
Topic: Waivers

64. *(p. 334)* What is the most important part of an insurance agent's job?
A. Sell you the highest level of coverage available.
B. Collect premiums for the insurance contract.
C. Tell you why his product is better than the competitor's.
D. Help you select the proper kind of protection within your financial boundaries.
E. Convince you to buy the policy that will pay him the highest commission.

Bloom's: Comprehension
Difficulty: Easy
Learning Objective: 3
Topic: Buying insurance

65. *(p. 334)* Which of the following is NOT important when buying life insurance?
A. Buying from a financially strong company
B. Buying from professionally qualified representatives
C. Ignoring the reputations of local agencies
D. Working with a representative who will help you select the proper kind of protection within your financial boundaries
E. Asking family or friends for recommendations to choose an insurance company

Bloom's: Comprehension
Difficulty: Medium
Learning Objective: 3
Topic: Buying insurance

66. *(p. 334)* Which of the following is NOT a factor that affects the price a company charges for a life insurance policy?
A. The company's cost of doing business
B. The return on investments
C. The mortality rate it expects among its policyholders
D. The policy features
E. All of the above affect the price

Bloom's: Comprehension
Difficulty: Medium
Learning Objective: 3
Topic: Buying insurance

67. *(p. 334)* All of the following are major rating agencies for insurance *except*
A. A.M. Best
B. Dun & Bradstreet
C. Moody's
D. Standard & Poor's
E. Weiss Research

Bloom's: Knowledge
Difficulty: Hard
Learning Objective: 3
Topic: Buying life insurance

68. *(p. 336)* After you purchase a life insurance contract, you have a "free-look" period that lasts
A. 3 days
B. 5 days
C. 10 days
D. 30 days
E. 60 days

Bloom's: Knowledge
Difficulty: Medium
Learning Objective: 3
Topic: Buying life insurance

69. *(p. 336)* The settlement option that pays the life insurance proceeds in equal periodic payments for a specified number of years after your death is called
A. Lump-sum payment
B. Limited installment payment
C. Final life payment
D. Life income option
E. Proceeds left with the company

Bloom's: Comprehension
Difficulty: Medium
Learning Objective: 3
Topic: Buying life insurance

70. *(p. 336)* The settlement option that pays the life insurance proceeds to the beneficiary for as long as she or he lives is called
A. Lump-sum payment
B. Limited installment payment
C. Final life payment
D. Life income option
E. Proceeds left with the company

Bloom's: Comprehension
Difficulty: Easy
Learning Objective: 3
Topic: Buying life insurance

71. *(p. 336)* The settlement option in which the company acts as trustee and pays interest to the beneficiary is called
A. Lump-sum payment
B. Limited installment payment
C. Final life payment
D. Life income option
E. Proceeds left with the company

Bloom's: Comprehension
Difficulty: Medium
Learning Objective: 3
Topic: Buying life insurance

72. *(p. 339)* Which of the following products allows an individual to receive payments beginning now?
A. Term insurance
B. Deferred annuity
C. Whole life insurance
D. Immediate annuity
E. Universal life insurance

Bloom's: Comprehension
Difficulty: Easy
Learning Objective: 4
Topic: Annuities

73. *(p. 339)* Which of the following statements is correct?
A. A deferred annuity allows an individual to receive payments from an annuity immediately.
B. A deferred annuity allows an individual to receive payments from a life insurance policy immediately.
C. A life insurance policy allows an individual to receive payments from an annuity at once.
D. A deferred annuity allows an individual to receive payments from a life insurance policy at some future date.
E. An immediate annuity allows an individual to receive payments from an annuity beginning at once.

Bloom's: Comprehension
Difficulty: Medium
Learning Objective: 4
Topic: Annuities

74. *(p. 339)* Which of the following statements is INCORRECT?
A. A deferred annuity allows an individual to receive payments from an annuity at some future date.
B. An immediate annuity allows an individual to receive payments from an annuity beginning at once.
C. A life insurance policy allows the beneficiary to receive proceeds at some future date.
D. An annuity is more advisable for people in poor health than for those who are likely to live longer than average.
E. An insurance company will calculate the annual amounts to pay each person for an annuity.

Bloom's: Comprehension
Difficulty: Hard
Learning Objective: 4
Topic: Annuity

75. *(p. 339)* Which of the following allows an individual to receive a fixed amount of income over a certain period of time, or over his or her life?
A. Fixed annuity
B. Term insurance
C. Whole insurance
D. Variable annuity
E. 401(k)

Bloom's: Comprehension
Difficulty: Medium
Learning Objective: 4
Topic: Annuities

76. *(p. 339)* Which of the following allows an individual to receive an amount of income that will change based on the income received from investments over a certain period of time, or over his or her life?
A. Fixed annuity
B. Term insurance
C. Whole life insurance
D. Variable annuity
E. 401(k)

Bloom's: Comprehension
Difficulty: Medium
Learning Objective: 4
Topic: Annuities

77. *(p. 339)* Which of the following statements is correct?
A. It is better to fund a fixed annuity before fully funding your IRA, Keogh, or 401(k).
B. The timing for payments of a variable annuity are variable.
C. It is better to fund a variable annuity before fully funding your IRA, Keogh, or 401(k).
D. A fixed annuity is one where the investments made into the annuity are variable.
E. It is better to fund an IRA, Keogh, or 401(k) before buying an annuity.

Bloom's: Comprehension
Difficulty: Hard
Learning Objective: 4
Topic: Annuities

78. *(p. 339)* Annuities are often purchased for
A. 401(k) plans
B. Certificates of deposit
C. Individual retirement accounts (IRAs)
D. Term life insurance plans
E. Whole life insurance plans

Bloom's: Comprehension
Difficulty: Medium
Learning Objective: 4
Topic: Annuities

79. *(p. 339)* The Tax Reform Act of 1986
A. Preserved the tax advantage of annuities but curtailed deductions for IRAs.
B. Allowed whole life insurance policies to be sold.
C. Identified annuities to be the same as certificates of deposit.
D. Allowed annuities to be purchased for individual retirement accounts.
E. Made all annuities tax free.

Bloom's: Comprehension
Difficulty: Hard
Learning Objective: 4
Topic: Annuities

80. *(p. 323)* Stephanie is the wage earner in a "typical family" with $30,000 gross annual income. Use the Easy Method to determine how much insurance she should carry.
A. $30,000
B. $147,000
C. $210,000
D. $300,000
E. $490,000

The Easy Method uses the calculation of: Current Income × 7 × 70 percent = $30,000 × 7 × 70% = $147,000

Bloom's: Application
Difficulty: Medium
Learning Objective: 1
Topic: Life insurance needs

81. *(p. 323)* Holly and Matt want to use the "Nonworking" spouse method to determine the amount of life insurance coverage. If their youngest child is 3 years old, how much do they need?
A. $15,000
B. $18,000
C. $30,000
D. $150,000
E. $180,000

The "Nonworking" Spouse Method uses the calculation of: (18 - youngest child's age) × $10,000 = (18 - 3) × $10,000 = $150,000

Bloom's: Application
Difficulty: Medium
Learning Objective: 1
Topic: Life insurance needs

82. *(p. 323)* Tim and Tammy are updating their financial plan and are concerned that they might not have enough life insurance coverage for their family, which includes two children, ages 5 and 12. They have determined that their annual income is $60,000 and their net worth is now $150,000. What is the amount of life insurance they should carry using the *Easy Method*?
A. $130,000
B. $294,000
C. $420,000
D. $600,000
E. $735,000

The Easy Method uses the calculation of: Current Income × 7 × 70 percent = $60,000 × 7 × 70% = $294,000

Bloom's: Application
Difficulty: Hard
Learning Objective: 1
Topic: Life insurance needs

83. *(p. 323)* Tim and Tammy are updating their financial plan and are concerned that they might not have enough life insurance coverage for their family, which includes two children, ages 5 and 12. They have determined that their annual income is $60,000 and their net worth is now $150,000. What is the amount of life insurance they should carry using the "Nonworking" Spouse Method?
A. $130,000
B. $294,000
C. $420,000
D. $600,000
E. $735,000

The "Nonworking" Spouse Method uses the calculation of: (18 - youngest child's age) × $10,000 = (18 - 5) × $10,000 = $130,000

Bloom's: Application
Difficulty: Hard
Learning Objective: 1
Topic: Life insurance needs

84. *(p. 323)* Marianne and Roger are in good health and have reasonably secure careers. Each earns $45,000 annually. They own a home with a $100,000 mortgage; they owe $20,000 for their car loans, and have $6,000 in student loans. If one should die, they think that funeral expenses would be $10,000. What is their total insurance needs using the DINK method?
A. $10,000
B. $63,000
C. $73,000
D. $136,000
E. $181,000

The DINK Method uses the calculation of: Funeral Expenses + (one-half of all loans, and debt) = $10,000 + ($126,000 × ½) = $73,000

Bloom's: Application
Difficulty: Medium
Learning Objective: 1
Topic: Life insurance needs

Essay Questions

85. *(p. 322)* People buy life insurance for many reasons. List three.

Answers from students may include:
- Paying off a home mortgage or other debts at the time of death
- Providing lump-sum payments through an endowment for children when they reach a specified age
- Providing an education or income for children
- Making charitable donations after death
- Providing a retirement income
- Accumulating savings
- Establishing a regular income for survivors
- Setting up an estate plan
- Paying estate and gift taxes

Bloom's: Knowledge
Difficulty: Medium
Learning Objective: 1
Topic: Life insurance

86. *(p. 323)* Describe two of the methods used to determine the amount of life insurance needed.

Four methods were discussed in the text.
1. The Easy Method - this method assumes that a 'typical family' will need approximately 70 percent of salary for 7 years before they adjust to the financial consequences of a death.
2. The DINK Method (Dual income, no kids) - this method assumes that there are no dependents and the spouse earns at least as much as the policyholder does and will continue to work after the policyholder's death. The amount of coverage needed will be equal to funeral expenses plus one half of mortgage and other types of debt.
3. The Nonworking Spouse Method - this method suggests that extra costs of $10,000 per year may be required to replace the services of a homemaker in a family with small children. Therefore, the coverage needed equals $10,000 × the number of years until the youngest child is 18 years old.
4. The Family Need Method - this method is more detailed to determine the coverage needs. It considers annual income, expenses above and beyond, emergency fund, and more.

Bloom's: Comprehension
Difficulty: Hard
Learning Objective: 1
Topic: Life insurance needs

87. *(p. 323)* Don and Diane are updating their financial plan and are concerned that they might not have enough life insurance coverage for their family, which includes two children, ages 4 and 8. They have determined that their annual income is $50,000 and their net worth is now $150,000. Using the *"Nonworking" spouse method*, calculate the amount of life insurance they should carry.

The "Nonworking" spouse method uses the calculation of: (18 - youngest child's age) × $10,000. Since their youngest child is 4 years old, the amount needed is: (18 - 4) × $10,000 = $140,000.

Bloom's: Application
Difficulty: Medium
Learning Objective: 1
Topic: Life insurance needs

88. *(p. 323)* Don and Diane are updating their financial plan and are concerned that they might not have enough life insurance coverage for their family, which includes two children, ages 4 and 8. They have determined that their annual income is $50,000 and their net worth is now $150,000. Using the *Easy Method*, calculate the amount of life insurance they should carry.

The Easy Method uses the calculation of: Current Income × 7 × 70% = $50,000 × 7 × 70% = $245,000

Bloom's: Application
Difficulty: Medium
Learning Objective: 1
Topic: Life insurance needs

89. *(p. 323)* Don and Diane are updating their financial plan and are concerned that they might not have enough life insurance coverage for their family, which includes two children, ages 4 and 8. They have determined that their annual income is $50,000 and their net worth is now $150,000. Using both the Easy Method and the "Nonworking" spouse method, calculate the amount of life insurance they should carry. Remember that they want to be certain that they have enough coverage, so explain your answer.

The Easy Method uses the calculation of: Current Income × 7 × 70% = $50,000 × 7 × 70% = $245,000
The "Nonworking" spouse method uses the calculation of: (18 - youngest child's age) × $10,000. Since their youngest child is 4 years old, the amount needed is: (18 - 4) × $10,000 = $140,000. Since they are concerned about the level of coverage, they should use the higher of the two calculations, or the Easy Method = $245,000.

Bloom's: Application
Difficulty: Hard
Learning Objective: 1
Topic: Life insurance needs

90. *(p. 327)* Contrast permanent and temporary insurance. Provide at least two characteristics that are unique to each.

Temporary insurance is term insurance. This type of insurance covers the insured for a specific period. At the end of the term, the insured may be able to renew or convert to a whole life policy (depending on the specifics of the term policy); however, the premium will increase because the insured will be older.
Permanent insurance is whole life. This type of insurance covers the insured for the rest of his or her life. It can serve as an investment because it builds cash value - it provides both a death benefit as well as a savings component. The rate (premium) remains level for the rest of the insured's life.

Bloom's: Analysis
Difficulty: Medium
Learning Objective: 2
Topic: Life insurance policies

91. *(p. 327)* Explain why whole life insurance is like buying a house and term insurance is like renting an apartment.

Term insurance is coverage for a specific period of time, like renting an apartment. At the end of the apartment lease, you would need to sign another lease. At the end of the term insurance period, you would need to purchase another policy, if you still wanted the coverage.
Whole life insurance is like buying a house because it allows you to accumulate cash value (like equity in a house) and you can have it for rest of your life. In a similar vein, if you choose, you can live in a house you own for the rest of your life.

Bloom's: Analysis
Difficulty: Hard
Learning Objective: 2
Topic: Life insurance policies

92. *(p. 330)* What is a group life insurance policy and who can benefit from it?

A group life insurance policy is a variation of term insurance. It covers a large number of people in the group (usually an employer).
A benefit is that people included in the group do not need medical examinations to get the coverage. It is also easy for employees to sign up for coverage.

Bloom's: Knowledge
Difficulty: Easy
Learning Objective: 2
Topic: Life insurance policies

93. *(p. 330)* Wendy purchased a life insurance policy years ago and listed her husband as her beneficiary. Since then, they had three children, she was divorced, and remarried. However, she never updated her list of beneficiaries for her life insurance policy. What will happen to her benefits? Why?

Since she never updated her beneficiaries, her benefits will go to her ex-husband. Her children and current husband will not be eligible for any of the proceeds from her policy.

Bloom's: Analysis
Difficulty: Medium
Learning Objective: 3
Topic: Provisions

94. *(p. 333)* Explain three of the following riders:
a. Waiver of premium disability benefit
b. Accidental death benefit
c. Guaranteed insurability option
d. Cost-of-living protection
e. Accelerated benefits
f. Second-to-die

Explanations follow:
a. Waiver of premium disability benefit - This allows you to stop paying premiums if you're totally and permanently disabled before a certain age. The company continues to pay the premiums at its own expense.
b. Accidental death benefit - sometimes this is called double indemnity. Twice the value of the policy is paid if you are killed in an accident.
c. Guaranteed insurability option - this allows you to buy a specified additional amount of life insurance at certain intervals without undergoing medical exams.
d. Cost-of-living protection - this allows the coverage to increase with inflation so it does not experience ‘erosion of purchasing power.
e. Accelerated benefits - life insurance proceed are paid to the policyholder who is terminally ill before he or she dies.
f. Second-to-die - this is also called survivorship life. It pays a death benefit when the second spouse dies. Usually it is intended to pay estate taxes when both spouses die.

Bloom's: Knowledge
Difficulty: Medium
Learning Objective: 3
Topic: Riders

95. *(p. 334)* What are two things you should consider before buying life insurance?

All of the following are acceptable:
1. From whom to buy - look for insurance coverage from financially strong companies with professionally qualified representatives.
2. Compare policy costs - check features and costs.
3. Choose settlement options - decide if the benefit should be paid as a lump-sum payment, limited installment payment, life income option or if the proceeds should be left with the company.

Bloom's: Comprehension
Difficulty: Medium
Learning Objective: 3
Topic: Buying insurance

96. *(p. 339)* What is the difference between a fixed annuity and a variable annuity?

The fixed annuity states that the annuitant will receive a fixed amount of income over a certain period of for life. A variable annuity allows the monthly payments to vary since they are based on the income received from stocks or other investments.

Bloom's: Comprehension
Difficulty: Medium
Learning Objective: 4
Topic: Annuities

97. *(p. 339)* What is the difference between an immediate annuity and a deferred annuity?

Immediate annuity has payments beginning at once and a deferred annuity has payments beginning at some future date.

Bloom's: Comprehension
Difficulty: Medium
Learning Objective: 4
Topic: Annuities

98. *(p. 339)* Compare and contrast life insurance and annuities.

Comparison:
Both are products offered by insurance companies. Both can be investments (whole life insurance builds cash value). Both use mortality tables to determine costs and benefits.
Contrast:
Insurance provides a set sum of money at your death. Annuities provide cash while you are alive and protect you against the risk of outliving your assets.

Bloom's: Comprehension
Difficulty: Medium
Learning Objective: 4
Topic: Annuities