PSI 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. Offer, acceptance, and consideration are necessary elements of what?

A. A policy document

B. A legal contract

C. Insurance underwriting

D. A claim process

2. Health Savings Accounts (HSAs) cover current and future qualified healthcare costs. Account beneficiaries can make tax-free withdrawals to cover all of the following EXCEPT?

A. prescription drugs.

B. doctor visits.

C. Medigap expenses.

D. dental care.

3. Which of the following best describes warranties in the context of an insurance policy?

A. They are guidelines for insurance agents.

B. They are statements that must be true at all times.

C. They serve as optional clauses in a policy.

D. They are merely recommendations for policyholders.

4. When are dividends paid from a participating policy considered taxable?

A. When the policy is lapsed.

B. When the amount received exceeds the total amount of premiums paid for the policy.

C. When the premiums are partially refunded.

D. When the policyholder opts to reinvest the dividends.

5. In a case where both personal and spouse's health insurance policies are in effect, which policy pays first in the event of a claim?

A. The spouse's policy pays first

B. The individual's policy pays first

C. The policy with the highest coverage pays first

D. Whichever policy has been active the longest pays first

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6. What does the term "face value" refer to in a life insurance policy?

A. The price paid for the policy

B. The amount to be paid upon the insured's death

C. The accrued cash value of the policy

D. The premium amount due each year

7. Which feature of term insurance provides temporary protection that can change to permanent protection within specified years without evidence of insurability?

A. Renewable

B. Convertible

C. Reinvestment

D. Adjustable

8. When do dependent children's benefits for Social Security disability payments typically end?

A. When the dependent reaches age 18

B. When the dependent reaches age 19 if still in high school

C. When the dependent gets married

D. When the dependent starts working full-time

9. Statements made by a prospective insured on an insurance application that are believed to be true are considered what?

A. Warranties

B. Misrepresentations

C. Representations

D. Disclosures

10. In a disability income policy, what is the time frame called before coverage becomes effective?

A. Waiting period

B. Grace period

C. Probationary period

D. Deferral period

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Answers

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

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Explanations

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1. Offer, acceptance, and consideration are necessary elements of what?

A. A policy document

B. A legal contract

C. Insurance underwriting

D. A claim process

The necessary elements of offer, acceptance, and consideration are foundational to a legal contract. In contract law, an offer is made by one party, which is then accepted by another party, creating mutual agreement. Consideration refers to something of value that is exchanged between the parties, which is essential for the contract to be enforceable. In the context of insurance, a policy document is indeed a type of legal contract between the insurer and the insured, but the question specifically asks for the broader concept that encompasses these elements. Insurance underwriting relates to the process of evaluating risks and determining the terms of the insurance policy, while the claim process involves the submission and evaluation of claims under the existing policy terms, neither of which fundamentally requires the trio of offer, acceptance, and consideration as core components. Thus, recognizing that these three elements are integral to crafting a legal agreement confirms the choice regarding the answer.

2. Health Savings Accounts (HSAs) cover current and future qualified healthcare costs. Account beneficiaries can make tax-free withdrawals to cover all of the following EXCEPT?

A. prescription drugs.

B. doctor visits.

C. Medigap expenses.

D. dental care.

Health Savings Accounts (HSAs) are designed to help individuals save for medical expenses on a tax-advantaged basis. The funds contributed to an HSA can be withdrawn tax-free to cover a variety of qualified healthcare costs. The reason why the answer "Medigap expenses" is the only option that does not qualify for tax-free withdrawals is that Medigap policies, which supplement Medicare coverage, are not considered a qualified medical expense under IRS rules. While HSAs can be used for many healthcare-related payments, they specifically do not extend to premiums for Medigap plans, even though those premiums may go towards healthcare costs. In contrast, prescription drugs, doctor visits, and dental care are all recognized as qualified medical expenses. Consequently, withdrawals made from HSAs to cover these costs are tax-free, aligning with the intended use of the account to assist with current and future healthcare needs. Understanding the specific limitations of HSAs is crucial for proper financial planning and compliance with tax regulations related to healthcare expenses.

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3. Which of the following best describes warranties in the context of an insurance policy?

A. They are guidelines for insurance agents.

B. They are statements that must be true at all times.

C. They serve as optional clauses in a policy.

D. They are merely recommendations for policyholders.

Warranties in the context of an insurance policy are specific stipulations that the insured agrees to uphold as true and accurate throughout the duration of the policy. This means that the statements made in the warranty are not just initial representations; they must remain true at all times while the insurance coverage is in effect. If a warranty is found to be false or unfulfilled, it can lead to the insurer denying a claim or canceling the policy altogether. This underlines the fundamental nature of warranties: they establish a stricter standard than mere representations or conditions by requiring ongoing truthfulness and adherence. This approach emphasizes the importance of transparency and honesty in the insurance relationship. In contrast, guidelines, optional clauses, or recommendations do not carry the same binding obligation as warranties, which have a direct impact on the validity of the insurance contract and the claims process.

4. When are dividends paid from a participating policy considered taxable?

A. When the policy is lapsed.

B. When the amount received exceeds the total amount of premiums paid for the policy.

C. When the premiums are partially refunded.

D. When the policyholder opts to reinvest the dividends.

Dividends paid from a participating policy are considered taxable when they exceed the total amount of premiums paid for that policy. This situation arises because dividends are a return of surplus generated by the insurance company's operations and are intended to distribute profits to policyholders. When the total dividends received by the policyholder surpass the amount they have paid in premiums, the excess is treated as taxable income. In essence, the tax treatment hinges on the principle that any amount received that is beyond what the policyholder has contributed (in terms of premiums) is viewed as a gain rather than a return of their own money. Since the premiums represent the policyholder's investment in the policy, they are not taxable. However, any additional amounts received, which the policyholder has not directly paid through premiums, must be reported as income. This understanding clarifies why the other scenarios, such as the policy lapsing, partial refunds of premiums, or reinvestment of the dividends, would not trigger taxable events in the same manner, as they do not result in a gain that exceeds the premiums paid.

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5. In a case where both personal and spouse's health insurance policies are in effect, which policy pays first in the event of a claim?

A. The spouse's policy pays first

B. The individual's policy pays first

C. The policy with the highest coverage pays first

D. Whichever policy has been active the longest pays first

When both an individual and their spouse have health insurance policies in place, the general rule for determining which policy pays first is known as the "birthday rule." Under this guideline, the individual's own health insurance policy pays first, making this answer correct. Essentially, the birthday rule states that if a dependent child is covered under both parents' policies, the coverage associated with the parent whose birthday falls earlier in the calendar year is primary. This logic extends to situations involving both spouses, where typically the individual's policy acts as the primary coverage. Understanding this hierarchy is crucial for individuals managing multiple health insurance policies, as it affects how claims are processed and what out-of-pocket costs a policyholder may encounter.

6. What does the term "face value" refer to in a life insurance policy?

A. The price paid for the policy

B. The amount to be paid upon the insured's death

C. The accrued cash value of the policy

D. The premium amount due each year

The term "face value" in a life insurance policy specifically refers to the amount that will be paid out to the beneficiaries upon the death of the insured. This amount is predetermined at the start of the policy and represents the policyholder's financial protection for their selected coverage amount. Understanding this concept is crucial for both providers and policyholders, as it encapsulates the primary purpose of a life insurance policy—providing a death benefit to support loved ones financially in the event of the policyholder's passing. This amount does not change throughout the life of the policy unless the policyholder opts for adjustments, such as increasing coverage or converting to another type of policy. The other options focus on different aspects of life insurance policies but do not accurately define face value. The premium amount and the price paid for the policy are related to the cost, while the accrued cash value pertains to any savings component that may exist in certain types of policies but is not relevant in defining face value.

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7. Which feature of term insurance provides temporary protection that can change to permanent protection within specified years without evidence of insurability?

A. Renewable

B. Convertible

C. Reinvestment

D. Adjustable

The feature of term insurance that provides temporary protection, with the option to change to permanent protection within specified years without requiring evidence of insurability, is convertible. This means that the policyholder can convert their term insurance policy into a permanent life insurance policy, like whole or universal life insurance, at predetermined times during the term. This conversion is advantageous because it allows the insured to maintain coverage as their needs change without undergoing new underwriting processes or proving their health status at the time of conversion. This is particularly valuable for individuals who may develop health issues later that could make obtaining a new policy more difficult or costly. In contrast, other options such as renewable pertain to the ability to renew the term policy for additional periods, but do not allow for conversion to permanent insurance.

8. When do dependent children's benefits for Social Security disability payments typically end?

A. When the dependent reaches age 18

B. When the dependent reaches age 19 if still in high school

C. When the dependent gets married

D. When the dependent starts working full-time

Dependent children's benefits for Social Security disability payments typically end when the dependent reaches age 19 if they are still enrolled in high school. This provision allows students who are completing their high school education to continue receiving benefits while they finish their studies, acknowledging the importance of supporting young adults during this transition phase. By extending benefits until the age of 19 for those in high school, the program assists families in providing for their children's needs, ensuring they can focus on their education without the additional strain of financial burdens. Children's benefits generally cease when they turn 18 unless they are still in high school, which is why that option is the correct answer. Benefits can also end if the child gets married or starts working full-time, but these situations don't apply as universally or offer the same kind of educational support that the age 19 stipulation does.

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9. Statements made by a prospective insured on an insurance application that are believed to be true are considered what?

A. Warranties

B. Misrepresentations

C. Representations

D. Disclosures

In the context of insurance applications, statements made by a prospective insured that are believed to be true are classified as representations. These are assertions made by the applicant regarding facts or circumstances that they understand to be accurate at the time of making the application. The importance of representations lies in their role as the basis upon which the insurer assesses risk and decides whether to accept the application or issue the policy. Representations differ from warranties, which are more formal promises that something is guaranteed to be true; if a warranty is not fulfilled, it can lead to the cancellation of the insurance contract regardless of whether the insurer suffered any harm. Misrepresentations, conversely, involve statements that are false and known to be so by the applicant, which can also lead to complications such as denial of claims or cancellation of the policy. Disclosures pertain to additional information the applicant provides, which may not necessarily fall under the category of belief but are more about revealing pertinent details. Understanding that representations are based on an applicant's belief in their truthfulness helps clarify their importance in the underwriting process, as they reflect the applicant's understanding and good faith in providing accurate information to the insurer.

10. In a disability income policy, what is the time frame called before coverage becomes effective?

A. Waiting period

B. Grace period

C. Probationary period

D. Deferral period

In a disability income policy, the time frame before coverage becomes effective is known as the probationary period. This is a specific duration during which the insurance company will not pay benefits for any disability that occurs. The purpose of the probationary period is to help insurers manage risk by excluding coverage for pre-existing conditions or injuries that occur shortly after the policy is issued. The probationary period typically lasts for a defined number of days from the start of the policy and is different from other terms like waiting period, which is associated with the time you must wait after a disability begins before benefits are paid, or grace period, which refers to the time you have to pay your premium after the due date without losing coverage. Understanding this vocabulary is crucial in mastering the concepts related to disability income policies.

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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://psiinsurance.examzify.com

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

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