PSI LIFE EXAM 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. What is the primary feature of a life income settlement option?

A. It provides a lump sum to beneficiaries

B. It guarantees payments for the lifetime of the annuitant

C. It allows withdrawals at any time

D. It offers variable payment amounts

2. Which of the following is NOT considered when determining the amount of life insurance needed using the needs approach?

A. Projected lifetime earnings

B. Future education costs for dependents

C. Funeral expenses

D. Projected lifetime earnings in the stock market, including dividends and growth account

3. What guarantee ensures that the annuitant cannot outlive their benefits?

A. Fixed payout policy

B. Guaranteed lifetime withdrawal benefit

C. Increased death benefit option

D. Annual adjustment plan

4. If a premium is due and the policyowner fails to pay before the insured dies, under which provision would the death benefit be paid?

A. Reinstatement Clause

B. Grace Period Clause

C. Nonforfeiture Clause

D. Exclusion Clause

5. Which type of annuities does not require disclosure requirements for their sale?

A. Deferred annuities

B. Life annuities

C. Immediate annuities

D. Indexed annuities

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6. What is a characteristic of Universal Life insurance?

A. It often has fixed premiums and limited flexibility

B. It allows policyholders to adjust premiums and coverage

C. It has no cash value accumulation

D. It is only available for a limited term

7. What term is used for an individual who does not qualify for standard insurance rates due to health issues?

A. Preferred Risk

B. Standard Risk

C. Substandard Risk

D. High-Risk Individual

8. In the context of life insurance, what does underwriting refer to?

A. The process of paying out claims

B. The evaluation of risk and determination of policy premiums

C. The method for calculating cash value

D. The process of selling insurance policies

9. Which type of life insurance requires no medical exam for issuance?

A. Whole life insurance

B. Simplified issue life insurance

C. Term life insurance

D. Survivorship life insurance

10. What might a life insurance policy exclude regarding the cause of death?

A. Accidental death

B. Death due to natural causes

C. Death caused by criminal activities

D. Death from illness after two years

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Answers

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

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Explanations

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1. What is the primary feature of a life income settlement option?

A. It provides a lump sum to beneficiaries

B. It guarantees payments for the lifetime of the annuitant

C. It allows withdrawals at any time

D. It offers variable payment amounts

The primary feature of a life income settlement option is that it guarantees payments for the lifetime of the annuitant. This means that once the settlement option is chosen, the annuitant will receive regular payments that continue for as long as they live, providing financial security and a steady income stream. This is particularly beneficial for individuals who may be concerned about outliving their savings, as it ensures they will have a consistent source of income despite the duration of their life. In contrast, the other options do not align with the core characteristics of a life income settlement option. A lump sum payment to beneficiaries represents a different type of financial settlement, typically seen in a death benefit scenario rather than a life income option. Allowing withdrawals at any time does not typically apply, as life income options are designed to produce stable, lifetime income without the flexibility for immediate access to cash. Lastly, while some annuities might offer variable payment amounts based on investment performance or interest rates, the defining aspect of a life income settlement is its focus on providing fixed payments for the lifetime of the annuitant, rather than variability.

2. Which of the following is NOT considered when determining the amount of life insurance needed using the needs approach?

A. Projected lifetime earnings

B. Future education costs for dependents

C. Funeral expenses

D. Projected lifetime earnings in the stock market, including dividends and growth account

The needs approach for determining the amount of life insurance required focuses on assessing the financial resources needed to meet the needs of beneficiaries after the insured's death. This approach evaluates various expenses and future financial obligations that would need to be covered, such as projected lifetime earnings, future education costs for dependents, and funeral expenses. All these factors contribute to a clear picture of the required amount of life insurance to ensure that beneficiaries can maintain their financial stability and cover essential expenses. In contrast, projected lifetime earnings in the stock market, including dividends and growth accounts, do not pertain to specific immediate needs or obligations that the beneficiaries will face. While investments and their returns are important for long-term financial planning and wealth accumulation, they are not direct expenses or needs that life insurance is intended to cover. The needs approach is about assessing immediate financial responsibilities and obligations, and thus, this factor falls outside its scope.

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3. What guarantee ensures that the annuitant cannot outlive their benefits?

A. Fixed payout policy

B. Guaranteed lifetime withdrawal benefit

C. Increased death benefit option

D. Annual adjustment plan

The concept of a guaranteed lifetime withdrawal benefit is designed to ensure that the annuitant receives a consistent stream of income for the entirety of their life, regardless of how long they live. This benefit allows the annuitant to withdraw a predetermined amount of money annually, guaranteeing that they will not outlive their benefits, even if their account balance drops to zero due to withdrawals. This option is particularly appealing to individuals concerned about the risk of depleting their retirement savings too early. In contrast, other options such as a fixed payout policy do not provide the same safety net, as the payouts are set and may run out if not carefully managed over time. An increased death benefit option focuses on the value or benefit left to heirs rather than ensuring income for the annuitant's lifetime. Finally, an annual adjustment plan typically involves adjustments based on inflation or other factors but does not inherently guarantee lifetime withdrawals. This makes the guaranteed lifetime withdrawal benefit a crucial feature for those looking for peace of mind regarding their financial future and longevity.

4. If a premium is due and the policyowner fails to pay before the insured dies, under which provision would the death benefit be paid?

A. Reinstatement Clause

B. Grace Period Clause

C. Nonforfeiture Clause

D. Exclusion Clause

The correct answer is the Nonforfeiture Clause. This provision allows the policyowner to receive a form of benefit or coverage even if the premium has not been paid. In such cases where the insured dies after a premium is due but unpaid, the Nonforfeiture Clause can provide for the payment of a scaled-down death benefit based on the cash value of the policy or other stipulated options, ensuring that the policyholder or beneficiaries are not left without any benefit due to non-payment. Other options may seem relevant to the situation. The Reinstatement Clause typically addresses how a policy can be reinstated after it has lapsed, but it does not pertain to the immediate payment of benefits after the insured's death. The Grace Period Clause provides a timeframe during which a policyholder can pay the premium after the due date without losing coverage; however, if the premium is not paid within this grace period and the insured passes away, the death benefit would not be guaranteed. The Exclusion Clause outlines specific situations or conditions under which the insurer will not pay benefits, but it does not apply in this context where the policy has potential value. Therefore, the Nonforfeiture Clause is the most applicable in ensuring a benefit is paid even if premiums are overdue

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5. Which type of annuities does not require disclosure requirements for their sale?

A. Deferred annuities

B. Life annuities

C. Immediate annuities

D. Indexed annuities

Immediate annuities are structured in such a way that they provide immediate income to the annuitant after a lump sum payment is made. Because of their straightforward nature and quick payout timeline, they tend to have fewer complicated features compared to other annuity types. This simplicity often leads to less stringent disclosure requirements regarding their sale. In contrast, deferred annuities, life annuities, and indexed annuities typically involve more complex terms and conditions. They usually come with various investment options, fees, and potential risks that necessitate more comprehensive disclosures to ensure that the buyer fully understands the product they are purchasing. This is particularly important for products that may affect individuals' long-term financial planning and retirement income strategies.

6. What is a characteristic of Universal Life insurance?

A. It often has fixed premiums and limited flexibility

B. It allows policyholders to adjust premiums and coverage

C. It has no cash value accumulation

D. It is only available for a limited term

Universal Life insurance is characterized by its flexibility, particularly in terms of adjusting premiums and coverage. This type of policy allows policyholders to vary the amount of premium payments they make and to adjust the death benefit within certain limits. This flexibility is one of the key features that distinguishes Universal Life from other types of life insurance, such as whole life or term policies, which typically have fixed premiums and benefits. The ability to modify premiums means that policyholders can adapt their coverage according to their financial situation over time, making Universal Life a versatile option for those whose needs may change. This adaptability is advantageous for individuals looking for a life insurance solution that can be personalized throughout their lifetime. In contrast, options that suggest fixed premiums and limited flexibility or indicate the absence of cash value accumulation do not accurately describe Universal Life insurance. Additionally, the notion that Universal Life is available only for a limited term misrepresents the nature of the product, as Universal Life policies are designed to provide lifelong coverage as long as the premiums are maintained.

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7. What term is used for an individual who does not qualify for standard insurance rates due to health issues?

A. Preferred Risk

B. Standard Risk

C. Substandard Risk

D. High-Risk Individual

The term used for an individual who does not qualify for standard insurance rates due to health issues is "substandard risk." This classification applies to individuals whose medical history or current health status falls below the criteria set for standard insurance underwriting, often resulting in higher premiums or specific policy exclusions. Substandard risks are typically assessed based on factors such as chronic health conditions, recent medical treatments, or lifestyle choices that could affect their life expectancy or likelihood of making a claim. Insurers apply this term to ensure they accurately price insurance policies according to the risk presented by these individuals. In contrast, individuals classified as preferred risk typically have better than average health profiles, allowing them to benefit from lower premiums. Standard risk refers to the average individual who meets the typical underwriting criteria without major health issues. The term high-risk individual could refer to anyone with significant risk factors but does not specifically align with the structured classification used by insurance companies to denote those who fall outside the standard risk category due to health-related issues.

8. In the context of life insurance, what does underwriting refer to?

A. The process of paying out claims

B. The evaluation of risk and determination of policy premiums

C. The method for calculating cash value

D. The process of selling insurance policies

Underwriting in the context of life insurance is fundamentally about evaluating the risk associated with insuring an individual and determining the appropriate policy premiums that reflect that risk. Underwriters assess various factors, including the applicant's health history, lifestyle choices, occupation, and other relevant information, to gauge the likelihood of the insurer having to pay a claim in the future. This evaluation process enables insurance companies to make informed decisions about whether to accept a risk and under what terms. By accurately assessing risk, the insurer can set premiums that are commensurate with the degree of risk involved, ensuring both the company's financial stability and the appropriateness of coverage for the policyholder. Other options, such as the process of paying out claims or calculating cash value, do not relate directly to the initial assessment stage in the insurance lifecycle. Similarly, selling insurance policies pertains more to the distribution aspect rather than the evaluation of risk that underwriting entails. Therefore, option B clearly captures the essence of the underwriting function within life insurance.

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9. Which type of life insurance requires no medical exam for issuance?

A. Whole life insurance

B. Simplified issue life insurance

C. Term life insurance

D. Survivorship life insurance

Simplified issue life insurance is designed to provide coverage without the requirement of a medical examination. This type of policy typically involves a straightforward application process that may include a short health questionnaire. The lack of a medical exam makes it particularly appealing for individuals who may have health concerns or those who prefer a quicker and more accessible way to obtain life insurance. This option allows insurers to offer coverage with relatively minimal underwriting, which can benefit those looking for immediate coverage or those who might find it challenging to qualify for other types of life insurance that have stricter underwriting standards. In contrast, whole life insurance often involves more comprehensive assessments and possibly a medical exam to determine the applicant's overall health and risk profile. Term life insurance typically requires a medical exam as well, particularly if the coverage amount is substantial. Survivorship life insurance may also involve detailed assessments since these policies are usually issued for two lives and are thus evaluated with additional underwriting care.

10. What might a life insurance policy exclude regarding the cause of death?

A. Accidental death

B. Death due to natural causes

C. Death caused by criminal activities

D. Death from illness after two years

A life insurance policy often includes exclusions related to certain causes of death, particularly those deemed high-risk or unlawful. In this context, death caused by criminal activities is usually excluded because insurance companies consider these situations as circumstances that the insured party could have potentially avoided. The presence of this exclusion is intended to mitigate the insurer's risk and prevent moral hazard, where individuals might take undue risks knowing they have insurance coverage. For instance, if an individual were to die while committing a crime, insurers typically view this as an intentional act that falls outside the bounds of ordinary risk covered by life policies. Therefore, policies define clear terms regarding these exclusions to protect against fraudulent claims and ensure responsible underwriting. On the other hand, accidental deaths are generally covered, as are deaths due to natural causes and illnesses, depending on specific policy terms. The exclusion related to death from illness after two years refers to the contestability period, where insurers may examine claims more closely if death occurs shortly after the policy begins. However, after this period, normal illnesses typically are not excluded.

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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://psi-lifeexam.examzify.com

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

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