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**"Practical Financial Planning and the Role of Insurance"**

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## **"Practical Financial Planning and the Role of Insurance"**

### **Self Study Examination      50 Questions**

**Instructions:** This examination consists of 50 questions in multiple choice format. Four possible answers have been presented for each question. On your answer sheet indicate the best answer to each question. There is no penalty for guessing incorrectly.

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**Questions 1-4 refer to the BASIC STEPS of Financial Planning:**

- 1) At which stage does the technical knowledge of the planner play a key role?
  - A) At the prospecting level
  - B) Making recommendations to meet objectives
  - C) Only in referral situations
  - D) During the point of data collection
  
- 2) Using direct mail, obtaining referrals, and cold calling are all examples of
  - A) prospecting
  - B) selling
  - C) marketing
  - D) closing a sale
  
- 3) Periodic plan review and subsequent modification is necessary because
  - A) More sales means more commissions
  - B) It is important for the planner to appear concerned about clients.
  - C) The needs of clients change.
  - D) Mortality rates change as often as monthly.
  
- 4) Which of the following statements best describes the "non-traditional" approach to selling
  - A) It is impersonal, like direct mail advertising.
  - B) The seven generic steps to financial planning is clearly opposite in style and method.
  - C) It uses a "canned" presentation which is not sensitive to the needs of the individual.
  - D) It emphasizes identification of prospect need followed by recommended strategies to satisfy that need.

**Question 5 refers to The General versus The Specific:**

- 5) Which of the following is true about the "General" approach to financial planning?
  - A) The goal is to offer comprehensive financial planning.
  - B) A "team" of professionals is sometimes used.
  - C) The financial plan created is customized to directly fit the objectives of the individual client.
  - D) All of the above.

**Questions 6& 7 refer to Consumer Priorities and Planning Preferences:**

- 6) A general rule of investment regarding risk and return is which of the following?
  - A) The lower the investment, the higher the return
  - B) The safer the investment, the lower the return
  - C) The higher the investment, the safer the return
  - D) A penny saved is a penny earned
  
- 7) According to studies done about the main financial concerns of the average American, which of the following is most important?
  - A) Income and estate tax minimization
  - B) Employment fringe benefits
  - C) Accumulating retirement funds
  - D) Insurance and risk transfer

**Questions 8 & 9 refer to the Property and Casualty area of risk transfer. The following choices offered (A, B, C & D) are to be used for both questions 8 & 9. Each choice may be used once, more than once or not at all.**

**Questions 8 & 9 Match the type of insurance listed below in A, B, C and D which provides coverage for the occurrences or accidents described in each question.**

- A) **Property insurance**
  - B) **Professional Liability Insurance**
  - C) **Personal Automobile Policy**
  - D) **General Liability**
- 8) A lawyer negligently leaves a file drawer open and a visiting client is injured
- 9) An employee of a business accidentally hurts a customer

**Questions 10-14 refer to the area of Health Insurance as it relates to the small business owner.**

- 10) Most health insurance (medical expense) in America is owned as a result of
- A) Individual coverage
  - B) Direct mail advertising
  - C) Group coverage
  - D) Legal requirements
- 11) Which of the following were not traditional choices for group coverage offered from common insurance carriers to small business?
- I. Health Maintenance Organizations
  - II. Major Medical
  - III. Comprehensive Medical
- A) I only
  - B) I and II only
  - C) II and III only
  - D) I, II and III
- 12) In a Major Medical policy, the maximum out-of-pocket cost to the insured is known as
- A) Group expense
  - B) The deductible
  - C) Stop loss limit
  - D) Coinsurance

- 13) If two or more partners own a small business and one or more should suffer from a long term illness, which of the following agreements, established in advance, would offer the best chance for the continuation of the business?
- A) A life insurance buy and sell agreement
  - B) Accident insurance
  - C) A disability income buy and sell agreement
  - D) A stock option purchase plan
- 14) Insurance designed to meet the regular and identifiable ongoing cost to run a business in the event an owner has a long term illness is called
- A) Individual income
  - B) Business overhead expense
  - C) Accident and health
  - D) Employer expense insurance

**Questions 15-19 refer to the area of Individual Disability Income insurance.**

- 15) At most ages, the chance for an individual to suffer from a long term disability (lasting 90 day or more is
- A) less than the chance of dying
  - B) about the same as the chance for dying
  - C) greater than the chance of dying
  - D) virtually non-existent
- 16) The inability of an insured to perform any duties of a job meets the definition of which of the following?
- A) Total disability
  - B) Partial disability
  - C) Residual disability
  - D) Recurrent disability
- 17) Which of the following definitions or clauses would a brain surgeon want in his individual disability policy?
- I. An "own occupation" definition
  - II. A "suited by training and education" definition
  - III. a two year or less indemnity period
- A) I only
  - B) II only
  - C) I and III only
  - D) I, II and III

- 18) All other factors being equal, which of the following elimination periods would provide a policy with the lowest premium cost?
- A) 30 days  
B) 60 days  
C) 90 days  
D) 180 days
- 19) Which of the following disability policy elements have an effect on overall policy cost?
- I. Insured's Religious Affiliation  
II. Indemnity period  
III. Benefit amount
- A) I and II only  
B) I and III only  
C) II and III only  
D) I, II and III
- 23) If a person buys 20 Pay Life at the current age of 45, the cash value equals the death benefit at age
- A) 99  
B) 100  
C) 95  
D) 65
- 24) Whether or not a current contract is considered a "Modified Endowment Contract" depends upon a
- A) Single Premium Whole Life Test  
B) Test of Annuitization  
C) 7 Pay Net Premium Test  
D) 20 Pay Life Test
- 25) Policies subject to the Modified Endowment Contract rule include those sold on or after which of the following dates?
- A) January 1, 1989  
B) June 21, 1988  
C) October 1, 1988  
D) July 1, 1988

**Questions 20-21 Match the type of rider listed below in A, B, C and D which provides coverage for the needs described below. Each choice (A through D) may be used once, more than once or not at all.**

- A) Waiver of Premium**  
**B) Cost of Living Adjustment**  
**C) Social Insurance Supplement**  
**D) Guaranteed Insurability Option**

- 20) The disabled insured receives benefit payments which increase based on contractual parameters and the Consumer Price Index.
- 21) Because the insured is collecting a benefit, the insurance company no longer requires a premium.

**Questions 22-26 refer to the area of Whole Life or "permanent" insurance.**

- 22) Which of the following is the biggest weakness of Whole Life?
- A) It is "inflation-proof"  
B) It offers guaranteed and fixed premium cost  
C) Guaranteed and level face amount of protection  
D) Low or conservative internal rates of return

- 26) Which of the following life insurance products is considered to be an "interest sensitive" plan?
- I. Universal Life  
II. Interest Sensitive Whole Life  
III. Variable Life
- A) I only  
B) I and II only  
C) I and III only  
D) I, II and III

**Questions 27-30 refer to the area of Term Life or "temporary" insurance.**

- 27) ) Which of the following statements about term life insurance are true?
- I. It is simply the exchange of premium dollars for death benefit coverage.  
II. It builds no cash value.  
III. It can be purchased with a decreasing face amount.
- A) I only  
B) I and III only  
C) II and III only  
D) I, II and III

- 28) All of the following statements about purchasing term life are true, EXCEPT:
- A) All term policies guarantee cost base on a current mortality basis
  - B) The younger the age the less the risk of death
  - C) The older the age the greater the risk of death
  - D) It is buying insurance on a "pay as you go" basis
- 29) Which of the following riders are important to consider when purchasing a term life policy?
- I. Rights of Ownership
  - II. Convertibility and Renewability
  - III. Waiver of Premium
- A) I and II only
  - B) I and III only
  - C) II and III only
  - D) I, II and III
- 30) The insurance company recognizes a disability as permanent and total and will invoke the Waiver of Premium provision in term policies after which of the following lengths of time?
- A) After 6 months
  - B) After 1 month
  - C) After 3 months
  - D) After 12 months

**Questions 31-34 refer to the area of Annuity.**

- 31) The time during which premium payments are made by the annuitant into the annuity contract is called
- A) the premium payment phase
  - B) the accumulation stage
  - C) the annuitization stage
  - D) the assimilation phase
- 32) In a variable annuity, investment risk is borne by
- A) the insurance company
  - B) the fund's portfolio manager
  - C) the annuitant
  - D) both the annuitant and the insurance company

- 33) Which of the following statements about determining the value of an account under a variable annuity, offered by an open end investment company, is (are) true?
- I. Value can change on a daily basis.
  - II. Total value equals the value of one unit multiplied by the total number of units owned.
  - III. All such matter are regulated by individual states only
- A) I and II only
  - B) I and III only
  - C) II and III only
  - D) I, II and III
- 34) All of the following statements regarding the taxation of annuity are correct, EXCEPT:
- A) there is no current income taxation on an account while it accumulates.
  - B) there is a 10% tax penalty on money withdrawn by an annuitant who is 59 and 1/2 years of age or older.
  - C) general tax treatment on distributions is taxation a last-in, first-out basis
  - D) once proceeds are received, the earnings or growth portion is subject to ordinary income taxation.

**Question 35 refers to the area of Matching Product to Client Need.**

- 35) The needs satisfaction approach to financial planning demands that all of the following take place, EXCEPT:
- A) the planner can assume he knows what is truly best for the client in most cases.
  - B) the planner must understand who his or her client actually is from a human nature point of view.
  - C) it is the responsibility of the planner to ask the proper qualifying questions of the client.
  - D) listening skills such as the feedback and clarification techniques can be quite useful.

**Questions 36-43 refer to the area of Selected Business Insurance Topics.**

- 36) All of the following are true statements concerning the advantages of establishing a buy and sell agreement, EXCEPT:
- A) it can be funded with life insurance.
  - B) they can reduce the potential for quick and forced liquidation in the event of premature death to a partner in a business.
  - C) it contractually binds the surviving partners to purchase the ownership interest of the first partner to die.
  - D) premium cost of the life insurance is a tax deductible expense to the business.

- 37) Under a buy and sell agreement funded with life insurance, the business purchases and owns the policies under a (an)
- Institutional Agreement
  - Cross Purchase
  - Corporate Charter
  - Entity Purchase
- 38) The tax treatment of the proceeds from life insurance and the premium cost of the policy are as follows when a corporation owns the policies under a buy and sell agreement:
- The proceeds are income taxable and the premium cost is not tax deductible.
  - The proceeds are income taxable and the premium cost is tax deductible.
  - The proceeds are income tax free and the premium cost is not tax deductible.
  - The proceeds are income tax free and the premium cost is tax deductible.
- 39) Under deferred compensation plans
- IRS approval is not required
  - 11) the plan must be funded only
  - A written agreement must exist
- I only
  - III only
  - I and III only
  - I, II and III
- 40) Rules for the establishment of qualified retirement plans for self-employed individuals and their employees are set forth under
- Corporate Pension Plans
  - The Keogh Law (HR-10)
  - The Defined Benefit Act
  - ERISA
- 41) A plan which makes eventual retirement benefits dependent upon how much is contributed is known as
- Cross Purchase
  - Entity Purchase
  - Defined Contribution
  - Defined Benefit
- Questions 42-49 refer to the area of The Value Of Money Over Time.*
- 42) All of the following statements concerning Opportunity Cost are true, EXCEPT:
- opportunity cost cannot be measured in terms of actual dollars.
  - the longer you wait to receive a sum of money, the greater the cost to you.
  - the longer you wait to pay a sum of money, the more profitable it can be to you.
  - putting money to work as quickly as possible will minimize your opportunity cost.
- 43) Applying an interest rate to the total of original principal sums plus the interest that was credited to it in earlier periods of time is known as which of the following?
- Simple Interest
  - Applied Interest
  - Subsequent Rate of Return
  - Compound Interest
- 44) If a series of payments are deposited on a "beginning-of-the-year" basis then which of the following formula types would be used?
- Future Value of an Annuity
  - Future Value of a Single Sum
  - Present Value of an Annuity
  - Future Value of an Annuity Due
- 45) If life insurance is being purchased with a view toward spending the proceeds as well as the interest the proceeds will produce, then we are utilizing an application known as
- Principal Liquidation
  - Principal Preservation
  - Proceeds Maximization
  - Proceeds Minimization

**QUESTIONS 46-48**

**THE FOLLOWING SET OF FACTS IS TO BE USED IN CONJUNCTION WITH QUESTIONS 46, 47 and 48. USE THE RULE OF 72 TO SOLVE FOR THESE QUESTIONS**

*Clinton Williams is concerned about the cost of tuition and what they might be when his four children, one, four, nine and fourteen years of age, attend college in the future.*

*This year tuition is \$15,000 annually at the college of his choice and the education inflation rate is expected to rise 8% annually. Mr. Williams currently earns about \$75,000 annually and has managed to save \$30,000 in a tuition fund set up/or his children.*

- 46) Mr. Williams' youngest child can expect to pay how much for an entire four year college education?
- A) \$ 60,000
  - B) \$120,000
  - C) \$240,000
  - D) \$350,000
- 47) Mr. Williams's salary is expected to increase at the average annual rate of 7%. When his second eldest child attend college beginning at age 18, approximately how much will Mr. Williams be earning annually?
- A) \$ 90,000
  - B) \$110,000
  - C) \$125,000
  - D) \$150,000
- 48) Approximately what will be the annual tuition in five years?
- A) \$ 35,000
  - B) \$ 30,000
  - C) \$ 25,000
  - D) \$ 22,000
- 49) The effect that inflation can have on life insurance proceeds generally means which of the following?
- A) Life insurance becomes more meaningless and less is needed over time.
  - B) There are no concerns because proceeds are income tax free to beneficiaries.
  - C) The good planner need only check with clients every ten years or so to see how they are doing.
  - D) Everyone should undergo a periodic review to make certain his or her protection plan is adequate

**Question 50 refers to the area of Taking Inventory: The Personal Balance Sheet**

- 50) Which of the following equations, if any, should be used to determine net worth?
- A) Liabilities plus Assets equal Net Worth
  - B) Liabilities equal Assets plus Net Worth
  - C) Assets divided by Liabilities equal Net Worth
  - D) Assets minus Liabilities equal Net Worth