MICHIGAN VARIABLE ANNUITIES PRACTICE TEST (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. If personal life insurance dividends are kept in the policy to earn interest, how is the interest treated for tax purposes?

A. Interest is tax-deferred

B. Interest is taxable

C. Dividends become tax-free

D. The policy becomes tax-deductible

2. Which charge is intended to compensate for the insurer's risk in the policy?

A. Mortality expense

B. Expense risk fee

C. Investment mgmt fee

D. State prem taxes

3. Which annuity option guarantees payments for life and pays remaining basis if death occurs before total payments equal basis?

A. Pure life

B. Life with period certain

C. Life with refund

D. Life with contingency

4. What is annuitization and when does it occur?

A. Ending the contract with no guarantees

B. Increasing accumulation value

C. Depositing more funds

D. The process of converting accumulation value into a stream of guaranteed payments; occurs when the owner elects to annuitize or when the contract provides automatic features.

5. In a variable annuity, which statement is true regarding the account value and risk?

A. The account value is held in a separate account, with portfolio choices by the owner, no minimum return, and investment risk borne by the owner; payments vary with performance.

B. The insurer guarantees a minimum rate of return and fixed payments.

C. The owner cannot choose any investment options; the insurer selects the portfolio.

D. The payments are fixed and do not depend on market performance.

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6. Which statute requires insurer separate accounts to be registered as investment companies with the securities industry?

A. Securities Act of 1933

B. Investment Advisers Act

C. Investment Company Act of 1940

D. Securities Exchange Act

7. What is the purpose of surrender charge schedules in a variable annuity?

A. They encourage early withdrawals

B. They penalize early withdrawals to recoup costs

C. They guarantee higher returns

D. They have no purpose

8. How do subaccount fees affect long-term performance?

A. Fees do not affect long-term results

B. Expense ratios influence returns but not compounding

C. Fees only affect taxes

D. Higher expense ratios reduce net returns and compound over time, affecting final accumulation

9. The period of time in a variable annuity when the owner receives payments is called what?

A. Annuity Phase

B. Accumulation Phase

C. Deferment Phase

D. Maturity Phase

10. Which topics are commonly covered on Michigan's exam content for variable annuities?

A. Advertising and 1035 exchanges are typically covered.

B. Investment performance statistics only.

C. Real estate licensing requirements.

D. Premium financing for large estates.

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Answers

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

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Explanations

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1. If personal life insurance dividends are kept in the policy to earn interest, how is the interest treated for tax purposes?

A. Interest is tax-deferred

B. Interest is taxable

C. Dividends become tax-free

D. The policy becomes tax-deductible

When dividends from a personal life insurance policy are left with the insurer to earn interest, the tax treatment applies to the interest earned, not to the dividends themselves. The dividends are typically a return of premiums and are not taxed up to the total premiums paid. The interest that accrues on those accumulated dividends, however, is taxable as ordinary income in the year the interest is credited to the policy. The policy's cash value growth remains tax-deferred, but the interest on accumulated dividends is a current-year taxable event.

2. Which charge is intended to compensate for the insurer's risk in the policy?

A. Mortality expense

B. Expense risk fee

C. Investment mgmt fee

D. State prem taxes

In a variable annuity, charges are tied to different costs and risks the insurer assumes. The fee that specifically compensates the insurer for bearing those risks is the expense risk fee. This portion covers the possibility that actual mortality experience or policy expenses may be worse than expected, helping fund guarantees and keep the insurer solvent if results aren't as projected. The investment management fee goes to the fund managers for handling the subaccounts, not to offset insurance risk. State premium taxes are taxes paid to the state and aren't a risk-offset charge. A simple "mortality expense" label isn't the standard term; the risk compensation is typically described as the expense risk fee, part of the overall mortality and expense risk charge.

3. Which annuity option guarantees payments for life and pays remaining basis if death occurs before total payments equal basis?

A. Pure life

B. Life with period certain

C. Life with refund

D. Life with contingency

The main idea here is that an annuity payout option can provide lifetime income while also protecting a portion of the original investment for a beneficiary if the annuitant dies early. The option described guarantees ongoing payments for life and, if death occurs before the total payments equal the original investment (the basis), the remaining amount is paid to a beneficiary. That is exactly the refund feature: the payments continue for life, and any unreceived portion of the basis is refunded. So this is life with refund. It ensures the annuitant receives payments for life, and if death occurs before the total payments reach the basis, the difference is paid to a beneficiary. Pure life would stop with the holder's death and offer no refund. Life with period certain guarantees payments for a set period, not for the remainder of the basis after death. Life with contingency isn't a standard, and wouldn't necessarily provide a refund of the remaining basis.

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4. What is annuitization and when does it occur?

A. Ending the contract with no guarantees

B. Increasing accumulation value

C. Depositing more funds

D. The process of converting accumulation value into a stream of guaranteed payments; occurs when the owner elects to annuitize or when the contract provides automatic features.

Annuitization is the process of converting the accumulated value in an annuity into a stream of guaranteed payments. It occurs when the owner elects to annuitize or when the contract provides automatic features that trigger the income phase. Once annuitized, the amount in the accumulation phase is used to determine the payout schedule and options (such as life, term certain, or joint-life payments), with payments guaranteed by the insurer. In a variable annuity, these payments can vary with investment performance, but the insurer guarantees a minimum level if applicable. This transition marks the end of the accumulation phase and begins the income phase. The other choices describe actions within the accumulation phase rather than converting to an income stream.

5. In a variable annuity, which statement is true regarding the account value and risk?

A. The account value is held in a separate account, with portfolio choices by the owner, no minimum return, and investment risk borne by the owner; payments vary with performance.

B. The insurer guarantees a minimum rate of return and fixed payments.

C. The owner cannot choose any investment options; the insurer selects the portfolio.

D. The payments are fixed and do not depend on market performance.

In a variable annuity, the money you invest sits in a separate account that you control within the contract, not in the insurer's general assets. You choose the investment options inside that account, so the portfolio mix—and the level of risk you take—depends on your selections. Because these investments aren't guaranteed by the insurer, there's no guaranteed minimum return; the account value rises or falls with the performance of your chosen investments. Payments, after distribution or at annuitization, are not fixed—they vary based on how well the investments perform. The insurer does not promise fixed payments or a guaranteed minimum return in this structure, and you bear the investment risk.

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6. Which statute requires insurer separate accounts to be registered as investment companies with the securities industry?

A. Securities Act of 1933

B. Investment Advisers Act

C. Investment Company Act of 1940

D. Securities Exchange Act

The key point is that the regulation of entities that pool investor money to create investment portfolios falls under the Investment Company Act of 1940. Insurer separate accounts used for variable products function like investment companies because they collect funds from multiple investors and invest in a portfolio of securities through subaccounts. This Act specifically requires those investment companies to register with the SEC, establishing governance, reporting, and other oversight. The other statutes cover different areas: the Securities Act of 1933 regulates the initial sale of securities, the Investment Advisers Act covers persons and firms giving investment advice, and the Securities Exchange Act deals with trading and exchanges. Therefore, the statute that requires insurer separate accounts to be registered as investment companies is the Investment Company Act of 1940.

7. What is the purpose of surrender charge schedules in a variable annuity?

A. They encourage early withdrawals

B. They penalize early withdrawals to recoup costs

C. They guarantee higher returns

D. They have no purpose

Surrender charge schedules exist to recover the costs the insurer incurs when a variable annuity is issued and to fund the guarantees built into the contract. When you buy one, the insurer often pays sales charges, issue costs, and the upfront risk of providing guarantees. If you withdraw money early, those costs aren't fully offset, so the surrender charge acts as a penalty to recoup them and to discourage short-term moves that would leave the insurer with unrecovered expenses. The charge typically steps down over time, reflecting that the money has been invested longer and the initial costs have been absorbed. Once the surrender period ends, withdrawals usually avoid these charges (though other fees may apply). This mechanism isn't about guaranteeing higher returns; it's about protecting the product's economics and ensuring long-term funding for guarantees and stability for all contract holders.

8. How do subaccount fees affect long-term performance?

A. Fees do not affect long-term results

B. Expense ratios influence returns but not compounding

C. Fees only affect taxes

D. Higher expense ratios reduce net returns and compound over time, affecting final accumulation

Ongoing subaccount fees directly reduce the amount that can grow each year, and because investment returns compound, that yearly reduction accumulates to a much larger difference over time. Fees are taken out of the assets, so the base that earns future returns is smaller every year, meaning the growth in later years is built on a diminished principal. For example, with a starting $100,000 and a gross 6% return, a 2% expense ratio leaves about 4% net per year. After 30 years, that net path yields roughly $324,000, whereas no-fee growth would be about $574,000. The gap shows how higher expense ratios erode net returns and compound, reducing final accumulation.

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9. The period of time in a variable annuity when the owner receives payments is called what?

A. Annuity Phase

B. Accumulation Phase

C. Deferment Phase

D. Maturity Phase

In a variable annuity, there are two main phases: accumulation, when you contribute and the value grows, and the period when you actually receive payments. The period during which the owner begins to receive income is called the annuity phase. That's the phase where the contract turns from saving into providing regular (potentially variable) income, based on the performance of the chosen sub-accounts. The other terms don't describe the payout period: accumulation is the saving-and-growth stage, deferment (when distributions are postponed) is not the standard name for the payout period, and maturity is not used to designate the annuity's payout phase.

10. Which topics are commonly covered on Michigan's exam content for variable annuities?

A. Advertising and 1035 exchanges are typically covered.

B. Investment performance statistics only.

C. Real estate licensing requirements.

D. Premium financing for large estates.

Advertising standards and 1035 exchanges are regularly tested on Michigan's variable annuity exam because they address how products are sold and how transactions with tax consequences are handled. Advertising coverage ensures agents present truthful, non-misleading material and follow rules about illustrations, guarantees, and disclosures, protecting consumers from misleading claims. The 1035 exchange topic covers tax-free exchanges between insurance contracts, including annuities, and the related regulatory and suitability considerations an agent must explain to clients. This combination reflects the practical, compliance-focused areas most relevant to variable annuity sales. Topics like real estate licensing, premium financing, or focusing only on investment performance statistics don't align with the exam's typical scope for variable annuities, which centers on regulatory compliance, contract features, tax implications of exchanges, and consumer protections.

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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://mivariableannuities.examzify.com

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

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