# INSURANCE COMMISSION (IC) VARIABLE LIFE LICENSING PRACTICE EXAM (SAMPLE)

## STUDY GUIDE




## SAMPLE STUDY GUIDE WITH LIMITED QUESTIONS

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# Introduction

Preparing for a certification exam can feel overwhelming, but with the right tools, it becomes an opportunity to build confidence, sharpen your skills, and move one step closer to your goals. At Examzify, we believe that effective exam preparation isn't just about memorization, it's about understanding the material, identifying knowledge gaps, and building the test-taking strategies that lead to success.

This guide was designed to help you do exactly that.

Whether you're preparing for a licensing exam, professional certification, or entry-level qualification, this book offers structured practice to reinforce key concepts. You'll find a wide range of multiple-choice questions, each followed by clear explanations to help you understand not just the right answer, but why it's correct.

The content in this guide is based on real-world exam objectives and aligned with the types of questions and topics commonly found on official tests. It's ideal for learners who want to:

- Practice answering questions under realistic conditions,
- Improve accuracy and speed,
- Review explanations to strengthen weak areas, and
- Approach the exam with greater confidence.

We recommend using this book not as a stand-alone study tool, but alongside other resources like flashcards, textbooks, or hands-on training. For best results, we recommend working through each question, reflecting on the explanation provided, and revisiting the topics that challenge you most.

Remember: successful test preparation isn't about getting every question right the first time, it's about learning from your mistakes and improving over time. Stay focused, trust the process, and know that every page you turn brings you closer to success.

Let's begin.

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# How to Use This Guide

This guide is designed to help you study more effectively and approach your exam with confidence. Whether you're reviewing for the first time or doing a final refresh, here's how to get the most out of your Examzify study guide:

### 1. Start with a Diagnostic Review

Skim through the questions to get a sense of what you know and what you need to focus on. Your goal is to identify knowledge gaps early.

### 2. Study in Short, Focused Sessions

Break your study time into manageable blocks (e.g. 30 – 45 minutes). Review a handful of questions, reflect on the explanations.

### 3. Learn from the Explanations

After answering a question, always read the explanation, even if you got it right. It reinforces key points, corrects misunderstandings, and teaches subtle distinctions between similar answers.

### 4. Track Your Progress

Use bookmarks or notes (if reading digitally) to mark difficult questions. Revisit these regularly and track improvements over time.

### 5. Simulate the Real Exam

Once you're comfortable, try taking a full set of questions without pausing. Set a timer and simulate test-day conditions to build confidence and time management skills.

### 6. Repeat and Review

Don't just study once, repetition builds retention. Re-attempt questions after a few days and revisit explanations to reinforce learning. Pair this guide with other Examzify tools like flashcards, and digital practice tests to strengthen your preparation across formats.

There's no single right way to study, but consistent, thoughtful effort always wins. Use this guide flexibly, adapt the tips above to fit your pace and learning style. You've got this!

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# Questions

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**1. What is the purpose of establishing a trust with a Variable Life Insurance policy?**

A. To minimize tax liabilities for the policyholder

B. To manage the death benefit for beneficiaries according to specific terms

C. To ensure the policy remains in force

D. To increase the overall face value of the policy

**2. Investment in variable life funds can include:**

A. Only cash and bonds

B. Any combination of cash, bonds, equities, and properties

C. Only high-risk equities

D. Real estate and collectibles exclusively

**3. Rank the following in terms of liquidity from least liquid to most liquid: Property, Cash, Equities, Short term securities.**

A. Property, Short term securities, Equities, Cash

B. Property, Equities, Short term securities, Cash

C. Short term securities, Property, Cash, Equities

D. Property, Cash, Equities, Short term securities

**4. What is the significance of the insurance company's service reputation for Variable Life policies?**

A. A good reputation is essential for ensuring better customer service and support.

B. It has no effect on the policyholder's experience.

C. The carrier's reputation matters only in premium pricing.

D. A negative reputation guarantees better returns.

**5. Which statement accurately describes the cash value in Variable Life Insurance?**

A. It is guaranteed and does not change

B. It can grow based on the performance of selected investments

C. It decreases over time regardless of market conditions

D. It is not accessible to the policyholder

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**6. What are the main characteristics of variable life policies?**

A. They offer no investment or savings benefits

B. They can provide both life insurance and investment growth

C. They do not allow withdrawals before maturity

D. They offer fixed growth rates for cash value

**7. What is a characteristic of dividends in traditional participating life insurance?**

A. They are usually guaranteed and fixed

B. They can fluctuate based on company performance

C. They are determined only by the company's past performance

D. They are not paid out if the company incurs losses

**8. What happens to the death benefit if the cash value accrues significantly?**

A. It decreases steadily

B. The total benefit remains fixed regardless

C. It may increase if structured accordingly

D. It is lost completely

**9. What are the disadvantages of investing in common shares?**

A. Dividends are always paid

B. Investors face no market risks

C. Shares can become worthless if the company becomes insolvent

D. They guarantee high returns

**10. How can a policyholder mitigate risks associated with Variable Life Insurance investments?**

A. By investing all capital in a single high-performing fund

B. By diversifying their investment selections among multiple funds to spread out risk

C. By minimizing premium payments as much as possible

D. By opting for a fixed interest policy

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# Answers

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1. B
2. B
3. A
4. A
5. B
6. B
7. B
8. C
9. C
10. B

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# Explanations

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## 1. What is the purpose of establishing a trust with a Variable Life Insurance policy?

A. To minimize tax liabilities for the policyholder

B. To manage the death benefit for beneficiaries according to specific terms

C. To ensure the policy remains in force

D. To increase the overall face value of the policy

*The purpose of establishing a trust with a Variable Life Insurance policy often revolves around the administration and distribution of the death benefit. By placing the policy in a trust, the policyholder can outline specific terms that dictate how the death benefit will be managed and distributed to the beneficiaries upon the policyholder's death. This allows for greater control over the distribution process and can ensure that the funds are used in a manner that aligns with the policyholder's wishes. For example, the trust can stipulate conditions such as ages at which the beneficiaries can access the money, how the money can be used (education, health expenses, etc.), or even provide for ongoing support through structured distributions. This level of control is not typically available when beneficiaries receive the death benefit outright, making trusts particularly valuable for policyholders wishing to implement detailed plans for their financial legacy. Other options such as minimizing tax liabilities, ensuring the policy remains in force, and increasing the overall face value of the policy do not adequately capture the primary function of a trust in connection with a Variable Life Insurance policy. While tax benefits and maintaining policy status are important considerations, they do not hinge specifically on the establishment of a trust. The creation of a trust is fundamentally about managing and directing the death benefit in accordance*

## 2. Investment in variable life funds can include:

A. Only cash and bonds

B. Any combination of cash, bonds, equities, and properties

C. Only high-risk equities

D. Real estate and collectibles exclusively

*Investment in variable life funds is characterized by the flexibility it offers policyholders in how their premiums are allocated among various investment options. The correct option reflects this wide range of possibilities, as variable life policies can include a diverse set of investment vehicles to meet the varying risk tolerances and financial goals of policyholders. The inclusion of cash, bonds, equities, and properties allows for a balanced approach to investment, catering to individuals who may want a stable investment (like cash and bonds) while also pursuing growth opportunities through equities and potentially even real estate or property investments. This variety helps policyholders to diversify their portfolios within their life insurance policies, and such diversification is fundamental in managing risk and seeking higher returns over time. The other choices are overly restrictive or narrow in focus. For example, limiting investments to only cash and bonds does not take advantage of the growth potential available through equities or real estate. Specifying only high-risk equities disregards the need for a balanced investment strategy that aligns with different risk profiles. Similarly, restricting investments solely to real estate and collectibles excludes other conventional investment assets that might be more appropriate or appealing for many investors. Thus, the broad category of potential investments in variable life funds is essential for providing policyholders with the flexibility they need to align*

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**3. Rank the following in terms of liquidity from least liquid to most liquid: Property, Cash, Equities, Short term securities.**

A. Property, Short term securities, Equities, Cash

B. Property, Equities, Short term securities, Cash

C. Short term securities, Property, Cash, Equities

D. Property, Cash, Equities, Short term securities

*In terms of liquidity, the correct ranking from least liquid to most liquid is essential for understanding how quickly and easily an asset can be converted into cash without significantly affecting its value. Property is the least liquid asset among the choices provided because it typically requires significant time and effort to sell. The selling process often involves additional costs such as closing fees, real estate commissions, and a lengthy marketing period, making it hard to convert into cash quickly. Equities, or stocks, are more liquid than property since they can usually be sold relatively quickly on the stock market. However, they are still not as liquid as cash or short-term securities because their market value can fluctuate and selling might take time depending on market conditions and trading volume. Short-term securities, such as Treasury bills or other financial instruments with maturities of one year or less, are even more liquid than equities. These instruments are designed to be easily accessible and often have a secondary market where they can be quickly sold, allowing for a fast conversion to cash. Cash is the most liquid asset since it is already in the form needed for transactions and does not require any conversion. It can be used immediately for purchases or investments without delay. Thus, the correct order is: Property (least liquid), followed*

**4. What is the significance of the insurance company's service reputation for Variable Life policies?**

A. A good reputation is essential for ensuring better customer service and support.

B. It has no effect on the policyholder's experience.

C. The carrier's reputation matters only in premium pricing.

D. A negative reputation guarantees better returns.

*The significance of the insurance company's service reputation for Variable Life policies lies in its impact on customer service and support. A company with a good reputation is likely to provide reliable, responsive, and effective service, which is crucial for policyholders who may need assistance understanding their policies, managing their investments, or filing claims. In the context of Variable Life insurance, policyholders often have investment components linked to market performance. As such, they may require guidance on how these investments are performing and what options they have regarding premiums, cash values, and death benefits. A strong service reputation ensures that policyholders can access knowledgeable representatives who can assist them in making informed decisions, addressing concerns, and navigating the complexities of their policies. This ultimately enhances the overall customer experience and can contribute to long-term satisfaction and trust in the insurer. The other considerations, while relevant to certain aspects of the policyholder's experience, do not capture the full scope of how a company's reputation influences ongoing support and assistance that is vital for Variable Life policyholders.*

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## 5. Which statement accurately describes the cash value in Variable Life Insurance?

A. It is guaranteed and does not change

B. It can grow based on the performance of selected investments

C. It decreases over time regardless of market conditions

D. It is not accessible to the policyholder

*The cash value in Variable Life Insurance is designed to grow based on the performance of selected investments, making it subject to market fluctuations. This means that as the investments perform well, the cash value can increase significantly, providing the policyholder with potential growth over time. Conversely, if the investments perform poorly, the cash value might not grow or could even decrease. This aspect of Variable Life Insurance is key because it distinguishes it from whole life insurance, where the cash value is typically guaranteed and accumulates at a predetermined rate. In Variable Life policies, policyholders have some control over how their cash value is allocated among various investment options, which can lead to higher returns, but it also comes with greater risk. This dynamic allows the cash value to be more flexible and variable, aligning with the naming of the product itself.*

## 6. What are the main characteristics of variable life policies?

A. They offer no investment or savings benefits

B. They can provide both life insurance and investment growth

C. They do not allow withdrawals before maturity

D. They offer fixed growth rates for cash value

*Variable life policies are designed to provide both life insurance coverage and the potential for investment growth. This dual function is a defining characteristic of these policies. Unlike traditional life insurance that primarily focuses on providing a death benefit, variable life insurance allows policyholders to allocate a portion of their premium towards various investment options such as stocks and bonds. Consequently, the cash value and death benefit can fluctuate based on the performance of these investments. In contrast to the other options, variable life policies do indeed offer investment and savings benefits by allowing the insured to invest their cash value in different investment vehicles. Additionally, while some policies may impose restrictions on withdrawals, many variable life insurance products do allow access to cash values through loans or withdrawals before maturity. Lastly, they do not guarantee fixed growth rates, as the cash value is subject to market performance and can increase or decrease depending on investment returns. Therefore, the key feature of variable life policies encapsulated in the correct answer speaks to the combination of life insurance protection along with the opportunity for investment growth, making them a unique choice in the realm of life insurance products.*

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## 7. What is a characteristic of dividends in traditional participating life insurance?

A. They are usually guaranteed and fixed

B. They can fluctuate based on company performance

C. They are determined only by the company's past performance

D. They are not paid out if the company incurs losses

*Dividends in traditional participating life insurance are indeed characterized by their ability to fluctuate based on the performance of the insurance company. This dynamic nature means that dividends are not guaranteed and can vary each year depending on the company's profitability and other factors, such as mortality rates, investment performance, and expenses. When a participating policyholder receives dividends, they do so as a share of the overall surplus generated by the insurer's operations. While there may be projections or estimates regarding potential dividends, actual payouts can differ significantly from year to year. This variability reflects the inherent risks and performance of the insurance company, meaning policyholders should not count on dividends being a steady income stream. Instead, they are essentially a bonus that reflects the financial health and profitability of the company in any given year. The other options present statements that do not correspond with the nature of dividends in this context. Dividends are not guaranteed or fixed, nor are they solely determined by past performance; rather, they are influenced by real-time financial results and company operations from the current and recent years. Additionally, if a company incurs losses, it can still pay dividends if it has sufficient reserves or surplus from previous profitable years, demonstrating that the workings of dividends are more complex than a straightforward approach based*

## 8. What happens to the death benefit if the cash value accrues significantly?

A. It decreases steadily

B. The total benefit remains fixed regardless

C. It may increase if structured accordingly

D. It is lost completely

*The death benefit of a variable life insurance policy can indeed increase if the cash value accrues significantly and if the policy is structured to allow for such an increase. This characteristic is integral to how variable life insurance works. When a policyholder pays premiums, part of that premium goes towards the cash value component, which is invested in various accounts as chosen by the policyholder. The growth of this cash value can lead to an increase in the total death benefit, depending on the policy structure. Specifically, many variable life policies have the option to allow the death benefit to rise along with the accumulated cash value, ensuring that as the cash value grows, so does the coverage for beneficiaries. This increase is often contingent on the policyholder's choices regarding death benefit options at the outset of the policy. If the policy's structure supports flexible benefits, the accumulation of cash value can lead to a higher death benefit at the time of the insured's passing. Therefore, the correct answer highlights the potential for growth in the death benefit when the cash value is managed effectively and structured to increase alongside any gains.*

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## 9. What are the disadvantages of investing in common shares?

A. Dividends are always paid

B. Investors face no market risks

C. Shares can become worthless if the company becomes insolvent

D. They guarantee high returns

*Investing in common shares comes with several risks, and one significant disadvantage is that shares can indeed become worthless if the company becomes insolvent. When a company faces financial difficulties and is unable to meet its obligations, it may file for bankruptcy. In such cases, common shareholders are last in line to receive any payout after creditors and preferred shareholders. If the company's assets are insufficient to cover its liabilities, shareholders can lose their entire investment, meaning the value of their shares can drop to zero. The other options present scenarios that do not accurately reflect the nature of common stock investments. While dividends may be issued, there is no guarantee they will always be paid, as companies often choose to reinvest profits back into the business rather than distribute them to shareholders. Regarding market risks, investors who hold common shares are indeed exposed to market fluctuations and economic conditions that can negatively affect stock prices, meaning they do face market risk. Lastly, returns on common shares are tied to company performance and market conditions and cannot be guaranteed to be high, as stock values can decline as easily as they can rise. Thus, the potential for shares to become worthless represents a critical risk for investors.*

## 10. How can a policyholder mitigate risks associated with Variable Life Insurance investments?

A. By investing all capital in a single high-performing fund

B. By diversifying their investment selections among multiple funds to spread out risk

C. By minimizing premium payments as much as possible

D. By opting for a fixed interest policy

*A policyholder can mitigate risks associated with Variable Life Insurance investments by diversifying their investment selections among multiple funds to spread out risk. This approach is grounded in the principle of diversification, which suggests that by spreading investments across different assets or funds, the overall risk is reduced. In Variable Life Insurance, the cash value of the policy can fluctuate based on the performance of the underlying investment options chosen by the policyholder. Therefore, if one fund underperforms, losses may be offset by gains in other funds within a diversified portfolio. Investing all capital in a single high-performing fund concentrates risk and can lead to significant losses if that particular investment performs poorly. Minimizing premium payments may lead to inadequate coverage or benefits, which does not directly address investment risk. Opting for a fixed interest policy does not apply to Variable Life Insurance, as it would eliminate the variable investment aspect that characterizes these products. Overall, diversification is a strategic method to manage and reduce potential risks associated with the investment component of Variable Life Insurance.*

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# Next Steps

Congratulations on reaching the final section of this guide. You've taken a meaningful step toward passing your certification exam and advancing your career.

As you continue preparing, remember that consistent practice, review, and self-reflection are key to success. Make time to revisit difficult topics, simulate exam conditions, and track your progress along the way.

If you need help, have suggestions, or want to share feedback, we'd love to hear from you. Reach out to our team at hello@examzify.com.

Or visit your dedicated course page for more study tools and resources:

https://icvariablelife.examzify.com

We wish you the very best on your exam journey. You've got this!

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