PRIMERICA LIFE INSURANCE 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 main purpose of the "application" in the insurance process?

A. To assess the financial stability of the insurer

B. To provide vital statistics and risk information about the insured

C. To verify the identity of the policyholder

D. To determine the insurance agent's commission

2. Who must have insurable interest in the insured?

A. Producer

B. Policy owner

C. Beneficiary

D. Actuary

3. If an insured stops making payments on a loan taken from his cash value policy, what is likely to happen?

A. The policy will be reduced to an extended term option

B. The policy will terminate when the loan amount equals the cash value

C. The insurer will increase the interest rate on the loan

D. The insurer will not permit further loans

4. Which statement about life settlements is NOT true?

A. The seller must be terminally ill

B. They could be used for key person coverage

C. They could be sold for an amount greater than the current cash value

D. They involve insurance policies with large face amounts

5. In which type of insurance is cash value generally accumulated?

A. Term life insurance

B. Universal life insurance

C. Permanent life insurance

D. Accidental death insurance

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6. Who is the owner of the policy and pays the premium in an Executive Bonus plan?

A. Company is the owner, but the executive pays the premium

B. Board of directors is the owner, and the board pays the premium

C. Company is the owner, and the company pays the premium

D. Executive is the owner, and the executive pays the premium

7. What does "self-insured" mean?

A. Having multiple insurance policies for full coverage

B. Not holding any insurance and relying on personal savings

C. Being insured only against natural disasters

D. Owning insurance with a high deductible

8. What entity typically owns policies in a Stock Redemption Plan?

A. Individual policyholders

B. Business partnerships

C. Insurance agents

D. The business entity itself

9. What term describes the insured who enters into a viatical settlement?

A. Contingent

B. Viatical broker

C. Viator

D. Third party

10. What type of policy allows an insured to withdraw a portion of its cash value to pay medical bills?

A. Term life

B. Limited access

C. Universal life

D. Controlled

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Answers

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

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Explanations

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1. What is the main purpose of the "application" in the insurance process?

A. To assess the financial stability of the insurer

B. To provide vital statistics and risk information about the insured

C. To verify the identity of the policyholder

D. To determine the insurance agent's commission

The main purpose of the application in the insurance process is to provide vital statistics and risk information about the insured. This document serves as a critical tool for the insurance company to evaluate the potential risk associated with underwriting a new policy. The information collected typically includes personal details about the applicant's age, health history, occupation, lifestyle habits, and any other factors that may influence the assessment of risk. By analyzing this data, the insurer can make informed decisions regarding coverage options, premium rates, and eligibility for insurance, ensuring that they are appropriately managing their risk exposure. Understanding this aspect of the application underscores its significance in the broader context of the insurance underwriting process, as it lays the groundwork for various subsequent actions taken by the insurer.

2. Who must have insurable interest in the insured?

A. Producer

B. Policy owner

C. Beneficiary

D. Actuary

The concept of insurable interest is fundamental to the insurance industry. Insurable interest means that the person who takes out the insurance policy must have a legitimate interest in the continued life or well-being of the insured. This helps prevent insurance from being used as a betting tool or speculative investment. In this context, the policy owner is the person or entity that purchases an insurance policy and is thereby responsible for paying the premium. They must have insurable interest in the insured, which means that the policy owner stands to suffer a financial loss if the insured individual dies or experiences a significant event that results in a claim. This requirement ensures that there is a valid reason for the insurance, reinforcing the integrity of the contract and helping to prevent moral hazard. If the policy owner does not have an insurable interest, the contract could be deemed void, as the insurance would not serve its primary purpose of risk protection but instead could potentially lead to fraudulent behavior. Thus, insurable interest is necessary primarily for the policy owner, ensuring their financial stake in the life or health of the insured.

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3. If an insured stops making payments on a loan taken from his cash value policy, what is likely to happen?

A. The policy will be reduced to an extended term option

B. The policy will terminate when the loan amount equals the cash value

C. The insurer will increase the interest rate on the loan

D. The insurer will not permit further loans

When an insured stops making payments on a loan taken from a cash value life insurance policy, the most likely outcome is that the policy will terminate when the loan amount equals the cash value. Here's the reasoning behind this: Many cash value life insurance policies allow policyholders to take loans against the cash value. However, if payments are not made on these loans, the outstanding loan balance will accrue interest, increasing over time. If the total loan amount (including any accumulated interest) equals or exceeds the cash value of the policy, the insurance company may terminate the policy. This is because the insurer has an interest in recouping its money, and if the loan balance matches the cash value, the policy essentially has no remaining value that can be used to support coverage. This outcome emphasizes the importance of maintaining payments on any loans taken against a cash value policy. If left unchecked, the unpaid loan can lead to termination, which could result in the loss of life insurance coverage and any associated benefits.

4. Which statement about life settlements is NOT true?

A. The seller must be terminally ill

B. They could be used for key person coverage

C. They could be sold for an amount greater than the current cash value

D. They involve insurance policies with large face amounts

Life settlements refer to the sale of an existing life insurance policy by the policyholder to a third party for a lump sum payment, which is often more than the cash surrender value but less than the death benefit. The key characteristic of life settlements is that the seller does not need to be terminally ill; they can be in good health. This flexibility allows individuals to sell their life insurance policy for various reasons, such as financial need, changes in financial circumstances, or simply no longer wanting the coverage for whatever reason. Other options correctly reflect characteristics of life settlements. They can indeed involve key person coverage, which is a policy taken out on individuals critical to a business. It's also possible for life settlements to occur on policies with significant face amounts, as these are more likely to attract buyers interested in a potentially larger return. Additionally, the nature of life settlements allows them to be sold for more than their current cash value, which makes them an appealing option for sellers who may need immediate cash.

5. In which type of insurance is cash value generally accumulated?

A. Term life insurance

B. Universal life insurance

C. Permanent life insurance

D. Accidental death insurance

Cash value is typically associated with permanent life insurance policies. These products have a savings component in addition to providing a death benefit. As premiums are paid, a portion of the money goes into a cash value account, which can grow over time, generally on a tax-deferred basis. Policyholders can borrow against this cash value or use it to pay premiums, enhancing the policy's flexibility and utility over its life span. In contrast, term life insurance does not accumulate cash value; it solely provides coverage for a specified term. Universal life insurance is actually a form of permanent insurance that incorporates flexible premiums and an adjustable death benefit but still falls under the broader category of permanent life insurance. Accidental death insurance specifically pays benefits only in cases of death due to accident, with no cash value accumulation. Hence, the correct categorization of insurance that accumulates cash value is permanent life insurance.

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6. Who is the owner of the policy and pays the premium in an Executive Bonus plan?

A. Company is the owner, but the executive pays the premium

B. Board of directors is the owner, and the board pays the premium

C. Company is the owner, and the company pays the premium

D. Executive is the owner, and the executive pays the premium

In an Executive Bonus plan, the executive is both the owner of the policy and responsible for paying the premiums. This arrangement allows the company to provide a financial benefit to a key employee by using bonuses to fund a policy that the executive owns. When the executive owns the policy, they have control over the benefits and the ability to designate beneficiaries. This structure is advantageous for the executive, as it can be a way to enhance their compensation package while also offering certain tax benefits related to personal ownership of the insurance policy. The alternative options describe different ownership and premium payment scenarios that do not align with how an Executive Bonus plan is structured, which emphasizes the executive's direct involvement and ownership in the policy.

7. What does "self-insured" mean?

A. Having multiple insurance policies for full coverage

B. Not holding any insurance and relying on personal savings

C. Being insured only against natural disasters

D. Owning insurance with a high deductible

The term "self-insured" refers to the practice of not purchasing insurance and instead relying on personal savings or assets to cover potential financial losses. This approach means that an individual consciously decides to bear the risk themselves rather than transferring that risk to an insurance company. This concept applies in situations where the individual believes their financial capacity is sufficient to absorb any losses they might incur. For instance, someone may choose to self-insure against minor health expenses or property damage, relying on their savings to cover these costs rather than paying premiums for an insurance policy. In this context, the other choices do not accurately define "self-insured." Having multiple insurance policies would indicate a desire to transfer risk rather than accept it. Being insured only against natural disasters suggests a limited scope of coverage, which doesn't reflect the idea of self-insurance. Lastly, owning insurance with a high deductible still means engaging with an insurance policy, as there is still some transfer of risk happening.

8. What entity typically owns policies in a Stock Redemption Plan?

A. Individual policyholders

B. Business partnerships

C. Insurance agents

D. The business entity itself

In a Stock Redemption Plan, the business entity itself typically owns the insurance policies. This plan is designed for companies to buy back shares from shareholders, often in the context of a buy-sell agreement. When a business entity owns the policy, it can use the death benefit to fund the purchase of the deceased shareholder's stock, ensuring the remaining shareholders can maintain control and continuity within the business. The ownership by the entity allows for seamless financial planning, as the policy proceeds can be allocated specifically to provide the necessary capital for the redemption of shares. This arrangement often helps to prevent any financial strain on the business at the time of the shareholder's passing, making it a strategic choice for organizations looking to manage ownership transitions effectively.

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9. What term describes the insured who enters into a viatical settlement?

A. Contingent

B. Viatical broker

C. Viator

D. Third party

The term that describes the insured who enters into a viatical settlement is "viator." In a viatical settlement, the viator is the policyholder who sells their life insurance policy to a third party for a lump sum payment, typically because they have a terminal illness and need immediate cash. The buyer of the policy, often an investor or a viatical settlement company, then becomes the new policyholder and will receive the death benefit when the viator passes away. Understanding the role of the viator is crucial in the context of viatical settlements, as it highlights the financial strategy available to individuals facing significant health challenges. In this context, the viator makes a decision based on their circumstances, allowing them to convert their life insurance into immediate funds rather than waiting for the policy to pay out at death.

10. What type of policy allows an insured to withdraw a portion of its cash value to pay medical bills?

A. Term life

B. Limited access

C. Universal life

D. Controlled

A universal life policy is designed to offer flexibility in premium payments, death benefit amounts, and the ability to accumulate cash value over time. This accumulation of cash value allows policyholders to take withdrawals or loans against the policy, which can be particularly helpful for paying expenses like medical bills. The cash value grows on a tax-deferred basis, and policyholders can access this value at their discretion, making universal life insurance a viable option for those needing liquidity to manage unexpected financial needs. In contrast, term life insurance provides coverage for a specified term and does not accumulate cash value, so it does not allow withdrawals. Limited access and controlled policies may have specific restrictions or features that do not provide the same level of flexibility for cash withdrawals as universal life does. Hence, universal life is the correct choice for policies that allow the insured to withdraw a portion of cash value to cover medical expenses.

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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://primericalifeinsurance.examzify.com

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

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