

***Personal Finance, 6e (Madura)***  
**Chapter 13 Life Insurance**

13.1 Background on Life Insurance

1) Life insurance is an indication of good financial planning, since it provides a payment to the policyholder upon his or her death.

Answer: FALSE

Diff: 1

Question Status: Previous edition

2) Life insurance is critical to protect a family's financial situation in the event that a breadwinner dies.

Answer: TRUE

Diff: 1

Question Status: Previous edition

3) If no one else relies on your income, life insurance may not be necessary.

Answer: TRUE

Diff: 1

Question Status: Previous edition

4) Life insurance may not be that important for a couple who both work full-time and who could each be self-sufficient without the other person's income.

Answer: TRUE

Diff: 1

Question Status: Previous edition

5) A person's need for life insurance varies quite a bit over his or her lifetime.

Answer: TRUE

Diff: 1

Question Status: Previous edition

6) The beneficiaries of life insurance policies can only be family members or those directly affected by a person's death.

Answer: FALSE

Diff: 1

Question Status: Revised

7) The only reason a person would buy life insurance is to eliminate or substantially reduce the financial consequences of that person's death by providing income to his or her dependents.

Answer: FALSE

Diff: 2

Question Status: Previous edition

8) Life insurance may be obtained through all of the following **except**

- A) financial institutions.
- B) private insurance companies.
- C) the federal government.
- D) your employer.

Answer: C

Diff: 2

Question Status: Previous edition

9) Life insurance proceeds are **not** used to

- A) pay off a mortgage.
- B) support parents or other relatives.
- C) fund the policyholder's retirement.
- D) fund charities.

Answer: C

Diff: 1

Question Status: Previous edition

10) Which of the following best explains why approximately one-third of households in the United States do not have life insurance?

- A) People like to focus on more enjoyable events.
- B) There is no immediate financial benefit.
- C) People don't want to make the periodic payments.
- D) People don't want to think about it.

Answer: B

Diff: 1

Question Status: Revised

11) Which of the following does not represent a financial goal related to life insurance?

- A) Provide funds for retirement
- B) Maintain financial support for your dependents
- C) Provide funds to cover burial costs
- D) Provide funds to support your parents

Answer: A

Diff: 1

Question Status: Previous edition

12) Life insurance would be necessary in all of the following situations, **except**

- A) you are single and have no dependents.
- B) you are married and your spouse has no income.
- C) you have three school-aged children.
- D) you financially support your disabled mother.

Answer: A

Diff: 1

Question Status: Revised

13) Since a key purpose of life insurance is to provide for dependents in the event of a main earner's death, it is logical that the amount of insurance purchased should be

- A) a significant amount of money.
- B) a multiple of the insured's annual earnings.
- C) \$50,000.
- D) as little as possible since insurance is expensive.

Answer: B

Diff: 1

Question Status: New

14) Which of the following is a reason to buy life insurance?

- A) Build your net worth.
- B) Insure you against liability your entire life.
- C) Provide a college fund for your children in the event of your early death.
- D) Provide a college fund for your children in the event you become completely disabled.

Answer: C

Diff: 1

Question Status: New

### 13.2 Types of Life Insurance

1) During the time the policy is in effect, term life insurance has a good savings and investment component.

Answer: FALSE

Diff: 1

Question Status: Previous edition

2) Term life insurance is considered temporary insurance, since the policy is only in effect for a specified period of time.

Answer: TRUE

Diff: 2

Question Status: Revised

3) Term insurance will provide most of a young family's life insurance coverage due to its affordable cost.

Answer: TRUE

Diff: 1

Question Status: Previous edition

4) Disadvantages of term insurance are that it increases in cost when you renew it and that it has no value when it matures or you discontinue your policy.

Answer: TRUE

Diff: 1

Question Status: Previous edition

5) The problem with the cash value build up of a whole life insurance policy is that the money can only be used to pay off the policy or buy additional insurance.

Answer: FALSE

Diff: 2

Question Status: Previous edition

6) Whole life policies are the least expensive way to meet your life insurance needs.

Answer: FALSE

Diff: 1

Question Status: Previous edition

7) Advantages of whole life insurance policies are that they provide long-term coverage, the rates are fixed, and they have a savings or cash value feature.

Answer: TRUE

Diff: 2

Question Status: Previous edition

8) If you want to borrow money from the cash value of your whole life policy, the interest rates are relatively high and the terms of the loan are quite strict.

Answer: FALSE

Diff: 2

Question Status: Previous edition

9) A limited payment option on a whole life policy pays a smaller share of the policy face value to beneficiaries during the first five years of the policy.

Answer: FALSE

Diff: 2

Question Status: Previous edition

10) Whole life policies can be structured to provide a higher level of death benefits to beneficiaries in the early years of the policies or for the policies to be paid off in a certain time period, for example, 20 years.

Answer: TRUE

Diff: 2

Question Status: Revised

11) Universal life insurance does not vary from one insurance company to another and is, therefore, the most common and popular form of life insurance.

Answer: FALSE

Diff: 1

Question Status: Revised

12) Universal life insurance is similar to whole life, but allows the policyholder more choices of how the savings portion of the premiums is invested.

Answer: TRUE

Diff: 1

Question Status: Revised

13) A disadvantage of variable life policies is that the cash value may actually decrease in value if stocks or other investments decline.

Answer: TRUE

Diff: 1

Question Status: Previous edition

14) Which of the following is **not** a type of life insurance covered in the text?

A) Term

B) Dependent life

C) Whole life

D) Universal life

Answer: B

Diff: 1

Question Status: Previous edition

15) \_\_\_\_\_ insurance is life insurance that is provided over a specified time period and does not build cash value.

A) Term

B) Whole life

C) Universal life

D) Variable life

Answer: A

Diff: 1

Question Status: Previous edition

16) The least expensive form of life insurance is

A) term.

B) whole life.

C) universal life.

D) variable life.

Answer: A

Diff: 1

Question Status: Previous edition

17) A disadvantage of term insurance is that

A) it becomes more expensive when you renew it.

B) the cash value portion of the premium is larger than other forms.

C) you can only exchange your cash value for other insurance.

D) it is expensive early in life when you need it the most.

Answer: A

Diff: 2

Question Status: Previous edition

- 18) Term life insurance is
- A) often available in group policies through employers.
  - B) less expensive when you renew it.
  - C) pure insurance with no savings feature.
  - D) Both A and C are correct

Answer: D

Diff: 1

Question Status: Previous edition

- 19) Which of the following statements is **false** concerning term life insurance?
- A) The premiums increase as you renew the policy.
  - B) It will expire and be of no value if not renewed.
  - C) It has a cash value or savings feature as long as you keep the policy active.
  - D) It provides the same amount of cash to a beneficiary as whole life policies.

Answer: C

Diff: 1

Question Status: Revised

20) If you wanted to provide more coverage for your family early in life when they need it the most and decrease the amount of benefits in later years, yet continue to pay the same premiums, you should buy a(n) \_\_\_\_\_ policy.

- A) whole life
- B) decreasing-term
- C) universal life
- D) variable life

Answer: B

Diff: 2

Question Status: Revised

21) You are putting \$100 a month into a passbook savings account to pay for your child's college education. You worry that if you die before you have enough saved, your child will not be able to get a college education. Which of the following types of life insurance would best fit your needs at the lowest cost?

- A) Whole life
- B) Universal life
- C) Decreasing-term
- D) Variable life

Answer: C

Diff: 2

Question Status: Revised

22) \_\_\_\_\_ life insurance can only be used to pay off a home in the event of the policyholder's death.

- A) Mortgage
- B) Decreasing-term
- C) Universal life
- D) Homeowner

Answer: A

Diff: 1

Question Status: Previous edition

23) Rather than purchasing mortgage life insurance, individuals can achieve the same goal and possibly save money by purchasing sufficient \_\_\_\_\_ to pay off the mortgage.

- A) whole life insurance
- B) universal life insurance
- C) term insurance
- D) the type of insurance depends on the age of the house.

Answer: C

Diff: 1

Question Status: Revised

24) The best substitute for mortgage insurance would be \_\_\_\_\_ insurance.

- A) decreasing-term
- B) whole life
- C) universal life
- D) variable life

Answer: A

Diff: 1

Question Status: Revised

25) Term insurance provided to a designated group of people with a common bond is called

- A) decreasing term insurance.
- B) group term insurance.
- C) whole life insurance.
- D) universal life insurance.

Answer: B

Diff: 1

Question Status: Previous edition

26) Whole life insurance has a \_\_\_\_\_ premium and has \_\_\_\_\_ cash value build up over the life of the policy.

- A) fixed; no
- B) variable; a
- C) fixed; a
- D) variable; no

Answer: C

Diff: 2

Question Status: Previous edition

- 27) A disadvantage of whole life policies is that
- A) the premiums are not predictable.
  - B) they are much more expensive than term policies.
  - C) the face value of the policy can change over time.
  - D) the cash value is frozen and not available to policyholders.

Answer: B

Diff: 1

Question Status: Previous edition

- 28) One advantage of whole life insurance over term life insurance is
- A) premiums are not affected by age.
  - B) whole life insurance forces people to save money.
  - C) whole life insurance is less expensive than term life.
  - D) whole life does not build cash value while term life does.

Answer: B

Diff: 1

Question Status: Revised

- 29) Whole life insurance is also referred to as
- A) endowment life insurance.
  - B) universal life insurance.
  - C) group life insurance.
  - D) permanent insurance.

Answer: D

Diff: 1

Question Status: Previous edition

- 30) Which of the following is **not** an option as a way to use the cash value of your whole life policy?
- A) Borrow money from the policy at a low rate of interest
  - B) Cancel the policy and use the proceeds to buy term insurance in the same value as your whole life policy
  - C) Have the insurance company invest your cash value in stocks or mutual funds of your choosing
  - D) Cancel the policy and get your cash value returned to you

Answer: C

Diff: 2

Question Status: Revised



31) Which of the following will **not** affect the premiums on a term life insurance policy?

- A) Age of the policyholder
- B) Percentage earned on savings portion of premium
- C) Gender of the policyholder
- D) Family medical history of the policyholder

Answer: B

Diff: 2

Question Status: Previous edition

32) If a policyholder with a universal life insurance policy skips a payment, then the insurance company

- A) terminates the policy.
- B) refunds the amount paid and terminates the policy.
- C) uses an amount from savings to pay the premium.
- D) increases the premium.

Answer: C

Diff: 2

Question Status: Revised

33) A universal life policy gives policyholders the right to select their \_\_\_\_\_ which is a right that whole life policyholders do not have.

- A) term
- B) investments
- C) savings
- D) amount

Answer: B

Diff: 1

Question Status: Revised

34) Which of the following types of insurance is intended to provide a limited choice of investments and an insurance component in the event of death?

- A) Whole life
- B) Universal life
- C) Term insurance
- D) Mortgage life

Answer: B

Diff: 1

Question Status: Revised

35) Your need for life insurance will last for 20 years. You also wish to save some money over that same time period. What kind of life insurance would fill these requirements?

- A) Term
- B) Decreasing term
- C) Universal life
- D) Deferred life insurance

Answer: C

Diff: 2

Question Status: Revised

36) Life insurance that provides insurance over a specified term and allows policyholders to invest residual funds in various types of investments is known as

- A) whole life insurance.
- B) term life insurance.
- C) universal life insurance.
- D) variable life insurance.

Answer: D

Diff: 2

Question Status: Revised

37) Which type of life insurance allows policyholders to make their own investment decisions?

- A) Whole life
- B) Group life
- C) Variable life
- D) Deferred term life

Answer: C

Diff: 1

Question Status: Revised

38) Which of the following policies will **not** give you a cash settlement if you terminate the policy?

- A) Whole life
- B) Universal life
- C) Decreasing term life
- D) Variable life

Answer: C

Diff: 1

Question Status: Previous edition

39) Which of the following insurance type is strictly intended to provide only insurance in the event of death?

- A) Whole life
- B) Term
- C) Universal life
- D) Variable life

Answer: B

Diff: 1

Question Status: Previous edition

40) Life insurance premiums are based on all of the following **except**

- A) the amount of coverage you desire.
- B) your age when you take out the policy.
- C) your health habits.
- D) the age of your children when the policy is taken out.

Answer: D

Diff: 1

Question Status: Previous edition

41) A life insurance premium is \_\_\_\_\_ related to your age.

- A) somewhat
- B) occasionally
- C) directly
- D) inversely

Answer: C

Diff: 1

Question Status: Previous edition

42) If the premium on a term insurance policy is not paid by the due date, which of the following is true?

- A) The policy is immediately terminated.
- B) The death benefit of the policy is reduced by the amount of the premium owed.
- C) The premium will be deducted from the cash value of the policy.
- D) The policyholder is given a grace period to pay after which the policy will be terminated if the premium is not paid.

Answer: D

Diff: 1

Question Status: Revised

43) Which of the following factors does **not** affect your life insurance premiums?

- A) Your gender
- B) Your health
- C) The cash value of the policy
- D) Your level of education

Answer: D

Diff: 1

Question Status: Previous edition

44) The best time to buy a whole life insurance policy in terms of expense is

- A) as a child.
- B) when you are in college.
- C) when you have dependents.
- D) in your retirement.

Answer: A

Diff: 1

Question Status: Previous edition

45) If your life follows the pattern of college-marriage-kids-retirement, your need for life insurance will

- A) steadily increase.
- B) steadily decrease.
- C) stay the same.
- D) peak and then decline.

Answer: D

Diff: 2

Question Status: Previous edition

46) Of the following statements dealing with premiums on life insurance, which is **not** true?

- A) Some factors that affect premiums are decided at birth.
- B) Premiums will be higher if you buy insurance when you are older.
- C) The kind of policy you buy will determine your premiums.
- D) There are very few things you can do to reduce your life insurance premiums.

Answer: D

Diff: 1

Question Status: Revised

47) In using the Internet to price insurance, which of the following is **not** true?

- A) It is fast and convenient.
- B) It is usually more expensive.
- C) There is less pressure.
- D) You can compare rates among several companies at once.

Answer: B

Diff: 1

Question Status: Previous edition

48) Low cost life insurance, often available without a physical exam, is generally offered by

- A) Internet insurance companies.
- B) mutual insurance companies.
- C) employer-sponsored group insurance plans.
- D) independent insurance agents.

Answer: C

Diff: 1

Question Status: Previous edition

49) The cheapest form of life insurance that provides coverage for a specified time period is \_\_\_\_\_.

Answer: term insurance

Diff: 1

Question Status: Previous edition

50) Life insurance that provides insurance coverage for a specified term and also includes a savings option is called \_\_\_\_\_ insurance.

Answer: universal life

Diff: 1

Question Status: Previous edition

51) The premiums charged on life insurance will be higher if the individual is more likely to \_\_\_\_\_ in the near future.

Answer: die

Diff: 1

Question Status: Previous edition

**Use the following two columns of items to answer the matching questions below:**

- A) cash value and benefits to the beneficiary
- B) combination of term insurance and a savings plan
- C) premiums constant with reduced benefits
- D) term insurance with a variable investment portion

52) whole life insurance  
Diff: 1  
Question Status: New

53) decreasing-term insurance  
Diff: 1  
Question Status: New

54) universal life insurance  
Diff: 1  
Question Status: New

55) variable life insurance  
Diff: 1  
Question Status: New

Answers: 52) A 53) C 54) B 55) D

56) What are the three most popular types of life insurance?  
Answer: Term, whole life, and universal life.  
Diff: 1  
Question Status: Revised

57) Which type of life insurance is typically provided by an employer as part of the employee benefits package?  
A) Variable life insurance  
B) Decreasing-term life insurance  
C) Term insurance  
D) Dependant life insurance  
Answer: C  
Diff: 2  
Question Status: New

58) If your financial plan objective is to provide your family with the most insurance benefit in the event of your untimely death, you should purchase

- A) decreasing-term insurance.
- B) term insurance.
- C) universal life insurance.
- D) whole life insurance.

Answer: B

Diff: 2

Question Status: New

### 13.3 Determining the Amount of Life Insurance

1) The income method, basing life insurance needs on multiples of current income, is the easiest and most accurate method of determining how much life insurance a person should buy.

Answer: FALSE

Diff: 2

Question Status: Previous edition

2) The more savings a household has accumulated, the less life insurance they will need.

Answer: TRUE

Diff: 1

Question Status: Previous edition

3) Using the budget method of determining life insurance needs, a family's future expected expenses are considered.

Answer: TRUE

Diff: 2

Question Status: Revised

4) In the \_\_\_\_\_ method, life insurance is determined as a multiple of your annual income.

- A) income
- B) asset
- C) balance sheet
- D) budget

Answer: A

Diff: 1

Question Status: Previous edition

5) The income method, used to calculate your life insurance coverage, multiplies your current annual income by

- A) your expenses per month.
- B) the number of your dependents.
- C) some arbitrary number, such as 10.
- D) your life expectancy.

Answer: C

Diff: 2

Question Status: Revised

6) All of the following are true of the income method of determining life insurance needs **except** it

- A) is easy to use.
- B) does not consider your age.
- C) factors in the number of children in your family.
- D) doesn't figure in savings or investments.

Answer: C

Diff: 1

Question Status: Previous edition

7) The income method of determining how much life insurance coverage you need is

- A) based on future family expenses.
- B) based on the age of your children.
- C) based on the amount of your 401(k) retirement plan.
- D) a good starting point.

Answer: D

Diff: 1

Question Status: Revised

8) The easiest method of estimating your life insurance needs is the

- A) life cycle approach.
- B) budget approach.
- C) financial approach.
- D) income approach.

Answer: D

Diff: 1

Question Status: Previous edition

9) The budget method of estimating life insurance needs considers all of the following, **except**

- A) the amount of debt you owe.
- B) your annual income.
- C) the value of your existing savings.
- D) special expenses you will incur.

Answer: B

Diff: 2

Question Status: Revised

10) The job marketability of your spouse

- A) would be a factor considered in the budget method of determining life insurance needs.
- B) is used in the income method of determining life insurance needs.
- C) is really not that important in determining life insurance needs.
- D) is the main factor in determining whether or not you even need life insurance.

Answer: A

Diff: 2

Question Status: Previous edition



- 11) The most accurate method of determining life insurance needs is
- A) the income method.
  - B) the budget method.
  - C) subtracting your annual income from \$1 million.
  - D) having enough insurance to provide \$50,000 per year for 20 years.

Answer: B

Diff: 2

Question Status: Previous edition

- 12) Using the income method, if Jenny has an annual income of \$50,000, debt of \$20,000, and a factor of 10, then she should purchase \_\_\_\_\_ of life insurance.

- A) \$100,000
- B) \$200,000
- C) \$300,000
- D) \$500,000

Answer: D

Diff: 1

Question Status: Previous edition

- 13) Sam figures it will take \$250,000 invested at 6% to provide suitable income to his family for 12 years. He would also like to have \$40,000 set aside to educate his two children. Sam's current savings is \$20,000. How much life insurance does he need using the budget method?

- A) \$190,000
- B) \$250,000
- C) \$270,000
- D) \$310,000

Answer: C

Diff: 2

Question Status: Previous edition

- 14) Which of the following will increase your need for life insurance?

- A) Your spouse graduates from college
- B) You receive a large inheritance
- C) Your only child graduates from college
- D) You get married

Answer: D

Diff: 1

Question Status: Previous edition

15) All of the following are limitations of the budget method of estimating life insurance needs, **except**

- A) it does not consider your family circumstances.
- B) inflation may cause you to underestimate your needs.
- C) someone in your household could experience an unanticipated illness.
- D) your income may not rise over time as expected.

Answer: A

Diff: 1

Question Status: Revised

16) Using the income method and employing a factor of 10, determine the amount of insurance a couple would need if their net income is \$65,000, their assets total \$280,000, their liabilities total \$130,000, their two children's anticipated college education needs total \$730,000, and their invalid mother's future nursing home expenses total \$290,000.

- A) \$2,850,000
- B) \$1,500,000
- C) \$650,000
- D) \$730,000

Answer: C

Explanation: C)  $\$65,000 \times 10 = \$650,000$

Diff: 2

Question Status: Revised

17) How much insurance would be needed in order to provide for a family for 20 years if the pretax income necessary to cover living expenses is \$50,000 and the money can be invested at 6%?

- A) \$573,500
- B) \$1,000,000
- C) \$833,333
- D) \$2,100,000

Answer: A

Explanation: A)  $\$50,000 \times 11.47$  (PVIFA,  $I = 6\%$ ,  $n = 20$ ) = \$573,500

Diff: 2

Question Status: Revised

18) An employer provides all employees with term life insurance equal to their annual income. Using the income method with a factor of 5, how much additional life insurance will an employee earning \$75,000 per year need?

- A) \$375,000
- B) \$300,000
- C) \$75,000
- D) \$50,000

Answer: B

Explanation: B)  $\$75,000 \times 5 = \$375,000 - \$75,000 = \$300,000$

Diff: 2

Question Status: Revised

19) If you determine your life insurance needs by considering your annual living expenses, special future expenses, debt, job marketability of spouse, and value of existing savings, you are using the \_\_\_\_\_ method.

Answer: budget

Diff: 1

Question Status: Previous edition

**Use the following two columns of items to answer the matching questions below:**

- A) determines the life insurance amount needed based on a budget
- B) uses annual income times a factor to arrive at the amount of life insurance needed

20) income method

Diff: 1

Question Status: New

21) budget method

Diff: 1

Question Status: New

Answers: 20) B 21) A

22) Name four factors that are utilized in the budget method of calculating life insurance.

Answer: Annual living expenses, special future expenses, debt, job marketability of spouse, and value of existing savings are all possible answers.

Diff: 2

Question Status: Previous edition

23) Describe the two methods used to determine the amount of life insurance needed.

Answer: The income method determines how much life insurance is needed based on the policyholder's annual income. The budget method determines how much insurance is needed based on the household's future expected expenses.

Diff: 2

Question Status: Revised

24) How much term life insurance should you have to provide your family with \$75,000 per year pretax for general expenses for 40 years, plus immediately pre-fund two \$100,000 college accounts for your two children in the event of your death. Assume your death benefit could be invested at 6% per year for the entire period.

A) \$1,200,000

B) \$1,357,000

C) \$1,328,472

D) Not enough information to determine the answer

Answer: C

Diff: 3

Question Status: New

### 13.4 Contents of a Life Insurance Policy

1) The constitutional beneficiary is the person who will receive the death benefits if the primary beneficiary is no longer living when the policyholder dies.

Answer: FALSE

Diff: 1

Question Status: Previous edition

2) A lump sum settlement option is usually the best choice, even if a beneficiary is not very good at managing large sums of money.

Answer: FALSE

Diff: 1

Question Status: Revised

3) A lump-sum insurance settlement would be most appropriate for

A) a surviving spouse with small children.

B) parents living in a nursing home.

C) a disciplined beneficiary.

D) a former spouse.

Answer: C

Diff: 1

Question Status: Previous edition

4) If you buy a term insurance policy with a conversion option, this means that you

A) will get most of your premiums back if you terminate the policy before its expiration.

B) can convert the policy to a larger term policy after one year.

C) can convert your term policy to a whole life policy during the conversion period.

D) will be able to change the term of your policy and automatically extend it.

Answer: C

Diff: 2

Question Status: Previous edition

5) Which of the following is **not** a settlement option for life insurance?

A) Lump-sum settlement

B) Deferred-value settlement

C) Installment payments settlement

D) Interest payments settlement

Answer: B

Diff: 2

Question Status: Revised

6) If you choose to receive your benefit in the form of equal payments for a certain number of years instead of a lump sum, you elected to receive a(n)

- A) installment payments settlement.
- B) interest payments settlement.
- C) lump-sum settlement.
- D) limited settlement.

Answer: A

Diff: 2

Question Status: Revised

7) Life insurance proceeds are generally **not** taxable to the

- A) insured.
- B) beneficiary.
- C) administrator.
- D) benefactor.

Answer: B

Diff: 2

Question Status: Previous edition

8) The \_\_\_\_\_ in a life insurance policy allows the beneficiary to receive the proceeds in different ways.

Answer: settlement options

Diff: 1

Question Status: Previous edition

**Use the following two columns of items to answer the matching questions below:**

- A) alternative ways a beneficiary can receive benefits
- B) a single payment to the beneficiary

9) settlement options

Diff: 1

Question Status: New

10) lump-sum settlement

Diff: 1

Question Status: New

Answers: 9) A 10) B

11) What are three types of settlement options?

Answer: Lump-sum, installment payments, and interest payments.

Diff: 1

Question Status: Previous edition

12) You are the beneficiary of a \$200,000 life insurance policy that has both a lump-sum option and an annuity option. The annuity option pays \$20,000 per year for a 15 year period beginning at the end of the year. Using your financial calculator or the tables in the book, determine the minimum rate of return you must be assured of earning over the 15 year period if you were to choose the \$200,000 lump-sum settlement.

A) 5.6%

B) 6%

C) 3.25%

D) 7.2%

Answer: A

Diff: 3

Question Status: New

### 13.5 Selecting a Life Insurance Company

1) The services that insurance companies provide should not be a factor in selecting a life insurance company.

Answer: FALSE

Diff: 1

Question Status: Previous edition

2) Insurance companies are assigned ratings by all of the following, **except**

A) Moody's.

B) Standard and Poor's.

C) Securities and Exchange Commission.

D) A.M. Best.

Answer: C

Diff: 2

Question Status: Revised

3) When choosing a life insurance company, you should consider all of the following criteria **except**

A) the financial condition of the company.

B) the cost of the policy.

C) the types of policies offered.

D) the length of the application.

Answer: D

Diff: 2

Question Status: Previous edition

4) For which type of insurance policy is choosing an insurance company with a high rating the most important?

A) Disability insurance

B) Automobile insurance

C) Homeowner's insurance

D) Life insurance

Answer: D

Diff: 2

Question Status: Revised

5) Why is the A.M. Best rating of the insurance company from whom you plan to purchase a life insurance policy important?

A) You want to buy your policy from a company that is most financially sound

B) You want to buy your policy from a well regarded insurance company

C) Since you never know when, or if, your policy will have to pay your beneficiary, it is wise to select the company that will "be around" in the future

D) All of the above are important considerations.

Answer: D

Diff: 2

Question Status: New



## 13.6 How Life Insurance Fits Within Your Financial Plan

1) Life insurance affects everything **except** your

A) liquidity.

B) net worth.

C) life expectancy.

D) peace of mind.

Answer: C

Diff: 1

Question Status: Previous edition