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LIFE & HEALTH

STUDY GUIDE

EXAM PREP AND ANSWER KEY

- Knowledge Checks
- Check-Ins
- Self-Quizzes
- Sample Exam Questions
- Glossary of Terms



RISK & INSURANCE
EDUCATION ALLIANCE

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LIFE & HEALTH

STUDY GUIDE

EXAM PREP AND ANSWER KEY

This Study Guide has been prepared to enhance your learning experience. It contains all of the Check-In questions, Knowledge Checks, and Self-Quizzes contained within the course, along with an Answer Key and Glossary. Use it as a tool to help practice and assess your knowledge of the course material, but do not mistake it for a comprehensive “short-cut” to preparing for the final exam.

Be sure to take a look at the Appendix that follows the Answer Key in this Study Guide. It contains valuable suggestions for test preparation and study techniques, as well as some sample exam questions and a glossary of terms.

Your path to success in passing the final exam will come from your attentiveness during the course and the effort you put into preparation.



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Tools to Assess Your Knowledge

Check-Ins, Knowledge Checks,
and Self-Quizzes by Topic

Section 1: Life and Annuity Policies

The Basics of Life Insurance

Check-In



Directions: Respond to the following questions.

1. An individual interested in purchasing a life insurance policy approaches your agency. They live in Texas and are the sole source of income for their family of four and earn \$120,000 a year. The total value of their estate is \$2 million. Which of the following choices best explains a benefit of life insurance for this individual?
 - ☐ Life insurance can be used to pay estate taxes, preserving the value of the estate.
 - ☐ Life insurance can be used as an investment tool to maximize their annual earnings.
 - ☐ The life insurance policy will pay off estate debts before paying the beneficiaries.
 - ☐ Life insurance can be used to replace their income and financially protect their surviving relatives.
2. Referring to the previous question, why are federal estate taxes not a concern for this particular client? Select the best answer choice.
 - ☐ Federal estate taxes are only levied in certain states, and Texas is not one of them.
 - ☐ Their estate value is below the federal estate tax threshold.
 - ☐ Estate taxes only apply to individuals who own or operate a business.
 - ☐ Estate taxes can be avoided entirely if the estate is left to immediate family members.

Section 1: Life and Annuity Policies

Check-In



Directions: Indicate whether each of the following statements is true or false.

1. A buy-sell agreement funded by life insurance ensures that a deceased business owner's share can be purchased by surviving owners or the business itself, preventing ownership disputes.

True

False

2. Key person insurance provides a death benefit to the insured employee's family to cover their personal expenses in the event of their passing.

True

False

» Knowledge Check



Directions: Answer the following questions.

1. You are speaking with a married couple in their late 20s who have a young child. Their combined household income is \$150,000, and they have a mortgage for a home worth \$250,000. They ask you about the benefits of life insurance. How would you counsel this couple?

2. You are speaking to a business owner. He has an IT employee who has been with the company for five years. He has performed exceptionally well in his role and has worked hard to streamline the company's IT processes. He would like to obtain key person life insurance for this employee. Does the business owner have an insurable interest? Why or why not?

Planning for Personal Needs

Check-In



Directions: Answer the following question.

Christina is meeting with a prospective client about a life insurance policy. The client states that they are married, have a child on the way, and want to secure coverage that ensures their child would be protected if anything happened to them. Christina recommends the client purchase a term life insurance policy for 25 or 30 years to financially protect the child until they reach adulthood.

Which statement about this interaction is correct?

- ☐ Christina followed best practices by quickly recommending an appropriate solution for the client.
- ☐ Christina should use more thorough questioning tactics before offering a solution.
- ☐ Christina should have offered a permanent life insurance policy since these accumulate cash value.
- ☐ Christina should recommend a 10-year term policy since the client could purchase more coverage later.

» Knowledge Check



Directions: Respond to the following prompt.

Maria, a 42-year-old single mother of two children, ages 10 and 13, meets with an agent to assess her life insurance needs using the Total Needs Analysis method. She earns \$75,000 per year, has a \$200,000 mortgage and \$15,000 in outstanding student loan debt, and wants to ensure her children's college education costs—estimated at \$50,000 each—are covered. Additionally, she wants to leave \$30,000 for final expenses and provide twelve years of income replacement for her children after her death.

Describe a potential life insurance solution for Maria.

Types of Life Insurance Contracts

Check-In



Directions: Indicate whether each of the following statements is true or false.

1. In decreasing term life insurance, both the death benefit and the monthly premium decrease over time.

True

False

2. If the insured has not selected a non-forfeiture option and the policy is cancelled due to non-payment of premium, the policy will be surrendered, and the insured will receive any existing cash value.

True

False

3. Policy dividends are generally only a feature of policies sold by mutual insurance companies.

True

False

Check-In



Directions: You have three different clients. Read their risk appetite and select the letter of the universal life policy that would be best for each client.

A. Guaranteed Universal Life	_____ Camila is a 26-year-old mother. She wants a relatively straightforward product that grows cash value at a stable rate.
B. Indexed Universal Life	_____ Thomas is a 30-year-old working professional. He has invested his own assets in the stock market and wants a universal life policy with the potential for high cash value growth.
C. Variable Universal Life	_____ Jeremiah is a 29-year-old construction worker. He wants a life insurance policy that offers higher returns but does not want to risk of losing his cash value.

» Knowledge Check



Directions: Respond to the following prompt.

Your clients would like to have a permanent insurance program but are concerned about the additional expenses the family will incur over the next 10 years while their children are in college. Explain how the flexibility of universal life would address your clients' concerns.

Life Insurance Contract

Check-In



Directions: Indicate whether each of the following statements is true or false.

1. Diane's policy lapses due to nonpayment of premium on October 8th. She passes away October 13th. Her policy will not pay a death benefit.

True

False

2. Tammy and Teddy have one adult son, Tim. Teddy owns a life insurance policy with Tim listed as the irrevocable beneficiary. As part of a divorce settlement, ownership of the policy is transferred to Tammy. As the owner, Tammy can alter the policy so that Tim is no longer the beneficiary.

True

False

3. Jorge purchases a whole life insurance policy at age 23. At age 27, he picks up the hobby of skydiving. Upon learning this, the insurer is allowed to add a new cause-of-death exclusion to his policy.

True

False

» Knowledge Check



Directions: Respond to the following.

1. Fill out the following table by reading each described situation and explaining the tax rules related to each situation.

Axton makes substantial annual premium payments to a universal life policy. He asks you if there is any way to use these premiums to offset his taxable income.	
Shelly passes away. She was the owner and insured of a \$1,000,000 life insurance policy, with her son listed as the beneficiary. Is the death benefit taxable in any way?	
A client has paid \$100,000 in premiums for a universal life policy. The policy has \$120,000 in cash value. The client takes all \$120,000 of his cash value and surrenders the policy. How will this impact his taxable income?	

2. Your client has five adult grandchildren and wants to leave them each a \$50,000 death benefit from the same life insurance policy. If a grandchild predeceases the client, the client wants the grandchild’s heirs to inherit the money with the payment distributed equally among the deceased grandchild’s heirs. How would this objective best be achieved?

Annuities

» Knowledge Check



Directions: Respond to the following prompts.

1. Your client, George, recently received a \$100,000 inheritance. He decides to invest the entire amount in an annuity to supplement his personal retirement income. He plans to retire in 20 years and asks you for recommendations. He states that he is open to taking some risks but does not want to lose his principal investment. List the types of annuities George may consider and describe which annuity you would recommend.

2. George is also curious about his payout options. Describe for him how payouts would differ between straight life and 10-year period certain options.

Section 1 Self-Quiz



Set Yourself Up for Success!

An interactive version of this quiz, called a Wayground, a Quizlet set of vocabulary/definition flashcards, and Study Guide, are available on the Resources webpage at <https://www.riskeducation.org/lhresources/>.

Directions: Respond to the following questions.

1. George has two children and is the sole proprietor of a small business. His oldest son has been actively involved in running the business for years. His daughter attends art school and plans to pursue painting as a career. Which choice best describes how life insurance could benefit George and his family?
 - ☐ After a period, George could use the policy's cash value as business capital and invest in growing his business.
 - ☐ George could use life insurance to avoid family conflicts, as the death benefits are automatically divided equally among his heirs.
 - ☐ Transfer of business ownership is a concern for George. Life insurance can be used to fund a buy-sell agreement transferring ownership to his son.
 - ☐ Life insurance could equalize inheritance. George will likely pass the business to his son, so the death benefit could be used to leave something of similar value for his daughter.
2. Which best explains an advantage of using life insurance to fund business continuity?
 - ☐ Death benefits are highly liquid and can be used immediately to transfer ownership to the correct parties.
 - ☐ Death benefits provided to the family of the deceased allow them to buy shares in the company, ensuring continuity of ownership.
 - ☐ Life insurance designed for business continuity eliminates the need for legal agreements, making succession automatic.
 - ☐ Life insurance guarantees the business will automatically increase in value upon the owner's death, ensuring continuity.

Section 1: Life and Annuity Policies

3. An important part of the life insurance contract is that an insurable interest exists. Which of the following situations is the best example of a valid insurable interest?
- ☐ Joe wants to purchase a life insurance policy on his former high school teacher.
 - ☐ Rodriguez wants to purchase a life insurance policy for his ex-wife.
 - ☐ Taniqua wants to purchase a life insurance policy for her 4-year-old daughter.
 - ☐ Tim wants to purchase a life insurance policy for his elderly neighbor.
4. Agents should be knowledgeable about the terminology used within life insurance contracts. In terms of a life insurance contract, what is consideration?
- ☐ Consideration includes the methods used to prove insurability, such as a health exam.
 - ☐ Consideration refers to the applicant's ability to understand the terms of a contract.
 - ☐ Consideration is the exchange of a premium for the insurer's promise to pay the death benefit.
 - ☐ Consideration is the elements of a contract that restrict or exclude coverage for certain events.
5. What goal should the agent have during an initial meeting with a client?
- ☐ Understand the client's unique situation and primary financial objectives
 - ☐ Convince the client to participate in a total needs analysis
 - ☐ Ensure the client leaves with some form of permanent life insurance
 - ☐ Provide the client with detailed product comparisons between life insurance policies

Section 1: Life and Annuity Policies

6. A client has limited time when meeting with an agent. What approach would be the best way of obtaining an estimate of how much life insurance protection the client should obtain, given the situation?
- ☐ Total Risk Analysis
 - ☐ Total Needs Analysis
 - ☐ Multiples of Gross Earning Method
 - ☐ Scientific Guess
7. An agent is conducting a total needs analysis with a client. The agent explains that the client is in the sandwich generation and needs to financially prepare for this reality. Which answer choice best describes the “sandwich generation” and its impact on required life insurance amounts?
- ☐ The sandwich generation refers to individuals caring for both elderly parents and dependent children. Life insurance death benefits will naturally need to be higher to cover the costs of caring for both elders and children.
 - ☐ The sandwich generation refers to millennials and Gen Z, who will face high inflationary pressures in their lifetime. To accommodate for inflation, they will need larger death benefits.
 - ☐ The sandwich generation refers to middle-aged adults who switch careers frequently, requiring life insurance policies with flexible premium options.
 - ☐ The sandwich generation refers to people nearing retirement who are primarily focused on travel and lifestyle goals, so lower life insurance amounts are usually sufficient.
8. Karen is about to start attending nursing school, and her income will be limited. She wants to obtain a life insurance policy for herself to provide funds for her dependent daughter in the event that Karen passes. What type of life insurance product should the agent recommend?
- ☐ Term Life Insurance
 - ☐ Whole Life Insurance
 - ☐ Variable Universal Life Insurance
 - ☐ Indexed Universal Life Insurance

Section 1: Life and Annuity Policies

9. Which of the following correctly identifies a disadvantage of term life insurance policies?
- ☐ These policies are not renewable, risking insurability.
 - ☐ These policies are typically more expensive.
 - ☐ These policies do not accumulate cash value.
 - ☐ These policies have higher premiums that decrease over the length of the term.
10. Samantha has a \$100,000 whole life policy that has accumulated \$20,000 in cash value. What would happen to the cash value if she were to pass away?
- ☐ The cash value would be converted to an annuity, with payments going to named beneficiaries.
 - ☐ The cash value would not be paid. Beneficiaries would receive only the \$100,000 death benefit.
 - ☐ The cash value would increase the death benefit to \$120,000.
 - ☐ The cash value is distributed to Samantha's estate separately from the death benefit.
11. Which of the following statements regarding universal life insurance policies are true? (Select all that apply.)
- ☐ Universal life insurance policies only earn cash value based on market performance.
 - ☐ Premiums can be increased or decreased.
 - ☐ The face amount of the policy can be increased.
 - ☐ Universal life policies can be partially surrendered.

Section 1: Life and Annuity Policies

12. Jane wants to purchase a life insurance policy through your agency. She is a day trader and is well-informed of market conditions and speculative risks. What life insurance policy might suit Jane's risk appetite?
- ☐ Term Life
 - ☐ Whole Life
 - ☐ Indexed Universal Life
 - ☐ Variable Universal Life
13. Craig purchases a 10-year term life insurance policy with a death benefit of \$100,000 on January 5th. Six months later, he falls ill with a mysterious illness. During his time in the hospital, he misses a premium payment originally due July 5th. Six days later, he passes away from complications of the illness. What contract provisions would apply in this scenario? (Select all that apply.)
- ☐ Incontestability Clause
 - ☐ Grace Period
 - ☐ Suicide Clause
 - ☐ Reinstatement
14. Your client wants to name his beneficiary as "All his children." Which answer choice best explains why the client should avoid listing his beneficiary in this manner?
- ☐ "All his children" is vague and makes it possible that unnamed or illegitimate children will make an attempt to claim the death benefit.
 - ☐ An insurer will not allow this. Since the named beneficiary is not allowed, the death benefit will be attached to the client's estate and go through probate.
 - ☐ Naming "all his children" may delay payment to other beneficiaries if one of the children is under the age of 18.
 - ☐ Listing all children could result in tax implications due to multiple named beneficiaries.

Section 1: Life and Annuity Policies

15. Which of the following policy riders allows an insured to increase the face amount of a universal life policy at certain staged ages?

- ☐ Term Rider
- ☐ Payor Benefit
- ☐ Waiver of Premium
- ☐ Guaranteed Insurability Rider

16. Which of the following life insurance situations would create a taxable event?

- ☐ A policyholder surrenders the policy for the entirety of the life policy's cash value and interest.
- ☐ A named beneficiary receives a death benefit.
- ☐ A life insurance policy's cash value is credited with \$1,200 of interest after a year.
- ☐ A policyholder uses cash value to cover universal life premiums for a year.

17. Which of the following is the individual who receives payments from an annuity?

- ☐ Policy owner
- ☐ Beneficiary
- ☐ Annuitant
- ☐ Lienholder

Section 1: Life and Annuity Policies

18. What is one advantage of opting for a variable annuitization?

- ☐ Increasing payments for good market performance may allow the annuity to keep pace with future inflation.
- ☐ A variable annuitization will offer guaranteed fixed monthly payments for life, regardless of market performance.
- ☐ Variable annuitization locks in a fixed interest rate, allowing payments to increase monthly for the remainder of the annuitant's life.
- ☐ Variable annuitization results in protection from market downturns for an annuitant's payments.

19. A 10% tax penalty applies to all individuals who receive distributions from annuities before the age of _____.

- ☐ 59½
- ☐ 60
- ☐ 62½
- ☐ 65

20. Libby elects to access the value of her annuity through a straight life settlement option. How will this impact her beneficiary?

- ☐ Her beneficiary will receive any cash value left after Libby's death.
- ☐ Her beneficiary will only receive a death benefit if Libby dies within ten years of annuitization.
- ☐ Her beneficiary will not receive a death benefit.
- ☐ Her beneficiary will receive periodic annuity payments for a specified period after Libby dies.

Additional Practice

Directions: The following questions are meant for additional practice or class-based discussion. Read the scenarios described and then provide a recommendation for the client.

1. Angela is a 38-year-old single mother with two young children, ages 5 and 7. She works full-time as a nurse and earns \$80,000 per year. Angela is concerned about what would happen to her children financially if she were to pass away unexpectedly. She wants to ensure that her life insurance would be enough to cover 15 years of income replacement, pay off her \$200,000 mortgage, and provide an additional \$100,000 for each child's college education.

Create a life insurance plan for this individual. Be sure to include considerations such as naming beneficiaries and riders.

Section 1: Life and Annuity Policies

- David is a 60-year-old engineer who just received a \$250,000 inheritance from a family estate. He's looking for a way to generate a guaranteed lifetime income for when he retires at 65. David is risk-averse, prefers stable, predictable payments, and does not want to manage investments or be exposed to market fluctuations. In addition to securing income for himself, he would also like to ensure that a death benefit is left to his adult daughter if he passes away prematurely. He is in good health and does not anticipate needing access to the full principal for emergencies.

What annuity and payment option would you recommend to this client?

[illegible]

Section 2: Business Life Concepts

Key Person Life Insurance



» Knowledge Check

Directions: Respond to the following.

1. A commercial client is interested in obtaining a key person life insurance policy for a lead member of their sales team. The client explains that the employee contributes a substantial amount to the business's revenue and would be difficult to replace.

Is this employee eligible for key person insurance?

2. The client explains they are unsure of how much life insurance to obtain for this employee. They explain that the employee secures \$500,000 of profit annually. Explain a method that could be used to determine an appropriate amount of coverage.

Non-Qualified Bonus Plan – Section 162 Executive Bonus Plan



» Knowledge Check

Directions: Respond to the following question.

Your client is a major shareholder and president of a C Corporation and is considering purchasing additional life insurance. He asks if it is possible to deduct his own life insurance premiums as a business expense.

What counsel would you provide?

Business Continuation



» Knowledge Check

Directions: Respond to the following question.

Ralph owns a successful fast-food restaurant and operates it as a sole proprietor. He is a widower with two grown sons. He brings in a new individual and forms a partnership to run the restaurant. His partner, Jason, is 35 and married with three young children. Jason's wife is a patent attorney.

What issues could arise in the partnership if Jason dies?

Buy-Sell Agreements

» Knowledge Check



Directions: Respond to the following question.

You are working with a client. He works for a small business incorporated as Marketing Technology LLC. He and two other individuals are equal shareholders in the business. They are interested in creating a buy-sell agreement and funding it through life insurance.

What are two ways the client could structure life insurance ownership in a potential buy-sell agreement?

Employer-Owned Life Insurance



» Knowledge Check

Directions: Respond to the following questions.

While visiting a commercial account during an annual review of their business insurance, your client asks if it is possible for a business to have a life insurance policy written on their sales director. How would you respond to this client? What potential issues should the client be aware of?

Section 2 Self-Quiz



Set Yourself Up for Success!

An interactive version of this quiz, called a Wayground, a Quizlet set of vocabulary/definition flashcards, and Study Guide, are available on the Resources webpage at <https://www.riskeducation.org/lhresources/>.

Directions: Answer the following questions.

1. Which of the following employees would most likely qualify for the EOLI exception?
 - ☐ A janitor who has been working at a company for 20 years
 - ☐ An IT employee responsible for maintaining a company's database
 - ☐ A sales employee who oversees training initiatives
 - ☐ A company's chief financial officer and majority shareholder

2. A limited liability corporation (LLC) takes out life insurance policies on the entirety of its C-suite. It does not notify any of the employees and the business itself is listed as the beneficiary. If one of the employees were to die, would the LLC receive the death benefit tax-free? Why or why not?
 - ☐ Yes. These employees are likely high earners and meet the requirements for the EOLI exception.
 - ☐ Yes. Consent requirements apply only to non-executive key employees.
 - ☐ No. While these employees may qualify for an EOLI exception, the business did not meet the proper consent requirements.
 - ☐ No. Only certain key employees, such as the CEO themselves can qualify for these exceptions. Other key employees do not.

Section 2: Business Life Concepts

3. Which of the following individuals could be considered a “key person” for a business? (Select all that apply.)
- ☐ A salesperson who is responsible for 25% of a company’s net profits yearly
 - ☐ An IT professional overseeing a substantial cybersecurity program for a company
 - ☐ An employee responsible for maintaining the company’s office building
 - ☐ The Chief Financial Officer, who is paid \$1,200,000 annually
4. A company wants to insure a key person responsible for maintaining critical server infrastructure. They are concerned with having sufficient funds to quickly obtain another employee to maintain the server if the key person were to die. Which tool should the life insurance agent use to estimate an appropriate value for the life insurance policy?
- ☐ Earnings Approach
 - ☐ Replacement Cost Method
 - ☐ Present Value Method
 - ☐ Estimation Approach
5. Which of the following statements about a Section 162 Executive Bonus Plan is true?
- ☐ The employee is the owner of the life insurance policy.
 - ☐ The employer is the owner of the life insurance policy.
 - ☐ The employer is the beneficiary of the life insurance policy.
 - ☐ The employee is the irrevocable beneficiary of the life insurance policy.

Section 2: Business Life Concepts

6. Why is it beneficial for an employer to use a REBA when offering a Section 162 executive bonus plan?
- ☐ It requires an employee to remain with the company, or they will be forced to transfer ownership of the policy to the company.
 - ☐ It eliminates the need to “gross up” a bonus to cover taxes on money used to pay premiums.
 - ☐ It sets limitations on the policy, such as when cash value can be accessed, encouraging employee retention.
 - ☐ It allows the plan to comply with IRS requirements and makes the death benefit non-taxable.
7. Samantha, Craig, and Juan are equal partners in a business. Juan unexpectedly passes away. What are potential issues that can arise in the partnership as a result of Juan’s death? (Select all that apply.)
- ☐ If Juan oversaw key responsibilities and business relationships, business could be interrupted, and the partnership could lose value.
 - ☐ Juan’s heirs will become involved in the partnership, and their opinions on the business could result in conflict.
 - ☐ Samantha and Craig may be unable to obtain the funds needed to purchase Juan’s interest in the partnership from his heirs.
 - ☐ Juan’s share of the partnership automatically reverts back to Samantha and Craig at no cost to them.

Section 2: Business Life Concepts

8. What is the role of an insurance agent in the buy-sell agreement?
- ☐ To evaluate the business value in order to determine an appropriate amount of life insurance coverage
 - ☐ To help a business structure life insurance coverage so that it fulfills the requirements of a buy-sell agreement
 - ☐ To consult with the business on the appropriate legal language and features of a binding buy-sell agreement
 - ☐ To identify alternative sources of funding for the buy-sell agreement, such as the use of a sinking fund
9. Suzy, Chris, and Craig are equal members of a partnership. They have drafted a cross-purchase buy-sell agreement. As the life insurance agent, how would you recommend that they structure the life insurance policies?
- ☐ The partnership as an entity should be the owner and beneficiary of life insurance policies on all three partners. The entity will use the death benefit to fund the buy-sell agreement if any partner dies.
 - ☐ Suzy, Chris, and Craig should each be the owner and beneficiary of a life insurance policy on the other two partners. Should a partner die, the death benefit will be used to purchase the deceased's ownership interest.
 - ☐ Craig should own three life insurance policies. He is the beneficiary and owner of the policy on the other two partners. The remaining partners are the beneficiaries of the policy, where Craig is the insured.
 - ☐ Each partner should have a policy listing themselves as the insured and the other two partners as beneficiaries. When a partner dies, the other partners will use the death benefit to purchase the deceased's ownership interest.

Section 2: Business Life Concepts

Section 3: Health Insurance, Medicare, Long-Term Care, and Disability Concepts

Types of Coverage

Check-In



Directions: Respond to the following question.

Josh has an individual health plan with a \$2,000 in-network deductible. His coinsurance provision is 80/20 for in-network care, and his OOPM is \$5,000. He sprains his ankle while playing tennis and receives care in-network. The total covered costs equal \$3,500. He has had no other health expenses during the plan year. How much can Josh expect to pay in out-of-pocket expenses? Ignore copayments.

Section 3: Health Insurance, Medicare, Long-Term Care, and Disability Concepts

» Knowledge Check



Directions: Respond to the following questions.

1. Your client, Gayle, has a medical plan with the following cost-sharing provisions:

- Deductible: \$3,000 in-network/\$6,000 out-of-network
- Coinsurance: 80/20 in-network/50/50 out-of-network
- Out-of-pocket maximum: \$6,000 in-network/unlimited out-of-network.

Review the following medical expenses. Complete the table by indicating your client's expected out-of-pocket cost for each expense and provide an explanation. All expenses occur within the same plan year and are listed chronologically.

Expense	Billed Amount	Network Status	Member Pays + Explanation
1. Routine MRI	\$2,500	In-network	
2. Knee Surgery	\$10,000	In-network	
3. Specialist Visit	\$1,000	Out-of-network	

Section 3: Health Insurance, Medicare, Long-Term Care, and Disability Concepts

2. You are speaking with a small business owner who is seeking to obtain group health insurance coverage. They are confused about why they may be required to pay 50% of the premium for their employees. How would you advise this client?

Affordable Care Act

Check-In



Directions: Respond to the following question.

Joey is purchasing a plan through the health care exchange. He qualifies for a premium tax credit and cost-sharing reductions. He wants to limit his out-of-pocket expenses. What plan should he purchase?

- ☐ Bronze
- ☐ Silver
- ☐ Gold
- ☐ Platinum



» Knowledge Check

Directions: Respond to the following.

1. You are working with Jennifer, the proprietor of Jenn's Bagel Shop, on a CGL policy. She states that she has six full-time employees and about five part-time employees. She asks whether she is required to provide her employees with health insurance under to the Affordable Care Act. How would you respond?

2. You handle a small manufacturing risk owned by Bill. He employs 65 full-time employees. He states that he received a renewal notice from his health insurance carrier, which provides an ACA-compliant plan that affords coverage to all full-time employees. The premium has increased dramatically. Bob currently pays 90% of the employee's self-only premium. However, he is concerned about the price increase and plans to drop his contribution to 50%. He asks if there are any problems with doing so.

Section 3: Health Insurance, Medicare, Long-Term Care,
and Disability Concepts

3. You decide to go into further detail on this issue with Bill. He provides a single employee as an example. He states the employee's box 1 W-2 wage is \$50,000. With the contribution decrease, the employee's monthly self-only premium would be \$500. Would this violate the affordability provision?

Tax-Advantaged Accounts



» Knowledge Check

Directions: Respond to the following question.

Your client reports that, after an employee survey, they discovered that some of their employees feel they pay too high a premium for health insurance coverage they do not fully utilize. What plan could your client offer, and how would this plan benefit those employees?

Federal Legislation



» Knowledge Check

Directions: Complete the following table by providing a brief description of how each piece of federal legislation impacts employers.

ERISA	
HIPAA	
COBRA	

Medicare

Check-In



Directions: Respond to the following question.

Which of the following are covered under Medicare Part A? (Select all that apply.)

- ☐ A semi-private room in a hospital or skilled nursing facility
- ☐ Custodial care that is part of medical treatment
- ☐ Full-time (24-hour) in-home care
- ☐ In-home physical and speech therapy

Check-In



Directions: Indicate whether each of the following statements is true or false.

1. Medicare Part B only provides coverage for preventive services.

True

False

2. Medicare Part B is optional, but if an individual without employer-provided group health coverage waits one year to enroll in Medicare Part B, their premium is increased by 10%.

True

False

3. Medicare Part B has an out-of-pocket maximum set annually by the federal government.

True

False

» Knowledge Check



Directions: Respond to the following.

1. You have a client who recently retired and enrolled in Original Medicare. They are in relatively good health, but ask: “Am I still covered for routine services, like wellness checks?” Answer the question, and address which part of Medicare provides coverage for these services.

2. You have a client who is enrolling in Medicare for the first time. They explain that they receive an injection twice a year to treat osteoporosis. Each injection costs \$1,700. Your client is confused about how much she will pay with Medicare Part D and is worried about the “donut hole” that she has heard about.

Explain what your client’s out-of-pocket costs will likely be using the following figures:
Deductible – \$590, Initial Coverage Coinsurance – 25%

Section 3: Health Insurance, Medicare, Long-Term Care, and Disability Concepts

3. Your client is confused about the difference between Medicare Advantage and Medigap plans. Explain the difference.

Medicaid

» Knowledge Check



Directions: Respond to the following prompt.

Your 65-year-old client states that they are concerned they will have too many assets to qualify for nursing home care through Medicaid when it is needed. They state they plan to sell their vacation home and transfer the proceeds to their eldest daughter. Provide counsel to the client based on asset rules for Medicaid.

Essentials of Long-Term Care Insurance (LTCI)

» Knowledge Check



Directions: Respond to the following question.

You are working with a client who recently turned 65. He receives income from his 401(k) and Social Security, and owns a single-family home that he resides in. He states that he does not see the need for long-term care insurance, as he can obtain coverage through Medicaid when he needs it. How would you respond?

LTCI Policy Provisions and Coverage Options (Riders)



» Knowledge Check

Directions: Respond to the following questions.

1. Martha, age 76, owns a long-term care insurance policy with a daily benefit of \$180 and a 90-day elimination period. Martha begins to experience difficulty with bathing due to worsening arthritis and balance but remains independent with all other activities of daily living (ADLs). Her doctor recommends in-home care three days a week to assist her with bathing and ensure her safety. The in-home care provider charges \$120 per visit. How will the policy respond to the costs of in-home care?

2. Over the next six months, Martha's condition deteriorates. She begins to struggle with dressing and toileting in addition to bathing, and her care needs increase. She now receives daily in-home care five days per week, with a caregiver assisting her for several hours each day. The cost of care has increased to \$200 per day, totaling \$1,000 per week. How will the policy respond? What costs will Martha be responsible for?

Section 3: Health Insurance, Medicare, Long-Term Care, and Disability Concepts

3. You have a client with a commercial account for his small business. He states he is going to close his business soon because he was recently diagnosed as being in the early stages of Alzheimer's. He asks if he would be able to obtain LTCI coverage. How would you respond?

Other Long-Term Care Products

» Knowledge Check



Directions: Respond to the following.

1. You have a client with a commercial account for his small business. He states he is going to close his business soon because he was recently diagnosed as being in the early stages of Alzheimer's. You explained that he would likely be unable to secure LTCI coverage because of his diagnosis. Explain an alternative option for him to secure some LTC coverage.

2. You have a client who is concerned about the possibility of Medicaid estate recovery. He wants to avoid this possibility and obtain some form of LTCI. However, he is concerned about potentially paying for a product that he will never utilize. How would you counsel him?

Essentials of Disability Insurance



» Knowledge Check

Directions: Respond to the following question.

You are working with a client who is a contractor specializing in roofing. He states that he does not want to spend money on disability since it is already covered through Social Security. How would you respond?

Disability Policy Provisions

» Knowledge Check



Directions: Respond to the following question.

You have a client who is a pediatric surgeon and a part-time instructor at a medical school. She receives a short-term disability insurance policy through her employment at the medical school but is interested in obtaining long-term disability insurance coverage after her friend was recently disabled as the result of a boating accident. However, she is concerned about the costs. What type of disability income insurance policy should she obtain, and how might she obtain coverage while reducing her potential premium?

Essentials of Business Overhead Expense (BOE) Disability Income

►► Knowledge Check



Directions: Respond to the following prompt.

Your client operates an accounting firm where she is the sole owner and practitioner. She is concerned about what would happen to her firm and the clients she has established if she becomes unable to work due to an injury or illness. Explain how she could address her concerns about business interruption due to disability.

Section 3 Self-Quiz



Set Yourself Up for Success!

An interactive version of this quiz, called a Wayground, a Quizlet set of vocabulary/definition flashcards, and Study Guide, are available on the Resources webpage at <https://www.riskeducation.org/lhresources/>.

Directions: Answer the following questions.

1. James receives health insurance through his employer. His deductible is \$2,000, and there is an 80/20 copayment provision for care received in-network. He is in a car accident and receives treatment for several fractures, with the treatment costs totaling \$3,500. How much can he expect to pay for his health care costs?
 - ☐ \$2,000
 - ☐ \$2,300
 - ☐ \$3,200
 - ☐ \$3,500
2. The Cruz family has a family deductible of \$6,000, with an individual embedded deductible of \$2,000 and an 80/20 coinsurance provision for care received in network. The youngest daughter, Emily, undergoes surgery to treat a congenital condition, with the costs totaling \$7,000. That same year, Bill, the father, receives treatment for a deviated septum, with the costs totaling \$5,000. The family OOPM is \$8,000, and the individual OOPM is \$4,000. How much can the family expect to pay in health care costs for the year, assuming these are their only health care costs?
 - ☐ \$3,000
 - ☐ \$4,000
 - ☐ \$5,600
 - ☐ \$8,000

Section 3: Health Insurance, Medicare, Long-Term Care, and Disability Concepts

3. For group health insurance offered by an employer, the employer's contributions are tax-deductible, but employees must pay a tax on the benefits they receive.
- ☐ True
 - ☐ False
4. Which of the following examples of health insurance underwriting is still allowed under ACA regulations?
- ☐ A health insurer charging a higher premium for men
 - ☐ A health insurer denying coverage to an individual with a pre-existing condition
 - ☐ A health insurer charging higher premiums for an individual who smokes tobacco
 - ☐ A health insurer increasing premiums for an individual with a family history of heart disease
5. Robert earns a meager income from his handyman service. He decides to enroll in health coverage via the health insurance exchange. He wants to obtain coverage while minimizing his costs. Which tier would be the most appropriate option?
- ☐ Bronze
 - ☐ Silver
 - ☐ Gold
 - ☐ Platinum

Section 3: Health Insurance, Medicare, Long-Term Care, and Disability Concepts

6. American Steel is an ALE. After a poor fiscal year amid rising health care costs, it decided to reduce its contributions to employee health care plans. Which answer best explains why this could potentially be problematic?
- ☐ There is a risk that reducing its contributions could cause the plans to not meet the ACA definition of affordability, resulting in penalties against the company.
 - ☐ ALEs are not allowed to reduce contributions to employee health plans without receiving approval from the federal government.
 - ☐ Lowering the amount the company contributes to employee health plans could result in discrimination lawsuits against the company.
 - ☐ The ACA establishes minimum contribution requirements as a percentage and lowering them could put American Steel in violation of the requirements.
7. Gail is trying to choose one of the health insurance plans offered by her new employer. She is concerned that as a new employee, she may have a long waiting period before her coverage is effective. Which of the following statements is accurate?
- ☐ The maximum waiting periods for new employees cannot exceed 90 days.
 - ☐ Employers cannot impose a waiting period for new employees' health insurance.
 - ☐ While her employer can delay coverage for new employees for 180 days, Gail can obtain coverage from COBRA in the meantime.
 - ☐ Gail will be allowed to purchase a catastrophic plan on the ACA marketplace, so she has coverage during her waiting period of 120 days.
8. An account used to pay for unreimbursed health care expenses in a high-deductible health plan is an _____.
- ☐ HSA
 - ☐ ICHRA
 - ☐ EBHRA
 - ☐ FSA

Section 3: Health Insurance, Medicare, Long-Term Care, and Disability Concepts

9. Your client decides to retire at age 63 and is evaluating their options to secure health coverage once their employment ends. Which of the following statements is true?
- ☐ Since they are retiring early, they are eligible to enroll in Medicare before age 65.
 - ☐ Their options will be limited as they will not qualify for plans through the Exchange.
 - ☐ They could maintain their current health plan through COBRA, but they would potentially be responsible for 102% of the current premium.
 - ☐ Their employer is mandated by law to contribute to their health insurance for at least one year due to the employee's early retirement.
10. A claims processor working for a health insurance company is a good example of an insurance professional who must pay close attention to HIPAA regulations.
- ☐ True
 - ☐ False
11. Rafael delays enrolling in Medicare until he officially retires at age 68. What penalties could he potentially face for his late enrollment in Medicare Part A?
- ☐ He will most likely not have a penalty.
 - ☐ He will face an increased premium penalty for 3 years.
 - ☐ He will be subject to a 50% increase in his deductible.
 - ☐ He will pay higher copayments and coinsurance.
12. Bill receives a wellness exam and routine vaccination in an outpatient setting. This care is covered under Medicare _____.
- ☐ Part A
 - ☐ Part B
 - ☐ Part C
 - ☐ Part D

Section 3: Health Insurance, Medicare, Long-Term Care, and Disability Concepts

13. Which of the following statements about obtaining long-term care through Medicaid is most accurate?
- ☐ Medicaid has strict income and asset requirements. To qualify, one would need to exhaust assets to near poverty levels.
 - ☐ Medicaid grants individuals flexibility in determining when and how they receive long-term care.
 - ☐ Medicaid focuses solely on providing health insurance and offers limited long-term care for strictly medical purposes.
 - ☐ Medicaid only offers long-term care through the sale of government-sponsored long-term care insurance programs.
14. Why is planning for long-term care needs important?
- ☐ Because long-term care services are fully covered by all private health insurance plans, planning ensures the selection of the right provider
 - ☐ Long-term care stays are relatively short, so planning can help minimize the duration that extensive care is actually needed.
 - ☐ The chance of needing long-term care is high, and the costs associated with it are high as well. Without a plan in place, individuals risk their assets and wealth.
 - ☐ Long-term care costs are predictable and financially manageable as long as an individual has a financial plan in place.
15. Sarah has a long-term care policy with a daily benefit of \$150. On Monday through Thursday, she receives care from a family member. However, on Friday through Sunday, she receives in-home care for \$200 a day. A policy with a weekly benefit would help ensure her costs are fully covered.
- ☐ True
 - ☐ False

Section 3: Health Insurance, Medicare, Long-Term Care, and Disability Concepts

16. Sarah and Bill obtain LTCI policies together. A joint waiver of premium would allow them to receive benefits without having to continue premium payments if one of them starts receiving long-term care.
- ☐ True
 - ☐ False
17. Benefits in an LTC policy are triggered when the insured has difficulty with at least ONE ADL.
- ☐ True
 - ☐ False
18. Which of the following individuals would most likely have difficulty obtaining an LTC policy? (Select all that apply.)
- ☐ Bill is 55 and has early-onset Alzheimer's.
 - ☐ Sandy is 64 and is partially deaf.
 - ☐ Jonathan is 67 and has issues with continence.
 - ☐ Zariah is 59 and has a family history of diabetes.
19. Your client is 55 years old. He states his father lived independently well into old age, but his mother required long-term care for several years before her death. He has multiple streams of income and assets and wants to ensure he does not lose any investments made into an insurance product he may never use. What long-term care product would you recommend?
- ☐ Life insurance with an LTC rider
 - ☐ A linked benefit annuity
 - ☐ A traditional LTCI policy
 - ☐ A short-term care policy

Section 3: Health Insurance, Medicare, Long-Term Care, and Disability Concepts

20. Which of the following statements regarding disability insurance are true? (Select all that apply.)
- ☐ Most people have limited access to income to support themselves through an extended period of disability.
 - ☐ Disability insurance is only necessary for individuals working in physically demanding jobs where workplace accidents are common.
 - ☐ Most people can qualify for limited assistance through Social Security in the event of partial disability.
 - ☐ Disability insurance serves as a form of income replacement, providing stability during a period of disability and recovery.
21. Preston has a disability insurance policy. He has a skiing accident and is unable to work in his role as a construction project manager for a period of one year. This is an example of the benefits of a(n) _____ policy.
- ☐ any occupation disability insurance
 - ☐ own occupation disability insurance
 - ☐ Social Security Disability Insurance
 - ☐ Workers Compensation
22. Which of the following would likely increase a disability insurance premium? (Select all that apply.)
- ☐ A family history of strokes
 - ☐ Lower annual income
 - ☐ Working in a clerical position at an office
 - ☐ Having a hobby of mountain biking

Section 3: Health Insurance, Medicare, Long-Term Care, and Disability Concepts

23. Stephan has an extended period of disability after a workplace incident. His disability insurance policy pays \$3,000 monthly, but he also receives \$1,000 monthly from workers compensation. How much will his disability insurance policy pay?
- ☐ \$1,000
 - ☐ \$2,000
 - ☐ \$3,000
 - ☐ \$4,000
24. Your client is a dentist and a sole practitioner at the office he owns. He is concerned with replacing his income in the event of a long-term disability. A BOE DI policy would address this concern.
- ☐ True
 - ☐ False
25. Imagine your client becomes disabled for six months and is unable to work as a dentist in his office. What costs will a BOE DI policy pay for? (Select all that apply.)
- ☐ The cost of hiring a temporary replacement for six months
 - ☐ The cost of renting the office space
 - ☐ The cost of utilities such as electricity and water
 - ☐ Any medical costs associated with recovery from the disability

Answer Key

Section 1: Life and Annuity Policies

The Basics of Life Insurance

Check-In



Directions: Respond to the following questions.

1. An individual interested in purchasing a life insurance policy approaches your agency. They live in Texas, are the sole source of income for their family of four, and earn \$120,000 a year. The total value of their estate is \$2 million. Which of the following choices best explains a benefit of life insurance for this individual?
 - ☐ Life insurance can be used to pay estate taxes, preserving the value of the estate.
 - ☐ Life insurance can be used as an investment tool to maximize their annual earnings.
 - ☐ The life insurance policy will pay off estate debts before paying the beneficiaries.
 - ☒ Life insurance can be used to replace their income and financially protect their surviving relatives.

Since the individual is the sole income earner for their family, their passing would leave their dependents without financial support. Life insurance provides a death benefit that can replace lost income, helping to cover living expenses, mortgage payments, education costs, and other financial needs for the surviving family members.

Check-In Continued



Directions: Respond to the following question.

2. Referring to the previous question, why are federal estate taxes not a concern for this particular client? Select the best answer choice.

- ☐ Federal estate taxes are only levied in certain states, and Texas is not one of them.
- ☒ Their estate value is below the federal estate tax threshold.
- ☐ Estate taxes only apply to individuals who own or operate a business.
- ☐ Estate taxes can be avoided entirely if the estate is left to immediate family members.

Federal estate taxes are only a concern if the estate exceeds the federal exemption limit, and \$2 million is well below the threshold. The state of Texas has no control over federal estate taxes, although states do have the power to levy their own estate taxes (Texas is not one of those states). The other incorrect answer choices are misleading, as estate taxes are based on estate value, not business ownership or family inheritance, and they are levied regardless of who the assets are left to.

Check-In



Directions: Indicate whether each of the following statements is true or false.

1. A buy-sell agreement funded by life insurance ensures that a deceased business owner's share can be purchased by surviving owners or the business itself, preventing ownership disputes.

True

False

2. Key person insurance provides a death benefit to the insured employee's family to cover their personal expenses in the event of their passing.

True

False

The key person insurance benefit is paid to the business, not the employee's family. It is used to cover financial losses and operational disruptions.

» Knowledge Check



Directions: Answer the following questions.

1. You are speaking with a married couple in their late 20s who have a young child. Their combined household income is \$150,000, and they have a mortgage for a home worth \$250,000. They ask you about the benefits of life insurance. How would you counsel this couple?

Young individuals may not see an immediate need for life insurance but purchasing life insurance policies when they are young and healthy can provide significant financial protection at a lower cost. The unexpected loss of either income stream could create serious financial strain, as the mortgage on their home and the other expenses that they share add up to major financial responsibilities. Life insurance policies could ensure that if either party passed away unexpectedly, the surviving spouse could pay off the mortgage and remain in the home without additional financial stress. Future expenses such as education costs and daily living expenses should also be considered. A life insurance payout would provide long-term financial stability, helping cover these essential needs.

2. You are speaking to a business owner. He has an IT employee who has been with the company for five years. He has performed exceptionally well in his role and has worked hard to streamline the company's IT processes. He would like to obtain key person life insurance for this employee. Does the business owner have an insurable interest? Why or why not?

The business owner may not have a valid insurable interest in the IT employee. While the employee has provided significant value to the company, insurable interest in key person life insurance typically applies when the loss of the individual would cause substantial financial harm to the business, such as the loss of major clients, revenue, or specialized knowledge that is difficult to replace. If the IT employee's role, while valuable, is not critical to operations or the company's financial stability, the insurance company may deny the policy.

Planning for Personal Needs

Check-In



Directions: Answer the following question.

Christina is meeting with a prospective client about a life insurance policy. The client states that they are married, have a child on the way, and want to secure coverage that ensures their child would be protected if anything happened to them. Christina recommends the client purchase a term life insurance policy for 25 or 30 years to financially protect the child until they reach adulthood.

Which statement about this interaction is correct?

- ☐ Christina followed best practices by quickly recommending an appropriate solution for the client.
- ☒ Christina should use more thorough questioning tactics before offering a solution.
- ☐ Christina should have offered a permanent life insurance policy since these accumulate cash value.
- ☐ Christina should recommend a 10-year term policy since the client could purchase more coverage later.

While Christina's recommendation of a 25- or 30-year term life insurance policy is a reasonable option, given the client's desire to protect their child until adulthood, she should first engage in a more thorough fact-finding discussion. A best-practice approach would follow all the steps outlined and discussed, assessing the client's income needs, existing debts and financial obligations, budget constraints, and long-term financial goals.

» Knowledge Check



Directions: Respond to the following prompt.

Maria, a 42-year-old single mother of two children, ages 10 and 13, meets with an agent to assess her life insurance needs using the Total Needs Analysis method. She earns \$75,000 per year, has a \$200,000 mortgage and \$15,000 in outstanding student loan debt, and wants to ensure her children's college education costs—estimated at \$50,000 each—are covered. Additionally, she wants to leave \$30,000 for final expenses and provide twelve years of income replacement for her children after her death.

Describe a potential life insurance solution for Maria.

One potential life insurance solution for Maria would be a 20-year term life insurance policy with a death benefit of approximately \$1,250,000. This coverage amount would account for: \$200,000 to pay off her mortgage, \$15,000 to cover her outstanding student loans, \$100,000 for her children's college education (\$50,000 per child), \$30,000 for final expenses, and \$900,000 to replace her income for twelve years (\$75,000 per year until her youngest child graduates from college).

Types of Life Insurance Contracts

Check-In



Directions: Indicate whether each of the following statements is true or false.

1. In decreasing term life insurance, both the death benefit and the monthly premium decrease over time.

True

False

Only the death benefit decreases. Premiums stay level throughout the policy.

2. If the insured has not selected a non-forfeiture option and the policy is cancelled due to non-payment of premium, the policy will be surrendered, and the insured will receive any existing cash value.

True

False

If an option is not selected, extended term insurance is the automatically selected non-forfeiture option.

3. Policy dividends are generally only a feature of policies sold by mutual insurance companies.

True

False

True. Dividends are a distinguishing feature between participating (mutual) policies and non-par (stock) policies.

Check-In



Directions: You have three different clients. Read their risk appetite and select the letter of the universal life policy that would be best for each client.

A. Guaranteed Universal Life	<u>A</u> Camila is a 26-year-old mother. She wants a relatively straightforward product that grows cash value at a stable rate.
B. Indexed Universal Life	<u>C</u> Thomas is a 30-year-old working professional. He has invested his own assets in the stock market and wants a universal life policy with the potential for high cash value growth.
C. Variable Universal Life	<u>B</u> Jeremiah is a 29-year-old construction worker. He wants a life insurance policy that offers higher returns but does not want to risk of losing his cash value.

Camila is best suited for Guaranteed Universal Life (GUL) because she wants a straightforward policy with stable cash value growth, and GUL provides predictable returns with minimal risk. Jeremiah would benefit most from Indexed Universal Life (IUL), as he seeks higher returns without risking his cash value; IUL offers market-linked growth while maintaining downside protection. Thomas is best suited for Variable Universal Life (VUL) because he has experience investing in the stock market and is looking for high cash value gains, making VUL ideal as it allows direct investment in stocks and mutual funds, though it comes with higher risk.

» Knowledge Check



Directions: Respond to the following prompt.

Your clients would like a permanent insurance program but are concerned about the additional expenses the family will incur over the next 10 years while their children are in college. Explain how the flexibility of universal life would address your clients' concerns.

Universal life insurance offers flexibility that can help your clients maintain permanent coverage while managing financial challenges during their children's college years. They can start with lower premium payments that fit their current budget and increase contributions later when expenses decrease. If needed, they can even temporarily pause or reduce payments, as long as there is sufficient cash value to keep the policy active. This flexibility allows them to maintain long-term coverage without overburdening their finances during high-expense years.

Life Insurance Contract

Check-In



Directions: Indicate whether each of the following statements is true or false.

1. Diane's policy lapses due to nonpayment of premium on October 8th. She passes away October 13th. Her policy will not pay a death benefit.

True

False

Life insurance policies contain a grace period. Since Diane passed away just five days after the lapse, and within the grace period, the death benefit will still be paid.

2. Tammy and Teddy have one adult son, Tim. Teddy owns a life insurance policy with Tim listed as the irrevocable beneficiary. As part of a divorce settlement, ownership of the policy is transferred to Tammy. As the owner, Tammy can alter the policy so that Tim is no longer the beneficiary.

True

False

An irrevocable beneficiary cannot be removed or changed without their written consent—even if ownership of the policy changes. Although Tammy is now the policyowner, she cannot remove Tim as the beneficiary without his agreement.

3. Jorge purchases a whole life insurance policy at age 23. At age 27, he picks up the hobby of skydiving. Upon learning this, the insurer is allowed to add a new cause-of-death exclusion to his policy.

True

False

Once a life insurance policy is issued, the terms—including exclusions—cannot be changed unilaterally by the insurer. Life insurance is a contract based on the insured's disclosures at the time of application. As long as Jorge was truthful during underwriting, the insurer cannot retroactively add exclusions due to hobbies acquired after the policy issue.

» Knowledge Check



Directions: Respond to the following.

1. Fill out the following table by reading each described situation and explaining the tax rules related to each situation.

<p>Axton makes substantial annual premium payments to a universal life policy. He asks you if there is any way to use these premiums to offset his taxable income.</p>	<p>Life insurance premiums are considered personal expenses and are not tax-deductible. This applies even if the premiums are substantial or paid consistently. However, one of the tax benefits of life insurance is the tax-deferred growth of cash value. As long as the policy remains in force and there are no withdrawals, there will be no tax on the growth of the cash value within the policy. This is one of the reasons some clients look to Variable Universal Life Insurance.</p>
<p>Shelly passes away. She was the owner and insured of a \$1,000,000 life insurance policy, with her son listed as the beneficiary. Is the death benefit taxable in any way?</p>	<p>The death benefit is generally income tax-free to the beneficiary, so Shelly's son will receive the \$1,000,000 benefit without paying income tax. However, because Shelly was both the owner and insured, the full \$1,000,000 is included in her estate for estate tax purposes.</p>
<p>A client has paid \$100,000 in premiums for a universal life policy. The policy has \$120,000 in cash value. The client takes all \$120,000 of his cash value and surrenders the policy. How will this impact his taxable income?</p>	<p>When the policy is surrendered, the gain is taxable as ordinary income. In this case, the client paid \$100,000 in premiums and is receiving \$120,000—so \$20,000 is considered taxable income. The original premium (the basis) is not taxed.</p>

Section 1: Life and Annuity Policies

2. Your client has five adult grandchildren and wants to leave them each a \$50,000 death benefit from the same life insurance policy. If a grandchild predeceases the client, the client wants the grandchild's heirs to inherit the money, with the payment distributed equally among the deceased grandchild's heirs. How would this objective best be achieved?

The client should purchase a life insurance policy with a face value of \$250,000. The client should name each of the five grandchildren as individual beneficiaries on the life insurance policy and designate the beneficiary distribution as per stirpes rather than per capita. Per stirpes, if a grandchild predeceases the client, that grandchild's share of the death benefit will be distributed equally among their own heirs, rather than being redistributed among the surviving grandchildren.

Annuities

» Knowledge Check



Directions: Respond to the following prompts.

1. Your client, George, recently received a \$100,000 inheritance. He decides to invest the entire amount in an annuity to supplement his personal retirement income. He plans to retire in 20 years and asks you for recommendations. He states that he is open to taking some risks but does not want to lose his principal investment. List the types of annuities George may consider and describe which annuity you would recommend.

Given George's situation—receiving a \$100,000 inheritance, planning to retire in 20 years, and expressing a willingness to take some risk while also wanting to protect his principal—there are several types of annuities he may consider. First, it is important to distinguish between immediate and deferred annuities. An immediate annuity begins paying income shortly after the premium is paid, typically within 12 months, and is more suitable for individuals needing income right away.

Since George plans to retire in 20 years, a deferred annuity would be more appropriate. Deferred annuities allow the investment to grow tax-deferred over time, with income payouts starting at a later date. Within deferred annuities, George could choose from fixed, indexed, or variable annuities. Given George's moderate risk tolerance and desire to protect his \$100,000 principal, a fixed indexed annuity would likely be the best fit. It offers the potential for growth based on the performance of a market index (such as the S&P 500) while protecting the principal from market losses.

2. George is also curious about his payout options. Describe for him how payouts would differ between straight life and 10-year period certain options.

A straight life payment provides payment for the duration of George's life, regardless of how long that may be. However, if George passes away shortly after payments begin, no additional payments will be made to beneficiaries. In contrast, with 10-year period certain, payouts will be provided for a period of 10 years. If George passes away before the 10-year period expires, the remaining payments will be made to a named beneficiary. If George survives the 10-year period, the payments will end.

Section 1 Self-Quiz



Set Yourself Up for Success!

An interactive version of this quiz, called a Wayground, a Quizlet set of vocabulary/definition flashcards, and Study Guide, are available on the Resources webpage at <https://www.riskeducation.org/lhresources/>.

Directions: Respond to the following questions.

1. George has two children and is the sole proprietor of a small business. His son has been actively involved in running the business for years. His daughter attends art school and plans to pursue painting as a career. Which choice best describes how life insurance could benefit George and his family?
 - ☐ After a period, George could use the policy's cash value as business capital and invest in growing his business.
 - ☐ George could use life insurance to avoid family conflicts, as the death benefits are automatically divided equally among his heirs.
 - ☐ Transfer of business ownership is a concern for George. Life insurance can be used to fund a buy-sell agreement transferring ownership to his son.
 - ☒ Life insurance could equalize inheritance. George will likely pass the business to his son, so the death benefit could be used to leave something of similar value for his daughter.

In this scenario, George is likely to leave the business to his son, who has been actively involved in running it. His daughter, on the other hand, is pursuing a different path and would not benefit directly from inheriting part of the business. Life insurance can provide a practical solution by using the death benefit to equalize the inheritance, ensuring that both children receive a meaningful and fair share of George's estate. This approach helps avoid potential conflicts and supports each child's individual goals without requiring them to share or divide the business.

Section 1: Life and Annuity Policies

2. Which best explains an advantage of using life insurance to fund business continuity?

- ☒ Death benefits are highly liquid and can be used immediately to transfer ownership to the correct parties.
- ☐ Death benefits provided to the family of the deceased allow them to buy shares in the company, ensuring continuity of ownership.
- ☐ Life insurance designed for business continuity eliminates the need for legal agreements, making succession automatic.
- ☐ Life insurance guarantees the business will automatically increase in value upon the owner's death, ensuring continuity.

One of the primary advantages of using life insurance in business continuity planning is that the death benefit provides immediate liquidity. This means that upon the death of a business owner or partner, the insurance proceeds can be used to fund a buy-sell agreement or other succession plan, allowing ownership to be transferred smoothly and efficiently. Unlike other assets, life insurance proceeds are paid quickly and are not tied up in probate. This ensures the business can continue operating without financial disruption or delay.

3. An important part of the life insurance contract is that an insurable interest exists. Which of the following situations is the best example of a valid insurable interest?

- ☐ Joe wants to purchase a life insurance policy on his former high school teacher.
- ☐ Rodriguez wants to purchase a life insurance policy for his ex-wife.
- ☒ Taniqua wants to purchase a life insurance policy for her 4-year-old daughter.
- ☐ Tim wants to purchase a life insurance policy for his elderly neighbor.

A valid insurable interest exists when the policyholder would suffer a financial loss from the insured's death. Parents have a natural and legally recognized insurable interest in their children, making it entirely appropriate for Taniqua to purchase a life insurance policy for her 4-year-old daughter. In contrast, situations involving neighbors, former spouses, or distant acquaintances typically do not establish a sufficient insurable interest unless a specific financial dependency or legal obligation can be proven. Insurance companies require this connection to prevent misuse of life insurance for speculative purposes.

Section 1: Life and Annuity Policies

4. Agents should be knowledgeable about the terminology used within life insurance contracts. In terms of a life insurance contract, what is consideration?

- ☐ Consideration includes the methods used to prove insurability, such as a health exam.
- ☐ Consideration refers to the applicant's ability to understand the terms of a contract.
- ☒ Consideration is the exchange of a premium for the insurer's promise to pay the death benefit.
- ☐ Consideration is the elements of a contract that restrict or exclude coverage for certain events.

In the context of a life insurance contract, consideration refers to the value each party brings to the agreement. The insured provides consideration by paying premiums and supplying truthful information on the application. In return, the insurer promises to pay a death benefit to the beneficiary upon the insured's death, assuming all policy terms are met. This mutual exchange of value is a required element in forming a legally binding insurance contract.

5. What goal should the agent have during an initial meeting with a client?

- ☒ Understand the client's unique situation and primary financial objectives
- ☐ Convince the client to participate in a total needs analysis
- ☐ Ensure the client leaves with some form of permanent life insurance
- ☐ Provide the client with detailed product comparisons between life insurance policies

The primary goal during an initial client meeting is to gather information about the client's personal, financial, and family situation. This foundational understanding enables the agent to make recommendations that are tailored to the client's specific needs and goals. Jumping into product comparisons or pushing a particular policy too soon can overlook key concerns or result in a poor fit. A client-focused approach builds trust and ensures any solution is based on what is truly in the client's best interest.

Section 1: Life and Annuity Policies

6. A client has limited time when meeting with an agent. What approach would be the best way of obtaining an estimate of how much life insurance protection the client should obtain, given the situation?

- ☐ Total Risk Analysis
- ☐ Total Needs Analysis
- ☒ Multiples of Gross Earnings Method
- ☐ Scientific Guess

When time is limited, the Multiple of Gross Earnings Method is a quick and practical way to estimate how much life insurance a client may need. This approach involves multiplying the client's annual income by a factor—typically five to ten years—to provide a rough estimate of the amount of coverage required to replace lost income. While not as comprehensive as a Total Needs Analysis, it offers a fast, general guideline that can help start the planning process and lead to more in-depth conversations later.

7. An agent is conducting a total needs analysis with a client. The agent explains that the client is in the sandwich generation and needs to financially prepare for this reality. Which answer choice best describes the “sandwich generation” and its impact on required life insurance amounts?

- ☒ The sandwich generation refers to individuals caring for both elderly parents and dependent children. Life insurance death benefits will naturally need to be higher to cover the costs of caring for both elders and children.
- ☐ The sandwich generation refers to millennials and Gen Z, who will face high inflationary pressures in their lifetimes. To accommodate for inflation, they will need larger death benefits.
- ☐ The sandwich generation refers to middle-aged adults who switch careers frequently, requiring life insurance policies with flexible premium options.
- ☐ The sandwich generation refers to people nearing retirement who are primarily focused on travel and lifestyle goals, so lower life insurance amounts are usually sufficient.

The sandwich generation typically includes middle-aged adults who are financially responsible for both their aging parents and their own children. This dual responsibility increases the need for life insurance coverage, as the death benefit must be sufficient to support multiple generations in the event of the insured's passing.

Section 1: Life and Annuity Policies

8. Karen is about to start attending nursing school, and her income will be limited. She wants to obtain a life insurance policy for herself to provide funds for her dependent daughter in the event that Karen passes. What type of life insurance product should the agent recommend?

- ☒ Term Life Insurance
- ☐ Whole Life Insurance
- ☐ Variable Universal Life Insurance
- ☐ Indexed Universal Life Insurance

Given Karen's limited income and immediate need to protect her dependent daughter, term life insurance is the most appropriate option. Term life offers affordable coverage for a set period of time, such as 10, 20, or 30 years—providing a death benefit without the higher premiums associated with permanent policies. It allows Karen to secure meaningful protection during the years when her daughter is financially dependent, without straining her budget while her daughter is in school. Once her financial situation improves, Karen can explore converting the policy or purchasing permanent coverage.

9. Which of the following correctly identifies a disadvantage of term life insurance policies?

- ☐ These policies are not renewable, risking insurability.
- ☐ These policies are typically more expensive.
- ☒ These policies do not accumulate cash value.
- ☐ These policies have higher premiums that decrease over the length of the term.

A key disadvantage of term life insurance is that it does not build cash value—it provides pure death benefit protection for a specific period of time. Unlike permanent policies such as whole life or universal life, term policies do not have a savings or investment component. Once the term ends, the policy expires with no residual value unless it can be renewed or converted. This makes term life a cost-effective solution for temporary needs, but not ideal for those seeking long-term financial planning benefits.

Section 1: Life and Annuity Policies

10. Samantha has a \$100,000 whole life policy that has accumulated \$20,000 in cash value. What would happen to the cash value if she were to pass away?

- ☐ The cash value would be converted to an annuity, with payments going to named beneficiaries.
- ☒ The cash value would not be paid. Beneficiaries would receive only the \$100,000 death benefit.
- ☐ The cash value would increase the death benefit to \$120,000.
- ☐ The cash value is distributed to Samantha's estate separately from the death benefit.

In a standard whole life insurance policy, the cash value functions as a living benefit, not an added payout upon death. If the insured passes away, the beneficiary typically receives only the policy's face amount, in this case, \$100,000. The insurance company retains the accumulated cash value unless the policy includes a specific rider that allows it to be paid out. This is a common misconception, and it is important to understand that cash value is primarily intended for the policyholder's use during their lifetime.

11. Which of the following statements regarding universal life insurance policies are true? (Select all that apply.)

- ☐ Universal life insurance policies only earn cash value based on market performance.
- ☒ Premiums can be increased or decreased.
- ☒ The face amount of the policy can be increased.
- ☒ Universal life policies can be partially surrendered.

Universal life insurance policies are known for their flexibility, which sets them apart from traditional whole life policies. Policyholders can adjust premium payments and even increase the death benefit, typically subject to underwriting approval. In addition, many universal life policies allow for partial surrenders, meaning the policyholder can withdraw a portion of the cash value without canceling the policy. However, it is incorrect to say they earn cash value only based on market performance—interest is usually credited at a declared rate by the insurer or, in the case of indexed policies, linked to a market index with certain caps and floors.

Section 1: Life and Annuity Policies

12. Jane wants to purchase a life insurance policy through your agency. She is a day trader and is well-informed of market conditions and speculative risks. What life insurance policy might suit Jane's risk appetite?

- ☐ Term Life
- ☐ Whole Life
- ☐ Indexed Universal Life

☒ Variable Universal Life

A Variable Universal Life (VUL) policy is best suited for individuals like Jane who are comfortable with market volatility and investment risk. VUL policies offer flexible premiums and death benefits, along with the opportunity to invest the cash value in a selection of subaccounts tied to market performance, similar to mutual funds. This aligns well with Jane's experience as a day trader and her appetite for higher-risk, higher-reward strategies. However, it is important that she understands the potential for loss of cash value if investments underperform.

13. Craig purchases a 10-year term life insurance policy with a death benefit of \$100,000 on January 5th. Six months later, he falls ill with a mysterious illness. During his time in the hospital, he misses a premium payment originally due July 5th. Six days later, he passes away from complications of the illness. What contract provisions would apply in this scenario? (Select all that apply)

☒ Incontestability Clause

☒ Grace Period

☐ Suicide Clause

☐ Reinstatement

In this scenario, the Grace Period provision would apply, as Craig passed away only six days after missing his premium due date. Most life insurance policies include a 30- or 31-day grace period, during which coverage remains in force even if a payment is missed. The Incontestability Clause also applies, as the policy was issued less than two years ago; however, unless the insurer can prove material misrepresentation on the application, the claim must be paid. The Suicide Clause is not relevant here since Craig died from an illness, and the Reinstatement provision does not apply because the policy had not lapsed at the time of death.

Section 1: Life and Annuity Policies

14. Your client wants to name his beneficiary as “All his children.” Which answer choice best explains why the client should avoid listing his beneficiary in this manner?

- ☒ “All his children” is vague and makes it possible that unnamed or illegitimate children will make an attempt to claim the death benefit.
- ☐ An insurer will not allow this. Since the named beneficiary is not allowed, the death benefit will be attached to the client’s estate and go through probate.
- ☐ Naming “all his children” may delay payment to other beneficiaries if one of the children is under the age of 18.
- ☐ Listing all children could result in tax implications due to multiple named beneficiaries.

Using vague language like “all my children” can lead to confusion, legal disputes, and delays in the distribution of the death benefit. Without explicitly naming each child, the insurer may be unclear on who qualifies as a beneficiary, especially in cases involving stepchildren, adopted children, or children from previous relationships. This ambiguity opens the door for potential claims from unintended or disputed parties, which can tie up the death benefit in legal proceedings. To avoid this, beneficiaries should always be clearly named and updated as family circumstances change.

15. Which of the following policy riders allows an insured to increase the face amount of a universal life policy at certain staged ages?

- ☐ Term Rider
- ☐ Payor Benefit
- ☐ Waiver of Premium
- ☒ Guaranteed Insurability Rider

The Guaranteed Insurability Rider allows the insured to increase the face amount of a universal life policy at specified ages or life events (such as marriage or the birth of a child) without having to provide evidence of insurability. This rider is particularly useful for younger policyholders who anticipate needing more coverage as their responsibilities grow.

Section 1: Life and Annuity Policies

16. Which of the following life insurance situations would create a taxable event?

- ☒ A policyholder surrenders the policy for the entirety of the life policy's cash value and interest.
- ☐ A named beneficiary receives a death benefit.
- ☐ A life insurance policy's cash value is credited with \$1,200 of interest after a year.
- ☐ A policyholder uses cash value to cover universal life premiums for a year.

When a policyholder surrenders a life insurance policy, the cash value received is compared to the total premiums paid. If the payout includes interest or gains that exceed the total premium contributions, that excess is considered taxable income. This creates a taxable event, even though the policy itself is no longer in force. In contrast, receiving a death benefit or using accumulated cash value to pay premiums typically does not trigger taxation under standard IRS rules.

17. Which of the following is the individual who receives payments from an annuity?

- ☐ Policy owner
- ☐ Beneficiary
- ☒ Annuitant
- ☐ Lienholder

The annuitant is the individual who receives income payments from an annuity contract. These payments are often based on the annuitant's life expectancy and may continue for a fixed period or for the duration of their life. While the policy owner holds the rights to make changes to the contract and the beneficiary receives any remaining benefits upon the annuitant's death, it is the annuitant who is the primary recipient of the scheduled payouts. The term lienholder does not apply in the context of annuities.

Section 1: Life and Annuity Policies

18. What is one advantage of opting for a variable annuitization?

- ☒ Increasing payments for good market performance may allow the annuity to keep pace with future inflation.
- ☐ A variable annuitization will offer guaranteed fixed monthly payments for life, regardless of market performance.
- ☐ Variable annuitization locks in a fixed interest rate, allowing payments to increase monthly for the remainder of the annuitant's life.
- ☐ Variable annuitization results in protection from market downturns for an annuitant's payments.

One of the main advantages of variable annuitization is the potential for increasing income payments based on the performance of the underlying investment subaccounts. If the market performs well, the annuitant's payments may rise, helping to offset the effects of inflation over time. Unlike fixed annuities, variable annuities do not guarantee a consistent payment amount, and payments can fluctuate—both up and down. However, for individuals comfortable with market risk, variable annuitization offers growth potential that fixed options cannot match.

19. A 10% tax penalty applies to all individuals who receive distributions from annuities before the age of _____.

- ☒ 59½
- ☐ 60
- ☐ 62½
- ☐ 65

The IRS imposes a 10% early withdrawal penalty on distributions taken from an annuity before the age of 59½, in addition to ordinary income tax on the earnings portion. This rule is designed to discourage individuals from using annuities as short-term savings vehicles. After age 59½, withdrawals are allowed without the penalty, although taxes may still apply depending on whether the annuity is qualified or non-qualified. Understanding this rule is essential for effective retirement and tax planning.

Section 1: Life and Annuity Policies

20. Libby elects to access the value of her annuity through a straight life settlement option. How will this impact her beneficiary?

- ☐ Her beneficiary will receive any cash value left after Libby's death.
- ☐ Her beneficiary will only receive a death benefit if Libby dies within ten years of annuitization.
- ☒ Her beneficiary will not receive a death benefit.
- ☐ Her beneficiary will receive periodic annuity payments for a specified period after Libby dies.

With a straight life settlement option, the annuitant—Libby in this case—receives income payments for the rest of her life, but no payments continue after her death, regardless of how much of the annuity value has been paid out. This option provides the highest periodic payments because it carries the most risk for the annuitant. If Libby dies shortly after annuitization, the remaining value is retained by the insurance company. Since there is no refund or guaranteed period, beneficiaries do not receive any remaining funds. This option is often selected by individuals seeking the highest income and who are not concerned with leaving a benefit behind.

Additional Practice

Directions: The following questions are meant for additional practice or class-based discussion. Read the scenarios described and then provide a recommendation for the client.

1. Angela is a 38-year-old single mother with two young children, ages 5 and 7. She works full-time as a nurse and earns \$80,000 per year. Angela is concerned about what would happen to her children financially if she were to pass away unexpectedly. She wants to ensure that her life insurance would be enough to cover 15 years of income replacement, pay off her \$200,000 mortgage, and provide an additional \$100,000 for each child's college education.

Create a life insurance plan for this individual. Be sure to include considerations such as naming beneficiaries and riders.

Based on Angela's financial goals and family situation, a recommended life insurance solution would be a 20-year level term policy with a death benefit of \$1.6 million. This amount is designed to cover 15 years of income replacement (\$1.2 million), pay off her \$200,000 mortgage, and provide \$100,000 for each of her two children's college education. A 20-year term ensures that coverage is in place during her children's most dependent years. To enhance the plan, Angela should consider naming a trust as the beneficiary to ensure the death benefit is managed and distributed according to her wishes, especially since her children are minors. Additionally, adding a waiver of premium rider would protect the policy from lapsing in the event she becomes disabled and unable to work, ensuring that her children remain financially protected under all circumstances.

Section 1: Life and Annuity Policies

2. David is a 60-year-old engineer who just received a \$250,000 inheritance from a family estate. He's looking for a way to generate a guaranteed lifetime income for when he retires at 65. David is risk-averse, prefers stable, predictable payments, and does not want to manage investments or be exposed to market fluctuations. In addition to securing income for himself, he would also like to ensure that a death benefit is left to his adult daughter if he passes away prematurely. He is in good health and does not anticipate needing access to the full principal for emergencies.

What annuity and payment option would you recommend to this client?

Given David's financial goals and risk tolerance, a deferred fixed annuity with a return of premium or period-certain death benefit option would be a highly suitable solution. Since he plans to begin receiving income at age 65, a deferred annuity allows his investment to grow tax-deferred over the next five years while preserving principal. Choosing a fixed annuity aligns with his desire for stable, predictable payments and eliminates market exposure, which is ideal for someone who is risk averse. To fulfill his wish of leaving a death benefit for his daughter, the annuity can pay out with a straight life and refund certain, which allows the daughter to receive a death benefit if value remains in the annuity after David's death.

Section 2: Business Life Concepts

Key Person Life Insurance

» Knowledge Check



Directions: Respond to the following.

1. A commercial client is interested in obtaining a key person life insurance policy for a lead member of their sales team. The client explains that the employee contributes a substantial amount to the business's revenue and would be difficult to replace.

Is this employee eligible for key person insurance?

Yes, this employee is eligible for key person insurance. Key person insurance is designed to protect a business from the financial impact of losing an individual whose skills, expertise, or contributions are critical to the company's success. In this case, the employee plays a lead role on the sales team, generates substantial revenue, and would be difficult to replace.

2. The client explains they are unsure of how much life insurance to obtain for this employee. They explain that the employee secures \$500,000 of profit annually. Explain a method that could be used to determine an appropriate amount of coverage.

One method the client can use to determine an appropriate amount of coverage is the earnings approach. This method focuses on estimating what portion of the business's net profit is directly attributable to the key employee and then multiplying that figure by the number of years it would take to hire a suitable replacement.

Non-Qualified Bonus Plan – Section 162 Executive Bonus Plan



» Knowledge Check

Directions: Respond to the following question.

Your client is a major shareholder and president of a C-Corporation and is considering purchasing additional life insurance. He asks if it is possible to deduct his own life insurance premiums as a business expense.

What counsel would you provide?

As the president and a major shareholder of a C-corporation, your client cannot deduct the premiums for a personally owned life insurance policy as a business expense. However, if the corporation implements a plan such as a Section 162 Executive Bonus Plan—where the company provides a bonus to the executive to purchase life insurance, and the executive owns the policy and names the beneficiary—the bonus paid can be treated as taxable compensation and is deductible by the business as a compensation expense. It is important that your client structures the arrangement carefully and consults with a tax professional to ensure compliance and maximize potential tax advantages.

Business Continuation



» Knowledge Check

Directions: Respond to the following question.

Ralph owns a successful fast-food restaurant and operates it as a sole proprietor. He is a widower with two grown sons. He brings in a new individual and forms a partnership to run the restaurant. His partner, Jason, is 35 and married with three young children. Jason's wife is a patent attorney.

What issues could arise in the partnership if Jason dies?

Jason's ownership interest could be transferred to his wife. Ralph would suddenly find himself in business with Jason's widow, who may have no interest or experience in running a restaurant, leading to disagreements or misaligned goals. Jason's absence may also lead to a disruption in day-to-day business operations. Alternatively, Jason's family may seek a buyout for Jason's share of the business. Without financing in place, Ralph would have to come up with a large sum of money to purchase the interest, causing financial strain.

Buy-Sell Agreements

» Knowledge Check



Directions: Respond to the following question.

You are working with a client. He works for a small business incorporated as Marketing Technology LLC. He and two other individuals are equal shareholders in the business. They are interested in creating a buy-sell agreement and funding it through life insurance.

What are two ways the client could structure life insurance ownership in a potential buy-sell agreement?

In this scenario, the client and his two co-owners could structure the ownership of life insurance for their buy-sell agreement in one of two main ways.

First, in a cross-purchase plan, each owner would purchase a life insurance policy on the other two owners, pay the premiums, and be the beneficiary. In the event of an owner's death, the surviving owners would receive the death benefit and use those funds to purchase the deceased owner's share of the business directly from their estate.

Second, under an entity purchase plan (also known as a stock redemption plan for LLCs), the LLC would purchase, own, and serve as the beneficiary of life insurance policies on each of the three owners. When an owner dies, the business receives the death benefit and uses those funds to buy the deceased owner's interest, redistributing ownership among the surviving members. This method has the potential to create unintended tax consequences, as the death benefit could inflate the business's value.

Employer-Owned Life Insurance



» Knowledge Check

Directions: Respond to the following questions.

While visiting a commercial account during an annual review of their business insurance, your client asks if it is possible for a business to have a life insurance policy written on their sales director. How would you respond to this client? What potential issues should the client be aware of?

Yes, a business can take out a life insurance policy on its sales director. This type of policy is designed to protect the company financially in the event of the death of an employee whose skills, knowledge, or leadership are critical to the business's success. However, there are important legal and tax considerations to be aware of. Under the IRS rules for employer-owned life insurance (EOLI), the company must obtain written consent from the insured employee before the policy is issued, and the employee must be notified of the maximum potential death benefit and that the employer will be the beneficiary. Failure to comply with these notice and consent requirements could result in the death benefit being subject to income tax. Additionally, to qualify for the tax exception, the employee must be a director or qualify as a highly compensated employee under IRS guidelines.

Section 2 Self-Quiz



Set Yourself Up for Success!

An interactive version of this quiz, called a Wayground, a Quizlet set of vocabulary/definition flashcards, and Study Guide, are available on the Resources webpage at <https://www.riskeducation.org/lhresources/>.

Directions: Answer the following questions.

1. Which of the following employees would most likely qualify for the EOLI exception?

- ☐ A janitor who has been working at a company for 20 years
- ☐ An IT employee responsible for maintaining a company's database
- ☐ A sales employee who oversees training initiatives
- ☒ A company's chief financial officer and majority shareholder

Under the Employer-Owned Life Insurance (EOLI) rules, the exception to income taxation on death benefits applies when the insured was an employee at any time during the 12-month period before their death, and the employee was a director or a highly compensated individual, such as a top executive or key employee, at the time the policy was issued. The chief financial officer (CFO) and majority shareholder qualifies as a highly compensated individual and likely meets the criteria for the EOLI exception. In contrast, while the other employees may be valuable, they are unlikely to fall under the IRS definitions of "highly compensated" or "key" employees without additional details about compensation levels or responsibilities.

Section 2: Business Life Concepts

2. A limited liability corporation (LLC) takes out life insurance policies on the entirety of its C-suite. It does not notify any of the employees, and the business itself is listed as the beneficiary. If one of the employees were to die, would the LLC receive the death benefit tax-free? Why or why not?

- ☐ Yes. These employees are likely high earners and meet the requirements for the EOLI exception.
- ☐ Yes. Consent requirements apply only to non-executive key employees.
- ☒ No. While these employees may qualify for an EOLI exception, the business did not meet the proper consent requirements.
- ☐ No. Only certain key employees, such as the CEO themselves, can qualify for these exceptions. Other key employees do not.

Under IRS rules for employer-owned life insurance (EOLI), a business can receive the death benefit tax-free only if the notice and consent requirements are met *before* the policy is issued. These include informing the employee that the employer intends to insure the employee's life, stating the maximum face amount, and obtaining written consent from the employee.

3. Which of the following individuals could be considered a "key person" for a business? (Select all that apply.)

- ☒ A salesperson who is responsible for 25% of a company's net profits yearly
- ☒ An IT professional overseeing a substantial cybersecurity program for a company
- ☐ An employee responsible for maintaining the company's office building
- ☒ The Chief Financial Officer, who is paid \$1,200,000 annually

A "key person" is someone whose knowledge, work, or overall contribution is vital to the success and profitability of a business. This often includes top executives, individuals with unique skills, or those who generate significant revenue. The salesperson contributing 25% of net profits clearly plays a major financial role. Similarly, the IT professional responsible for cybersecurity safeguards critical infrastructure and data, making their role essential to operational continuity. The CFO, due to their high compensation and strategic role in managing company finances, is also a clear example of a key person. In contrast, while the employee maintaining the office building performs an important function, their role is more easily replaceable and generally would not meet the

Section 2: Business Life Concepts

threshold for key person designation in the context of life insurance or business continuity planning.

4. A company wants to insure a key person responsible for maintaining critical server infrastructure. They are concerned with having sufficient funds to quickly obtain another employee to maintain the server if the key person were to die. Which tool should the life insurance agent use to estimate an appropriate value for the life insurance policy?

- ☐ Earnings Approach
- ☒ Replacement Cost Method
- ☐ Present Value Method
- ☐ Estimation Approach

The Replacement Cost Method is the most appropriate tool when the primary concern is covering the costs associated with replacing a key employee. In this scenario, the company wants to ensure it has sufficient funds to hire a new individual who can maintain critical server infrastructure if the current key person dies. This method considers the expenses involved in recruiting, hiring, onboarding, and training a suitable replacement, as well as potential losses during the transition period. While the Earnings Approach and Present Value Method focus on lost profits and long-term financial impact, the Replacement Cost Method aligns best with the company's immediate concern.

5. Which of the following statements about a Section 162 Executive Bonus Plan is true?

- ☒ The employee is the owner of the life insurance policy.
- ☐ The employer is the owner of the life insurance policy.
- ☐ The employer is the beneficiary of the life insurance policy.
- ☐ The employee is the irrevocable beneficiary of the life insurance policy.

In a Section 162 Executive Bonus Plan, the employee is the owner and insured under the life insurance policy. This means the employee controls the policy, including the rights to name or change beneficiaries, access the cash value, and make other decisions related to the contract. The employer does not own the policy or serve as the beneficiary, and the employee's beneficiary designation is not required to be irrevocable. This structure

Section 2: Business Life Concepts

provides a valuable benefit to employees while offering the employer a flexible tool for rewarding and retaining key personnel.

6. Why is it beneficial for an employer to use a REBA when offering a Section 162 executive bonus plan?
- ☐ It requires an employee to remain with the company, or they will be forced to transfer ownership of the policy to the company.
 - ☐ It eliminates the need to “gross up” a bonus to cover taxes on money used to pay premiums.
 - ☒ It sets limitations on the policy, such as when cash value can be accessed, encouraging employee retention.
 - ☐ It allows the plan to comply with IRS requirements and makes the death benefit non-taxable.

A Restrictive Executive Bonus Arrangement (REBA) is used alongside a Section 162 Executive Bonus Plan to help employers maintain control and protect their investment in the benefit. While the employee still owns the policy, the REBA imposes restrictions on certain policy rights—such as accessing the cash value or taking loans—until specific conditions are met.

Section 2: Business Life Concepts

7. Samantha, Craig, and Juan are equal partners in a business. Juan unexpectedly passes away. What are potential issues that can arise in the partnership as a result of Juan's death? (Select all that apply.)

- ☒ If Juan oversaw key responsibilities and business relationships, business could be interrupted, and the partnership could lose value.
- ☒ Juan's heirs will become involved in the partnership, and their opinions on the business could result in conflict.
- ☒ Samantha and Craig may be unable to obtain the funds needed to purchase Juan's interest in the partnership from his heirs.
- ☐ Juan's share of the partnership automatically reverts back to Samantha and Craig at no cost to them.

Partnership interests do not automatically revert to the remaining partners upon a partner's death. Instead, Juan's ownership interest becomes part of his estate and is typically passed to his heirs, who may inherit economic rights. Samantha and Craig would need to buy out Juan's share.

8. What is the role of an insurance agent in the buy-sell agreement?

- ☐ To evaluate the business value in order to determine an appropriate amount of life insurance coverage
- ☒ To help a business structure life insurance coverage so that it fulfills the requirements of a buy-sell agreement
- ☐ To consult with the business on the appropriate legal language and features of a binding buy-sell agreement
- ☐ To identify alternative sources of funding for the buy-sell agreement, such as the use of a sinking fund

The primary role of an insurance agent in a buy-sell agreement is to recommend and structure the appropriate life insurance coverage to fund the agreement in the event of a triggering event such as death, disability, or retirement. While the agent does not draft legal documents or conduct business valuations, they must understand the structure and goals of the buy-sell agreement to recommend the right type and amount of coverage. Agents should also collaborate with legal and financial advisors to ensure the insurance component

Section 2: Business Life Concepts

aligns with the broader succession plan. Identifying non-insurance funding sources or drafting legal language falls outside the agent's scope of expertise.

9. Suzy, Chris, and Craig are equal members of a partnership. They have drafted a cross-purchase buy-sell agreement. As the life insurance agent, how would you recommend that they structure the life insurance policies?

- ☐ The partnership as an entity should be the owner and beneficiary of life insurance policies on all three partners. The entity will use the death benefit to fund the buy-sell agreement if any partner dies.
- ☒ Suzy, Chris, and Craig should each be the owner and beneficiary of a life insurance policy on the other two partners. Should a partner die, the death benefit will be used to purchase the deceased's ownership interest.
- ☐ Craig should own three life insurance policies. He is the beneficiary and owner of the policy on the other two partners. The remaining partners are the beneficiaries of the policy, where Craig is the insured.
- ☐ Each partner should have a policy listing themselves as the insured and the other two partners as beneficiaries. When a partner dies, the other partners will use the death benefit to purchase the deceased's ownership interest.

In a cross-purchase buy-sell agreement, each partner individually owns and is the beneficiary of life insurance policies on the other partners.

Section 2: Business Life Concepts

Section 3: Health Insurance, Medicare, Long-Term Care, and Disability Concepts

Types of Coverage

Check-In



Directions: Respond to the following question.

Josh has an individual health plan with a \$2,000 in-network deductible. His coinsurance provision is 80/20 for in-network care, and his OOPM is \$5,000. He sprains his ankle while playing tennis and receives care in-network. The total covered costs equal \$3,500. He has had no other health expenses during the plan year. How much can Josh expect to pay in out-of-pocket expenses? Ignore copayments.

Josh can expect to pay a total of \$2,300 in out-of-pocket expenses for his ankle injury. First, he must pay his \$2,000 in-network deductible in full, as he has not had any other medical expenses this plan year. This leaves \$1,500 in remaining costs (\$3,500 - \$2,000) subject to the plan's 80/20 coinsurance provision. Under this provision, Josh is responsible for 20% of the remaining \$1,500, which equals \$300. Adding the \$2,000 deductible to the \$300 in coinsurance, Josh's total out-of-pocket cost comes to \$2,300. This amount is below his out-of-pocket maximum of \$5,000, so no additional cost-sharing protections are triggered.

Section 3: Health Insurance, Medicare, Long-Term Care, and Disability Concepts

» Knowledge Check



Directions: Respond to the following.

1. Your client, Gayle, has a medical plan with the following cost-sharing provisions:

- Deductible: \$3,000 in-network/\$6,000 out-of-network
- Coinsurance: 80/20 in-network/out-of-network 50/50
- Out-of-pocket maximum: \$6,000 in-network/unlimited out-of-network.

Review the following medical expenses. Complete the table by indicating your client's expected out-of-pocket cost for each expense and provide an explanation. All expenses occur within the same plan year and are listed chronologically.

Expense	Billed Amount	Network Status	Member Pays + Explanation
1. Routine MRI	\$2,500	In-network	\$2,500. The entire amount applies to the deductible because she has not yet met any of the \$3,000.
2. Knee Surgery	\$10,000	In-network	\$2,400. Remaining \$500 of deductible + 20% coinsurance on next \$9,500 = \$1,900. Total: \$500 + \$1,900 = \$2,400.
3. Specialist Visit	\$1,000	Out-of-network	\$1,000. Specialist is out-of-network, and a \$6,000 deductible applies.

Section 3: Health Insurance, Medicare, Long-Term Care, and Disability Concepts

2. You are speaking with a small business owner who is seeking to obtain group health insurance coverage. They are confused about why they may be required to pay 50% of the premium for their employees. How would you advise this client?

As a small business owner seeking group health insurance, it is important to understand that most insurers require employers to contribute at least 50% of the employee premium to ensure broad participation and a balanced risk pool. This contribution helps prevent adverse selection, in which only employees with high medical needs enroll, thereby driving up costs. By sharing the cost, you encourage healthier employees to join the plan as well, stabilizing premiums for everyone and making the group plan sustainable. Additionally, offering this contribution can enhance your ability to attract and retain talent, while also providing potential tax advantages as employer-paid premiums are typically deductible as a business expense.

Affordable Care Act

Check-In



Directions: Respond to the following question.

Joey is purchasing a plan through the health care exchange. He qualifies for a premium tax credit and cost-sharing reductions. He wants to limit his out-of-pocket expenses. What plan should he purchase?

- ☐ Bronze
- ☒ Silver
- ☐ Gold
- ☐ Platinum

Silver plans are the only plans eligible for cost-sharing reductions (CSRs), which lower out-of-pocket expenses such as deductibles, copayments, and coinsurance for individuals who qualify based on income. Since Joey qualifies for both a premium tax credit and CSRs and wants to limit out-of-pocket costs, a Silver plan will provide him with the best balance of affordability and coverage.

Section 3: Health Insurance, Medicare, Long-Term Care, and Disability Concepts

» Knowledge Check



Directions: Respond to the following.

1. You are working with Jennifer, the proprietor of Jenn's Bagel Shop, on a CGL policy. She states that she has six full-time employees and about five part-time employees. She asks whether she is required to provide her employees with health insurance under the Affordable Care Act. How would you respond?

Under the Affordable Care Act, only employers classified as Applicable Large Employers (ALEs), those with an average of 50 or more full-time equivalent employees, are required to offer health insurance or potentially face penalties. Jenn's Bagel Shop, with six full-time employees and five part-time employees, falls below this threshold. As a result, the business is not required to provide health insurance to its employees under the ACA. Offering coverage remains an option that could help attract and retain staff.

2. You handle a small manufacturing risk owned by Bill. He employs 65 full-time employees. He states that he received a renewal notice from his health insurance carrier, which provides an ACA-compliant plan that affords coverage to all full-time employees. The premium has increased dramatically. Bob currently pays 90% of the employee's self-only premium. However, he is concerned about the price increase and plans to drop his contribution to 50%. He asks if there are any problems with doing so.

Because Bill employs 65 full-time employees, his business qualifies as an Applicable Large Employer (ALE) under the ACA and is required to offer affordable, minimum value coverage to full-time employees to avoid potential penalties. Affordability is based on the employee's required contribution for self-only coverage, which cannot exceed a certain percentage of their household income. If lowering the employer contribution to 50 percent causes the employee's share of the premium to exceed this affordability threshold, the coverage may no longer meet ACA affordability requirements. Bill should carefully assess affordability before reducing his contribution.

Section 3: Health Insurance, Medicare, Long-Term Care, and Disability Concepts

3. You decide to go into further detail on this issue with Bill. He provides a single employee as an example. He states the employee's box 1 W-2 wage is \$50,000. With the contribution decrease, the employee's monthly self-only premium would be \$500. Would this violate the affordability provision?

To determine whether the employee's premium violates the ACA affordability provision, compare the employee's required monthly premium to the allowed percentage of their income.

- Affordability threshold (2026): 9.96% of household income
- Employee's income: \$50,000 a year or \$4,166.67 a month.
- Monthly affordability limit: $\$4,166.67 \times .0996 = \415.00

Since the employee's required contribution of \$500 per month exceeds the \$415.00 affordability threshold, the coverage would not meet the ACA's affordability requirement. Note, this calculation needs to be performed for each employee to get a complete picture.

Tax-Advantaged Accounts



» Knowledge Check

Directions: Respond to the following question.

Your client reports that, after an employee survey, they discovered that some of their employees feel they pay too high a premium for health insurance coverage they do not fully utilize. What plan could your client offer, and how would this plan benefit those employees?

Based on the employee feedback, your client may want to consider offering a High Deductible Health Plan (HDHP) paired with a Health Savings Account (HSA). An HDHP typically has a lower monthly premium than traditional health plans, which would directly address employees' concerns about paying too much for coverage they do not fully use. The HSA allows employees to set aside tax-free dollars to cover out-of-pocket medical expenses when they do occur, giving them more control over their healthcare spending.

For employees who are generally healthy and do not frequently use medical services, this option allows them to save money on premiums and accumulate savings in their HSA that roll over year to year and can even be invested for future healthcare needs. This approach empowers employees to better align their healthcare spending with their actual usage.

Federal Legislation



» Knowledge Check

Directions: Complete the following table by providing a brief description of how each piece of federal legislation impacts employers.

ERISA	Requires employers to manage benefit plans responsibly, provide clear plan information to employees, uphold fiduciary duties, and maintain grievance and appeals processes
HIPAA	Obligates employers to protect the privacy and security of employees' health information and ensure proper handling of medical data within benefit plans
COBRA	Requires employers to offer continuation of group health coverage to eligible employees and dependents after certain qualifying events, and to provide timely notifications about COBRA rights

Medicare

Check-In



Directions: Respond to the following question.

Which of the following are covered under Medicare Part A? (Select all that apply.)

- ☒ A semi-private room in a hospital or skilled nursing facility
- ☒ Custodial care that is part of medical treatment
- ☐ Full-time (24-hour) in-home care
- ☐ In-home physical and speech therapy

You should have selected “A semi-private room in a hospital or skilled nursing facility” and “Custodial care that is part of medical treatment.” Medicare Part A covers inpatient care, which includes a semi-private room during hospital or skilled nursing facility stays. It also covers custodial care only when it is part of a covered medical service, such as care received during a skilled nursing facility stay after a hospital admission. However, full-time (24-hour) in-home care is not covered under Medicare Part A. While in-home physical and speech therapy can be covered by Medicare, this is typically provided through Part B as part of outpatient or home health services, not under the inpatient-focused Part A benefit.

Section 3: Health Insurance, Medicare, Long-Term Care, and Disability Concepts

Check-In



Directions: Indicate whether each of the following statements is true or false.

1. Medicare Part B only provides coverage for preventive services.

True

False

Part B also covers outpatient services as well as some inpatient care.

2. Medicare Part B is optional, but if an individual without employer-provided group health coverage waits one year to enroll in Medicare Part B, their premium is increased by 10%.

True

False

All individuals without employer-provided group health coverage who do not enroll in Medicare Part B within 12 months are charged a 10% increase in the premium for each year they delay enrollment.

3. Medicare Part B has an out-of-pocket maximum set annually by the federal government.

True

False

Medicare Part B has no out-of-pocket maximum, meaning individuals enrolled in Original Medicare should consider a Medicare Supplement policy (Medigap) or a Medicare Advantage plan.

Section 3: Health Insurance, Medicare, Long-Term Care, and Disability Concepts

» Knowledge Check



Directions: Respond to the following.

1. You have a client who recently retired and enrolled in Original Medicare. They are in relatively good health, but ask: “Am I still covered for routine services, like wellness checks?” Answer the question, and address which part of Medicare provides coverage for these services.

Yes, coverage for routine services such as wellness checks is available under Original Medicare. These types of services are generally covered under Medicare Part B, which provides coverage for outpatient care, including preventive services.

2. You have a client who is enrolling in Medicare for the first time. They explain that they receive an injection twice a year to treat osteoporosis. Each injection costs \$1,700. Your client is confused about how much she will pay with Medicare Part D and is worried about the “donut hole” that she has heard about.

Explain what your client’s out-of-pocket costs will likely be using the following figures:
Deductible – \$590, Initial Coverage Coinsurance – 25%

The osteoporosis injections cost \$1,700 each and are given twice a year, totaling \$3,400 annually. Under a standard Medicare Part D plan in 2025, she would first pay the \$590 deductible out of pocket.

After meeting the deductible, she would pay 25% coinsurance on the remaining cost of the first injection, which comes to \$277.50. For the second injection, she would pay 25% of the full \$1,700, or \$425. This brings her total estimated out-of-pocket cost for the year to \$1,292.50.

Starting in 2025, the Medicare Part D coverage gap, often called the “donut hole,” has been eliminated and replaced with a \$2,000 annual cap on out-of-pocket costs. Since her total costs fall below this cap, she would not reach the limit, but it offers important protection in case her drug expenses increase in future years.

Section 3: Health Insurance, Medicare, Long-Term Care, and Disability Concepts

3. Your client is confused about the difference between Medicare Advantage and Medigap plans. Explain the difference.

Medicare Advantage (Part C) and Medigap (Medicare Supplement) are both private insurance options, but they work differently. Medicare Advantage replaces Original Medicare and often includes prescription drug coverage, as well as extra benefits like dental and vision. These plans have provider networks and may require referrals. Medigap, on the other hand, works alongside Original Medicare to cover out-of-pocket costs like deductibles and coinsurance but does not include drug coverage, so a separate Part D plan is needed. Medigap allows access to any provider who accepts Medicare, with no network restrictions. Individuals can enroll in one or the other, but not both.

Medicaid

» Knowledge Check



Directions: Respond to the following prompt.

Your 65-year-old client states that they are concerned they will have too many assets to qualify for nursing home care through Medicaid when it is needed. They state they plan to sell their vacation home and transfer the proceeds to their eldest daughter. Provide counsel to the client based on asset rules for Medicaid.

Qualification for Medicaid requires very low assets and a monthly income. It is unlikely that someone with a vacation home would meet that definition. If they transfer the asset, there is a five-year lookback period, and there may also be gift tax implications. Instead of making a direct transfer or relying upon Medicaid, your client may want to explore legitimate strategies for asset protection and long-term care planning, including the possible role of long-term care insurance.

Essentials of Long-Term Care Insurance (LTCI)

» Knowledge Check



Directions: Respond to the following question.

You are working with a client who recently turned 65. He receives income from his 401(k) and Social Security, and owns a single-family home that he resides in. He states he does not see the need for long-term care insurance, as he can obtain coverage through Medicaid when he needs it. How would you respond?

While Medicaid does provide long-term care benefits, it is a needs-based program that requires individuals to meet strict income and asset limits to qualify. Because the client receives income from a 401(k) and Social Security and owns a home, he may not initially qualify for Medicaid without first spending down a significant portion of his assets. Relying solely on Medicaid could result in a loss of financial independence, limited care options, and reduced ability to leave assets to heirs. In contrast, purchasing a long-term care insurance policy now could help preserve his income and home equity, provide greater flexibility in choosing care settings, and ensure that he maintains control over how and where he receives care as he ages.

LTCI Policy Provisions and Coverage Options (Riders)

» Knowledge Check



Directions: Respond to the following questions.

1. Martha, age 76, owns a long-term care insurance policy with a daily benefit of \$180 and a 90-day elimination period. Martha begins to experience difficulty with bathing due to worsening arthritis and balance but remains independent with all other activities of daily living (ADLs). Her doctor recommends in-home care three days a week to assist her with bathing and ensure her safety. The in-home care provider charges \$120 per visit. How will the policy respond to the costs of in-home care?

Because Martha is only experiencing difficulty with one ADL (bathing), she does not yet meet the benefit trigger required by her long-term care insurance (LTCI) policy, which typically requires the inability to perform at least two ADLs or the presence of cognitive impairment. As a result, her policy will not pay any benefits at this time, and she will be responsible for the \$120 per visit out-of-pocket cost for in-home care.

2. Over the next six months, Martha's condition deteriorates. She begins to struggle with dressing and toileting in addition to bathing, and her care needs increase. She now receives daily in-home care five days per week, with a caregiver assisting her for several hours each day. The cost of care has increased to \$200 per day, totaling \$1,000 per week. How will the policy respond? What costs will Martha be responsible for?

Since Martha now requires substantial assistance with at least two ADLs (bathing, dressing, and toileting), she meets the benefit trigger required by her long-term care insurance policy. After she satisfies the 90-day elimination period, the policy will begin paying up to \$180 per day for her covered long-term care services. Because her current care costs \$200 per day and the policy pays \$180 per day, the policy will contribute \$900 per week (5 days x \$180), and Martha will be responsible for the remaining \$100 per week out of pocket (5 days x \$20). Additionally, Martha is responsible for all care costs incurred during the 90-day elimination period, before benefits begin.

Section 3: Health Insurance, Medicare, Long-Term Care, and Disability Concepts

3. You have a client with a commercial account for his small business. He states he is going to close his business soon because he was recently diagnosed as being in the early stages of Alzheimer's. He asks whether he can obtain LTCI coverage. How would you respond?

Because the client has already been diagnosed with early-stage Alzheimer's disease, it is highly unlikely that he would be able to obtain long-term care insurance coverage through a traditional, medically underwritten policy. Most LTCI carriers consider any form of cognitive impairment, including early-stage Alzheimer's, to be a disqualifying condition. Insurers assess cognitive function closely during the underwriting process, and a diagnosis of Alzheimer's is typically grounds for automatic decline. Other alternatives to LTCI should be considered.

Other Long-Term Care Products

» Knowledge Check



Directions: Respond to the following.

1. You have a client with a commercial account for his small business. He states he is going to close his business soon because he was recently diagnosed as being in the early stages of Alzheimer's. You explained that he would likely be unable to secure LTCI coverage because of his diagnosis. Explain an alternative option for him to secure some LTC coverage.

An annuity with a long-term care rider may be a good alternative for your client. These products often have more lenient underwriting than traditional LTC insurance and, in some cases, may still be available to individuals with early-stage Alzheimer's. By making a lump-sum deposit, your client could create an income stream and access enhanced long-term care benefits if needed. If care is never required, the remaining value can be passed to his beneficiaries. This option allows him to use existing assets to help cover future care costs, even if he does not qualify for standard LTC coverage.

2. You have a client who is concerned about the possibility of Medicaid estate recovery. He wants to avoid this possibility and obtain some form of LTCI. However, he is concerned about potentially paying for a product that he will never utilize. How would you counsel him?

To address concerns about Medicaid estate recovery and the possibility of paying for long-term care insurance without using the benefits, it is important to explain that LTCI helps protect assets and maintain financial control if care becomes necessary. For those worried about paying premiums without needing care, hybrid or linked benefit policies may be a suitable option. These combine long-term care coverage with a life insurance or annuity component, so if long-term care is not required, a death benefit or cash value is still available to heirs. This approach provides protection against high care costs while preserving value even if benefits are never used.

Essentials of Disability Insurance



» Knowledge Check

Directions: Respond to the following question.

You are working with a client who is a contractor specializing in roofing. He states that he does not want to spend money on disability since it is already covered through Social Security. How would you respond?

Social Security Disability Insurance (SSDI) provides limited coverage and has strict qualification requirements. Only 35% of claimants are ever approved for SSDI, and the average benefit amount is less than \$1600 per month. To receive benefits, your client would need to prove a total disability that prevents any substantial gainful activity and is expected to last at least one year or result in death. It also does not cover partial or short-term disabilities. For someone in a physically demanding job like roofing, even a temporary injury could result in significant income loss. Private disability insurance offers more flexible definitions of disability, can cover partial claims, and provides income much sooner than Social Security, making it a valuable layer of protection.

Disability Policy Provisions

» Knowledge Check



Directions: Respond to the following question.

You have a client who is a pediatric surgeon and a part-time instructor at a medical school. She receives a short-term disability insurance policy through her employment at the medical school but is interested in obtaining long-term disability insurance coverage after her friend was recently disabled as the result of a boating accident. However, she is concerned about the costs. What type of disability income insurance policy should she obtain, and how might she obtain coverage while reducing her potential premium?

Your client should consider obtaining an individual long-term disability income (DI) insurance policy that offers “own occupation” coverage, especially given her specialized profession as a pediatric surgeon. This type of policy would protect her income if she became unable to perform the specific duties of her surgical role, even if she could still work in another capacity, such as teaching. One strategy for reducing the potential premium would be selecting a longer elimination period, such as 90 or 180 days.

Essentials of Business Overhead Expense (BOE) Disability Income

» Knowledge Check



Directions: Respond to the following prompt.

Your client operates an accounting firm where she is the sole owner and practitioner. She is concerned about what would happen to her firm and the clients she has established if she becomes unable to work due to an injury or illness. Explain how she could address her concerns about business interruption due to disability.

Your client can address her concerns about business interruption due to disability by obtaining a Business Overhead Expense (BOE) disability insurance policy. This type of insurance is designed to cover the ongoing fixed expenses of her accounting firm, such as rent, utilities, employee salaries, and office equipment leases, while she is unable to work. By having BOE coverage, the business can continue operating and maintain client relationships during her disability.

Section 3 Self-Quiz



Set Yourself Up for Success!

An interactive version of this quiz, called a Wayground, a Quizlet set of vocabulary/definition flashcards, and Study Guide, are available on the Resources webpage at <https://www.riskeducation.org/lhresources/>.

Directions: Answer the following questions.

1. James receives health insurance through his employer. His deductible is \$2,000, and there is an 80/20 copayment provision for care received in-network. He is in a car accident and receives treatment for several fractures, with the treatment costs totaling \$3,500. How much can he expect to pay for his health care costs?
 - ☐ \$2,000
 - ☒ \$2,300
 - ☐ \$3,200
 - ☐ \$3,500

James can expect to pay \$2,300 for his health care costs related to the car accident. His health insurance plan includes a \$2,000 deductible, which he must pay in full before his insurance begins to cover any expenses. After the deductible is met, the remaining \$1,500 of his \$3,500 total medical bill is subject to an 80/20 copayment provision, meaning James is responsible for 20% of that amount. This results in an additional \$300 out-of-pocket cost. Therefore, James's total payment would be \$2,000 (deductible) plus \$300 (20% of the remaining \$1,500), totaling \$2,300.

Section 3: Health Insurance, Medicare, Long-Term Care, and Disability Concepts

2. The Cruz family has a family deductible of \$6,000, with an individual embedded deductible of \$2,000 and an 80/20 coinsurance provision for care received in network. The youngest daughter, Emily, undergoes surgery to treat a congenital condition, with the costs totaling \$7,000. That same year, Bill, the father, receives treatment for a deviated septum, with the costs totaling \$5,000. The family OOPM is \$8,000, and the individual OOPM is \$4,000. How much can the family expect to pay in health care costs for the year, assuming these are their only health care costs?

☐ \$3,000

☐ \$4,000

☒ \$5,600

☐ \$8,000

The Cruz family can expect to pay \$5,600 in health care costs for the year based on their incurred expenses. Emily's surgery costs \$7,000. She must first satisfy her individual embedded deductible of \$2,000. After that, the remaining \$5,000 is subject to 20% coinsurance, which is \$1,000. Her total out-of-pocket cost is \$3,000. Bill's treatment costs \$5,000. He also pays his \$2,000 individual deductible, and then 20% of the remaining \$3,000, which is \$600, bringing his total out-of-pocket expense to \$2,600. Combined, the family pays \$3,000 for Emily and \$2,600 for Bill, totaling \$5,600 for the year. Because this amount is below both the \$6,000 family deductible and the \$8,000 family out-of-pocket maximum, and assuming no other covered health care costs are incurred, \$5,600 is the total amount the Cruz family would be responsible for that year.

3. For group health insurance offered by an employer, the employer's contributions are tax-deductible, but employees must pay a tax on the benefits they receive.

☐ True

☒ False

This statement is false. For group health insurance offered by an employer, the employer's contributions toward the premiums are tax-deductible as a business expense. However, the benefits that employees receive from these health insurance plans are generally not taxable income to the employee. This means employees do not have to pay tax on the value of the health insurance benefits they receive, making employer-sponsored health insurance a tax-advantaged benefit for employees.

Section 3: Health Insurance, Medicare, Long-Term Care, and Disability Concepts

4. Which of the following examples of health insurance underwriting is still allowed under ACA regulations?

- ☐ A health insurer charging a higher premium for men
- ☐ A health insurer denying coverage to an individual with a pre-existing condition
- ☒ A health insurer charging higher premiums for an individual who smokes tobacco
- ☐ A health insurer increasing premiums for an individual with a family history of heart disease

Under ACA regulations, health insurers cannot charge different premiums based on gender or deny coverage due to pre-existing conditions. However, insurers are allowed to vary premiums based on a limited number of factors, including tobacco use. This means that individuals who use tobacco products may be charged higher premiums.

5. Robert earns a meager income from his handyman service. He decides to enroll in health coverage via the health insurance exchange. He wants to obtain coverage while minimizing his costs. Which tier would be the most appropriate option?

- ☐ Bronze
- ☒ Silver
- ☐ Gold
- ☐ Platinum

In the health insurance exchange, the Silver tier plans are designed to balance monthly premiums and out-of-pocket costs, making them the most popular choice for people looking to minimize overall health care expenses. Additionally, subsidies and cost-sharing reductions are only available with Silver plans, which can significantly lower deductibles, copayments, and coinsurance for eligible low- and moderate-income enrollees like Robert.

Section 3: Health Insurance, Medicare, Long-Term Care, and Disability Concepts

6. American Steel is an ALE. After a poor fiscal year amid rising health care costs, it decided to reduce its contributions to employee health care plans. Which answer best explains why this could potentially be problematic?

- ☒ There is a risk that reducing its contributions could cause the plans to not meet the ACA definition of affordability, resulting in penalties against the company.
- ☐ ALEs are not allowed to reduce contributions to employee health plans without receiving approval from the federal government.
- ☐ Lowering the amount the company contributes to employee health plans could result in discrimination lawsuits against the company.
- ☐ The ACA establishes minimum contribution requirements as a percentage, and lowering them could put American Steel in violation of the requirements.

As an Applicable Large Employer (ALE), American Steel is required to offer affordable coverage to full-time employees. If the company reduces its contributions too much, the plan may no longer be considered affordable under ACA guidelines, potentially leading employees to qualify for marketplace subsidies and triggering employer penalties.

7. Gail is trying to choose one of the health insurance plans offered by her new employer. She is concerned that, as a new employee, she may have a long waiting period before her coverage is effective. Which of the following statements is accurate?

- ☒ The maximum waiting periods for new employees cannot exceed 90 days.
- ☐ Employers cannot impose a waiting period for new employees' health insurance.
- ☐ While her employer can delay coverage for new employees for 180 days, Gail can obtain coverage from COBRA in the meantime.
- ☐ Gail will be allowed to purchase a catastrophic plan on the ACA marketplace, so she has coverage during her waiting period of 120 days.

Under the ACA, the maximum waiting period for healthcare coverage for new employees cannot exceed 90 days. Employees transitioning from a previous job with ongoing prescriptions or scheduled procedures should explore interim options like a short-term medical insurance, a spouse's plan, Medicaid, or marketplace insurance.

Section 3: Health Insurance, Medicare, Long-Term Care, and Disability Concepts

8. An account used to pay for unreimbursed health care expenses in a high-deductible health plan is an _____.

☒ HSA

☐ ICHRA

☐ EBHRA

☐ FSA

An HSA is a tax-advantaged account specifically designed for use with a high-deductible health plan (HDHP). It allows individuals to set aside pre-tax money to pay for qualified, unreimbursed medical expenses such as deductibles, copayments, and other out-of-pocket costs. Funds in an HSA roll over year to year, can earn interest or be invested, and remain with the individual even if they change jobs or health plans. While FSAs and other account types offer similar benefits, only HSAs are specifically tied to HDHPs.

9. Your client decides to retire at age 63 and is evaluating their options to secure health coverage once their employment ends. Which of the following statements is true?

☐ Since they are retiring early, they are eligible to enroll in Medicare before the age of 65.

☐ Their options will be limited as they will not qualify for plans through the Exchange.

☒ They could maintain their current health plan through COBRA, but they would potentially be responsible for 102% of the current premium.

☐ Their employer is mandated by law to contribute to their health insurance for at least one year due to the employee's early retirement.

When an individual retires before age 65, they are not yet eligible for Medicare, which generally begins at age 65 unless they qualify early due to disability. In the meantime, one standard option is to continue their employer-sponsored coverage through COBRA. COBRA allows eligible employees to maintain the same group health plan for up to 18 months after leaving employment, but they must typically pay the full cost of the premium plus a 2% administrative fee, totaling 102% of the plan's cost. This often makes COBRA coverage more expensive than coverage during employment, since there is no employer subsidy.

Section 3: Health Insurance, Medicare, Long-Term Care, and Disability Concepts

10. A claims processor working for a health insurance company is a good example of an insurance professional who must pay close attention to HIPAA regulations.

☒ True

☐ False

Health insurance companies are covered under HIPAA, and claim processors handle protected health information (PHI), making HIPAA compliance essential.

11. Rafael delays enrolling in Medicare until he officially retires at age 68. What penalties could he potentially face for his late enrollment in Medicare Part A?

☒ He will most likely not have a penalty.

☐ He will face an increased premium penalty for 3 years.

☐ He will be subject to a 50% increase in his deductible.

☐ He will pay higher copayments and coinsurance.

Medicare Part A is typically premium-free for most people who have worked and paid Medicare taxes for at least 10 years. However, if Rafael is not eligible for premium-free Part A and delays enrollment without having other creditable coverage, he may face a premium penalty. The penalty is a 10% increase in the monthly premium for twice the number of years he delayed enrollment. Since Rafael delayed enrollment by three years (from age 65 to 68), he would pay the higher premium for six years. This penalty applies only if he has to pay for Part A and did not have creditable coverage in place during the delay.

Section 3: Health Insurance, Medicare, Long-Term Care, and Disability Concepts

12. Bill receives a wellness exam and routine vaccination in an outpatient setting. This care is covered under Medicare _____.

☐ Part A

☒ Part B

☐ Part C

☐ Part D

Medicare Part B covers outpatient services, including preventive care such as wellness exams, screenings, and routine vaccinations such as influenza. Part B is designed to cover medically necessary services and preventive care received outside of a hospital setting.

13. Which of the following statements about obtaining long-term care through Medicaid is most accurate?

☒ Medicaid has strict income and asset requirements. To qualify, one would need to exhaust assets to near poverty levels.

☐ Medicaid grants individuals flexibility in determining when and how they receive long-term care.

☐ Medicaid focuses solely on providing health insurance and offers limited long-term care strictly for medical purposes.

☐ Medicaid only offers long-term care through government-sponsored long-term care insurance programs.

Medicaid is a joint federal and state program that helps with medical costs for individuals with limited income and resources. To qualify for long-term care coverage through Medicaid, individuals generally must meet very strict financial eligibility rules, often requiring them to spend down or “exhaust” most of their assets to levels close to the poverty line. This financial qualification process can make relying on Medicaid for long-term care risky and challenging.

Section 3: Health Insurance, Medicare, Long-Term Care, and Disability Concepts

14. Why is planning for long-term care needs important?

- ☐ Because long-term care services are fully covered by all private health insurance plans, planning ensures the selection of the right provider.
- ☐ Long-term care stays are relatively short, so planning can help minimize the duration that extensive care is actually needed.
- ☒ The chance of needing long-term care is high, and the costs associated with it are high as well. Without a plan in place, individuals risk their assets and wealth.
- ☐ Long-term care costs are predictable and financially manageable as long as an individual has a financial plan in place.

Planning for long-term care is essential because many people will need some form of long-term care during their lifetime, and the costs can be substantial. Without proper planning, these expenses can quickly deplete an individual's savings and assets, jeopardizing financial security.

15. Sarah has a long-term care policy with a daily benefit of \$150. On Monday through Thursday, she receives care from a family member. However, on Friday through Sunday, she receives in-home care for \$200 a day. A policy with a weekly benefit would help ensure her costs are fully covered.

☒ True

☐ False

A policy with a weekly benefit can help cover long-term care costs more flexibly than a daily benefit policy. Since Sarah receives care at varying costs on different days, with family care Monday through Thursday that may not have direct costs, and paid in-home care Friday through Sunday costing \$200 per day, having a weekly benefit allows the total care expenses over the week to be pooled. This helps ensure that higher-cost days are covered even if daily expenses exceed the set daily benefit amount of \$150. Without a weekly benefit, she might incur out-of-pocket expenses on days when care costs exceed the daily benefit limit.

Section 3: Health Insurance, Medicare, Long-Term Care, and Disability Concepts

16. Sarah and Bill obtain LTCI policies together. A joint waiver of premium would allow them to receive benefits without having to continue premium payments if one of them starts receiving long-term care.

☒ True

☐ False

A joint waiver of premium provision in a long-term care (LTC) insurance policy means that if either Sarah or Bill begins receiving long-term care benefits, the policyholder(s) are no longer required to pay premiums. This waiver helps protect the policyholders by eliminating the financial burden of continuing premium payments during a time when care costs are already high.

17. Benefits in an LTC policy are triggered when the insured has difficulty with at least ONE ADL.

☐ True

☒ False

Most long-term care (LTC) insurance policies require that benefits be triggered when the insured has difficulty with at least two activities of daily living (ADLs), such as bathing, dressing, eating, toileting, transferring, or continence.

18. Which of the following individuals would most likely have difficulty obtaining an LTC policy? (Select all that apply.)

☒ Bill is 55 and has early-onset Alzheimer's.

☐ Sandy is 64 and is partially deaf.

☒ Jonathan is 67 and has issues with continence.

☐ Zariah is 59 and has a family history of diabetes.

Bill would likely be denied outright due to being diagnosed with Alzheimer's, or would pay exceptionally high premiums. Jonathan currently has difficulty with one of the ADLs (continence), which usually makes it hard to qualify for LTC coverage. Deafness and diabetes are not ADLs or conditions that make it difficult to obtain an LTC policy.

Section 3: Health Insurance, Medicare, Long-Term Care, and Disability Concepts

19. Your client is 55 years old. He states his father lived independently well into old age, but his mother required long-term care for several years before her death. He has multiple streams of income and assets and wants to ensure he does not lose any investments made into an insurance product he may never use. What long-term care product would you recommend?

☐ Life insurance with an LTC Rider

☒ A linked benefit annuity

☐ A traditional LTCI policy

☐ A short-term care policy

A linked benefit annuity combines long-term care benefits with an investment or annuity component. This product allows the client to invest assets that grow tax-deferred while also providing long-term care benefits if needed. If long-term care is never required, the client retains the investment value or passes it on to heirs. This addresses the client's concern about losing investments while offering some protection against long-term care costs.

20. Which of the following statements regarding disability insurance are true? (Select all that apply.)

☒ Most people have limited access to income to support themselves through an extended period of disability.

☐ Disability insurance is only necessary for individuals working in physically demanding jobs where workplace accidents are common.

☐ Most people can qualify for limited assistance through Social Security in the event of partial disability.

☒ Disability insurance serves as income replacement, providing stability during a period of disability and recovery.

The correct answers are that most people have limited access to income to support themselves for an extended period of disability, and that disability insurance serves as a form of income replacement. The other options are incorrect: disability insurance is important for workers in all types of occupations, not just physical labor, because disabilities can arise from many causes. Also, Social Security disability benefits are

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difficult to qualify for and do not provide comprehensive assistance for partial disabilities.

21. Preston has a disability insurance policy. He has a skiing accident and is unable to work in his role as a construction project manager for a period of one year. This is an example of the benefits of a(n) _____ policy.

☐ any occupation disability insurance

☒ own occupation disability insurance

☐ Social Security Disability Insurance

☐ Workers Compensation

Own occupation disability insurance provides benefits when the insured is unable to perform the duties of their specific occupation, even if they can work in another job. Since Preston, a construction project manager, is unable to work in his role due to an injury, this type of policy would pay benefits for the period during which he cannot perform his own job. Any occupation disability insurance would only pay if he could not work any job suited to his education and experience, which is a stricter standard.

22. Which of the following would likely increase a disability insurance premium? (Select all that apply.)

☒ A family history of strokes

☐ Lower annual income

☐ Working in a clerical position at an office

☒ Having a hobby of mountain biking

Disability insurance premiums are likely to increase if an applicant has a family history of strokes or engages in high-risk activities such as mountain biking. These factors raise the insurer's perceived risk of disability due to potential health problems or injury.

Conversely, having a lower annual income usually means a smaller benefit amount, which can reduce the premium. Similarly, working in a clerical position at an office is considered low risk and typically results in lower premiums. Therefore, a family history of strokes and participation in mountain biking are the factors most likely to increase disability insurance premiums.

Section 3: Health Insurance, Medicare, Long-Term Care, and Disability Concepts

23. Stephan has an extended period of disability after a workplace incident. His disability insurance policy pays \$3,000 monthly, but he also receives \$1,000 monthly from workers compensation. How much will his disability insurance policy pay?

☐ \$1,000

☒ \$2,000

☐ \$3,000

☐ \$4,000

Disability insurance policies typically include a coordination of benefits clause to prevent the insured from receiving more than their total monthly benefit amount. Since Stephan receives \$1,000 per month from workers' compensation, his disability insurance will usually reduce its payment by that amount. Therefore, if his policy pays \$3,000 monthly, he will receive \$2,000 from disability insurance plus the \$1,000 from workers' compensation, totaling \$3,000 in benefits.

24. Your client is a dentist and a sole practitioner at the office he owns. He is concerned with replacing his income in the event of a long-term disability. A BOE DI policy would address this concern.

☐ True

☒ False

False. A BOE policy helps cover business expenses but does not replace income, especially in the event of a long-term disability.

Section 3: Health Insurance, Medicare, Long-Term Care, and Disability Concepts

25. Imagine your client becomes disabled for six months and is unable to work as a dentist in his office. What costs will a BOE DI policy pay for? (Select all that apply.)

- ☒ The cost of hiring a temporary replacement for six months
- ☒ The cost of renting the office space
- ☒ The cost of utilities such as electricity and water
- ☐ Any medical costs associated with recovery from the disability

BOE policies are designed to pay for ordinary and necessary business expenses while the owner is disabled, helping keep the business operational. However, BOE policies do not cover any medical costs associated with recovery from the disability, as those are considered personal expenses.

Appendix

Appendix

Preparing for the Final Exam

For many learners, test preparation is stressful. Please keep in mind that the most important measure of your knowledge will be witnessed in your service to your organization. Think of a test as a tool. Use it to come to an understanding of what you know, how it affects your work, and what more you would like to know to have even greater success in the workplace.

The testing period for the Final Exam is two hours long. You are required to earn a minimum of 140 out of 200 possible points. Questions appear in the order of presentation of the topics.

Remain aware of the time as you take the test. Pace yourself and be aware that unanswered questions are considered incorrect.

Study Techniques

There are some techniques you can use to help you prepare for the end-of-course test. Apply the same techniques to each chapter in your Learning Guide.

1. Review the Section Goal.
2. Review each Learning Objective.
3. Change each head and subhead into a question. Then answer the question. For example,

Header: The Vision Statement

Question: What is a vision statement?
4. Review each diagram, graph, and table. Interpret what you see. Ask yourself how it relates to a specific Learning Objective.
5. Check your answers to each Check-In. Correct your original answers, if necessary.
6. Check your answers to each Knowledge Check. Consider ways to improve your original answers.
7. Re-read the summary at the end of each section.
8. Check your answers to each question in the Self-Quizzes at the end of each section. Correct your original answers, if necessary.

Appendix

9. Review any comments, highlights, or notes you made in each section.
10. Rewrite important ideas in your own words. Find ways to connect those ideas to your own work experiences.
11. Make flash cards to help you review important vocabulary.

Sample Test Questions

The end-of-course test has a variety of questions similar to the ones below. Correct answers have been provided.

Sample 1

The following policy provisions are commonly found in most major medical insurance policies: (a) coinsurance clause, (b) deductible. Describe each provision.

Sample Answer 1:

- a) The coinsurance clause requires that the insured pay a portion of each dollar loss after the deductible has been exceeded.
- b) A deductible is an amount of money paid by the insured. It must be satisfied before the insurance contract responds.

Sample 2:

One of the standard provisions found in most life insurance contracts is the reinstatement provision. Explain the reinstatement provision and list the requirements needed to reinstate a policy.

Sample Answer 2:

After the expiration of the grace period, the insured may request the reinstatement of the contract. Requirements: proof of insurability, payment of all back premiums, interest, and policy loans.

Glossary of Terms

Accelerated Death Benefit – a rider that states the insured can collect on their own insurance policy if diagnosed with a terminal illness. Generally, an attending physician must certify that the individual has one year (or less) to live.

Accidental Death – usually defined as “a death resulting directly and independently of all other causes from bodily injuries effected solely through external, violent, and accidental means and occurring within 90 days from the date of such accident”

Accidental Death Benefit – a rider that provides for the payment of an amount in addition to the standard benefit payable in the event of an accidental death or a death resulting from a sudden, unexpected, and unintentional injury

Accumulation period – the time frame in which charges incurred can be applied against the deductible in a health insurance plan (calendar year or plan year basis). For annuities, see the glossary entry for “annuity accumulation phase.”

Active listening – a skill that allows agents to problem-solve and guide a client through the fact-finding discussion

Activities of Daily Living (ADLs) – the eligibility requirement that must be met before a long-term care policy begins paying benefits; includes activities that people routinely do (e.g., eating, bathing, toileting, dressing oneself) as diagnostic criteria to determine whether a long-term care benefit is payable

Aggregate deductible – the dollar amount of allowable covered medical expenses a family must pay (accumulate) before the health insurance plan will begin cost sharing (does not include preventative medical services)

Annual Report – a statement insurance companies send to the insured/owner of a policy or annuity, which summarizes account activity, cash values, and any benefit values

Annuitant – the individual whose life (mortality) is used to determine the payments during the payout phase (may or may not be the same person as the owner)

Annuitization – the process by which an annuity transitions from the accumulation phase to the distribution phase. This is a permanent decision.

Annuity – an insurance contract between a person (or trust) and an insurance company that can be used as a long-term savings plan. Assets accumulate tax-deferred and are liquidated

Glossary

through a series of regular payments to provide protection against the risk of living too long or being without income during retirement. There are three types:

- **fixed:** the insurer guarantees both a principal investment and a minimum interest rate over a specified period
- **indexed:** the principal is guaranteed as long as the annuity is held through the surrender period; the interest rate is based on a company-specific formula tied to the performance of one or more linked indexes, such as the S&P 500 (intermediate risk)
- **variable:** funds are allocated into subaccounts that mirror mutual funds; there is growth potential, but the annuity owner assumes all investment risk. Downside protections may be available with a Guaranteed Lifetime Withdrawal Benefit rider.

Annuity accumulation phase – the period of time during which an individual contributes money into an annuity, and values may grow tax-deferred

Annuity distribution phase – the period of time during which a stream of income based on the value accrued during the accumulation phase is paid to the annuitant

Annuity (floors) – minimum guarantees that limit exposure to losses from investment decline

Annuity (installment premium) – allows the annuity owner to contribute multiple fixed or flexible payments over time

Annuity (lifetime income – guaranteed) – an annuitization option that converts annuity value into a stream of payments that lasts as long as the annuitant lives

Annuity (non-qualified) – funded with after-tax dollars, with growth being taxed during the distribution phase

Annuity (qualified) – purchased with pre-tax dollars, typically through retirement plans like a traditional IRA or 401(k)

Annuity (single premium) – funded with a one-time lump sum payment, typically for an immediate annuity

Annuity (surrender charges) – expressed as a percentage and applied to full or partial surrenders made within a certain number of years (designed to make moving money out of an annuity less attractive)

Applicable large employer (ALE) – an employer who, on average during the preceding calendar year, employed at least 50 full-time employees, including full-time equivalent employees

Assignment of life contracts – there are two types:

- **absolute:** a complete and permanent transfer of ownership of a contract or policy. The new owner assumes full control of the policy for the remainder of its existence.
- **collateral:** a temporary assignment made by the owner of a life insurance policy or annuity to assign certain policy rights to a lender as collateral, typically to secure a loan

Automatic Premium Loan (APL) – a feature in whole life insurance that allows a missed premium payment to automatically be covered by accumulated cash value after the grace period expires

Bed reservation – a long-term care insurance policy provision that ensures a bed in an assisted living facility or nursing home remains available for an individual even if they need to leave the facility for a certain period

Beneficiary – the individual/entity designated to receive a life insurance policy's death benefit when the insured person passes away

Beneficiary (contingent) – the individual/entity designated to receive the life insurance death benefit if the primary beneficiary dies before the insured

Beneficiary (irrevocable) – cannot be changed or removed by the owner, unless the irrevocable beneficiary provides a written agreement (often used in divorce settlements with minor children)

Beneficiary (primary) – the first person or entity named to receive life insurance benefits upon the insured individual's death. If multiple primary beneficiaries are listed, the owner must designate the percentage each beneficiary will receive.

Benefit period – the number of years long-term care or disability benefits are payable once the claim trigger and elimination period are met

Blackout period – a consideration in determining a proper amount of life insurance. It is the period during which a surviving spouse becomes ineligible for Social Security survivor's benefits (when the youngest child turns 16), potentially leaving an income gap afterward.

Glossary

Business continuity – the business’s ability to maintain operations and financial stability when faced with unexpected disruptions, particularly the loss of key individuals or owners

Buy-sell agreement – a legally binding agreement used to reallocate a share of a business in the event an owner dies or leaves the business

Cap rate – an upper limit on the interest rate applied to funds in indexed annuities; the last limitation imposed after participation rates and any margin further reducing the interest, i.e., if the cap rate is 6%, the credit applied will never exceed this rate

Cash value – the accumulated value of a permanent life insurance policy or annuity equal to premiums paid, less fees, expenses, and mortality and any rider charges, plus any interest or investment growth. Growth of cash value is tax-deferred.

Certificate of Creditable Coverage – documentation that must be provided to certain Medicare-eligible employees and other individuals to confirm the prescription drug coverage offered by an insurer is expected to pay as much as or more than the standard Medicare Part D coverage

Coinsurance – the percentage of covered medical expenses paid by health insurance and an insured once the deductible has been met (e.g., 90/10, 80/20, 70/30, 60/40, 50/50, with the insured paying the lower rate)

Common Disaster clause – If the Named Insured and beneficiary die in a common accident, and it cannot be determined who died first, this provision allows the benefits to be paid directly to the contingent beneficiary regardless of the sequence of deaths.

Conditional receipt – a document stating that if the insured is deemed insurable, the coverage for the life insurance policy begins at the time the insured received the conditional receipt

COBRA (Consolidated Omnibus Budget Reconciliation Act) – legislation that applies to employer groups with 20 or more employee equivalents, as defined; provides eligible individuals the right to continue health insurance coverage at their expense after a qualifying event

Consumer-driven health plans – plans that combine traditional health coverage with tax-advantaged accounts, allowing consumers to pay for out-of-pocket medical expenses, e.g., FSAs, HRAs, HSAs

Continuation agreement – an agreement that enables a partnership to continue after the death of a general partner, rather than being dissolved

Cross-purchase plan – a plan that structures the ownership of life insurance in buy-sell agreements for partnerships/corporations. Each partner/stockholder purchases a life policy on the other partners/stockholders and uses the death benefit to purchase the deceased owner's share in the business.

Death benefit – the guaranteed payout the beneficiary receives upon the policyholder's death

Death claim settlement options – elected by a beneficiary or pre-selected by the owner prior to death; some options can apply for distributions of cash values to the owner while still living. Cash value may be paid out in a lump sum, fixed amount, or installments, Life Income or Annuity, Life Income with Period Certain, or Installment with Refund.

Deductible – the portion of covered medical expenses that the insured must pay out-of-pocket before the health insurance plan begins to pay

Deductible carry-over provision – a provision that allows plan participants to apply medical expenses from the last quarter of the current year to next year's deductible

Deductible credit provision – a provision that provides whatever portion of the insured's deductible had been met on an old health insurance plan to be credited against a new policy's deductible (allows companies and insureds to change insurance plans or insurers mid-year without requiring covered individuals to meet deductibles again)

Disability income insurance (renewability provision) – a provision that outlines the circumstances under which the insurance company agrees to continue coverage. Four types:

- **non-cancelable:** the insurer cannot cancel, add restrictive riders, or raise premiums as long as the insured pays premiums on time
- **guaranteed renewable:** similar to non-cancelable, but the insurer can increase premiums (if applied uniformly to all policyholders in a specific class)
- **conditionally renewable:** the insurer may refuse renewal or raise premiums based on specific conditions stated in the contract
- **cancelable:** the insurer may cancel the policy or raise premium annually; it cannot add restrictive riders, but it may increase rates or discontinue coverage (for all policyholders in the same class)

Glossary

Disability (presumptive) – a provision stating certain conditions will be presumed to cause a total disability, e.g., loss of sight in both eyes, etc. No benefit waiting period is required.

Disability (residual) – a provision that applies when the insured is working in their occupation (or a new one) but earns less due to disabling conditions. The benefit paid is typically proportionate to the loss in income.

Dividends – payments that represent a return of overpayment of whole life insurance premiums based on an insurance company's (typically a mutual insurance company) financial performance. Policyholder options for using dividend payments are cash, accumulation of interest, premium reduction, paid-up additional insurance, or purchasing a one-year term policy. Dividends are not guaranteed.

Elimination period – the time frame the insured must wait before collecting long-term care or disability benefits (commonly 30, 60, and 90 days, with longer elimination periods resulting in lower premiums)

Embedded deductible – a health insurance policy provision that combines two deductibles in family coverage: individual deductibles and a family deductible

Entire contract clause – a clause that states that the life insurance application becomes part of the policy, so the insured has a copy. Without it, the incontestable clause could not be used. If a copy of the application was not attached to the policy, the company is prohibited from denying a death claim in the first two years due to a misstatement of a material fact.

Entity purchase plan (partnership) – a plan that structures the ownership of life insurance in buy-sell agreements. The partnership (as an entity) purchases (owns, pays for, and is the beneficiary of) a separate life policy for each partner.

Essential Health Benefits – ten categories of medical benefits that are required for ACA-compliant health insurance plans

Estate – the total value of an individual's assets, including real estate, investments, savings, and personal property, at the time of their death

Estate tax – payable to the federal government, and in some cases, state governments, on the death of an individual

Excepted Benefit HRA (EBHRA) – a stand-alone HRA with an annual maximum benefit that can reimburse medical expenses not covered by traditional health plans (vision, dental, etc.) for employees and their dependents

Exclusions (life insurance)

- **Cause of death:** an exclusion that limits coverage for an insured's avocation, lifestyle, occupation, professional activities, or travel plans that are considered unusually dangerous, e.g., deep-sea diving or piloting a private aircraft
- **Suicide exclusion period:** no death benefit is paid if the insured dies by suicide within the stated period (typically the first two years of the policy being in force). Some states have enacted state laws stipulating periods of one year, and there are states where "death with dignity" is legal; the suicide exclusion still applies, but agents should be aware of unique state statutes and situations in states in which their clients apply for coverage.
- **War:** no benefit other than the return of premium plus interest will be paid if the insured is killed as a result of war-like action

Executor – an individual named in a will and approved by a probate court to carry out the provisions of the will

Flexible Spending Account (FSA) – an employer-established benefit plan that allows employees to save money for certain Qualified Medical Expenses; types include Health Care FSAs, Dependent Care FSAs, and Limited Purpose FSAs

Flow of lives – an important underwriting consideration in group medical insurance plans to maintain a balanced risk pool (younger members join, older members leave)

Free-look/right to examine period – a provision that allows an applicant a specified number of days following physical receipt of a life insurance policy to examine the contract and return it to the company for a full refund of the deposit premium (if any)

Grace period – a stated period (usually 30 or 31 days) in which the premium must be paid to prevent a life insurance policy from lapsing

Grantor – an individual or entity that creates a trust; a grantor may serve as a trustee in certain situations and may also be known as the settlor or trustor

Guaranteed Insurability Rider (GIR) – a rider that can be attached to certain life insurance or disability contracts. The policyholder is guaranteed the right to make period additions to their insurance at standard rates without a medical examination or occupational considerations. The options can be exercised at stated ages or events (marriage or childbirth) in specified amounts (usually not to exceed a contract-set maximum).

Glossary

Health Insurance Marketplace – implemented as part of the ACA to provide a way for consumers to purchase affordable health insurance. Some individuals/families are eligible for premium tax credits and cost-sharing reductions, and the marketplace helps them compare plans/costs and enroll in coverage.

Health Reimbursement Arrangements (HRAs) – also known as Section 105 plans. These are not insurance plans but a tax-advantaged way for employers to fund an account used to pay an employee's medical expenses.

Health Savings Accounts (HSAs) – arrangements used to pay for unreimbursed healthcare expenses such as costs for care received prior to a deductible or OOPM being met (must be paired with a High-Deductible Health Plan)

Hospice care – available for Medicare participants who have a physician and a Medicare-approved hospice doctor certify that they are terminally ill (life expectancy of fewer than six months)

Hospital Insurance Trust Fund – one of the two trust funds for Medicare. It is funded by payroll taxes, income taxes paid on Social Security benefits, interest earned on trust fund investments, and Medicare Part A premiums paid by those not eligible for premium-free Part A coverage.

Hybrid/linked benefit policies/annuities – annuities that combine long-term care and life insurance policies, with a focus placed on long-term care benefits and the life insurance amount as a secondary consideration. Linked benefit annuities function similarly by combining LTC coverage with an annuity.

Incontestable clause – a clause that states that after a life insurance policy has been in force for two years, the insurer cannot contest a death claim based on misrepresentation (exception in some states if the insurer can prove deliberate misrepresentations or fraud)

Incontestability provision – a provision that limits the insurer's ability to deny a disability claim based on misstatements or omissions in the application after the policy has been in force for a specified period—usually two years

Individual Coverage Health Reimbursement Arrangement (ICHRA) – a self-funded group health plan subject to IRS and ERISA rules that gives employers an alternative to group health insurance, or to select classes of employees that may not have access to group insurance

Insurable interest – the requirement of having a legitimate financial stake in the preservation or continued existence of the insured subject. In life insurance, insurable

interest must exist at the time of application, e.g., husband and wife, employer and key person, etc.

Insured – the individual on whose life an insurance policy is underwritten and issued (may or may not be the owner)

Key person – one whose death or disability before retirement will have an adverse economic effect on the business, evidenced by a loss of profits or credit standing and the extra expense of hiring a capable replacement

Limited partner – an investor in a partnership who contributes capital but does not participate in managing the business

Long-term care (indemnity contract) – the insurer typically pays the entire predetermined daily or monthly benefit amount once the insured qualifies for care, regardless of the actual cost of services received

Long-term care (reimbursement type contract) – the insurer pays benefits to reimburse the policyholder for the actual incurred eligible expenses for long-term care services, up to a predetermined daily or monthly limit

Medicare – Enacted in 1965, Medicare is health insurance for people 65 or older. Some may be eligible to get Medicare earlier if they have a disability, end-stage renal disease (ESRD), or ALS (also called Lou Gehrig's disease). Those who receive Social Security benefits before age 65 are automatically enrolled; all others must sign up at age 65. There are penalties for late enrollment in Parts B and D.

Medicare Advantage Plans – alternatives to traditional Medicare plans offered by private insurers approved by Medicare

Medicare Supplement (Medigap) – optional extra insurance from a private health insurance company to help pay out-of-pocket costs like copayments, coinsurance, and deductibles. Generally, enrollees must have Original Medicare Part A (Hospital insurance) and Part B (Medical Insurance) to buy a Medicare supplement/Medigap policy.

Misstatement of age or sex provision – a standard provision in life and disability insurance contracts. If the insured's age (or sex) has been misstated in the application, the contract remains in force. The future death (or disability) benefit will be adjusted to reflect the benefit the premium would have purchased had the age/sex been stated correctly (or, in the event of overpayment, a refund is paid).

Mortality charge (cost of insurance) – for any form of universal or variable universal life insurance, the amount deducted from cash values that provides the death benefit of the policy. It is based on the insured's age, gender, health, underwriting class, and death benefit amount.

Multiple of gross earnings – a method for determining the amount of life insurance with a simple calculation (pre-tax annual earnings multiplied by a factor such as 6, 8, 10, or some other number)

Non-forfeiture options (whole life only) – choices the policy owner has regarding the disposition of the cash values if they stop making premium payments or choose to terminate the policy. Once selected, the option cannot be changed. There are three choices:

- **Cash surrender** – receive the cash value as a lump sum
- **Extended term insurance** – convert to term life; the death benefit remains the same, coverage is temporary, and the policy remains in effect until the cash value runs out. If the owner does not select an option, the company usually uses this option.
- **Reduced Paid-up insurance** – the cash value used to purchase a smaller, fully paid whole life policy

Operating agreement – an agreement that defines how a business is organized and what rights and responsibilities partners or shareholders have

Out-of-Pocket Maximums (OOPMs) – the amounts set annually for ACA-compliant plans (self-only and family coverage); includes annual deductibles, copayments, and coinsurance. Once the insured reaches this amount, the insurance company pays 100% of all covered medical expenses for the rest of the year.

Owner – the person who owns the contract and has the right to name/change the beneficiary, surrender the policy, borrow against the cash value, or transfer ownership. The owner may or may not also be the insured on the policy.

Paid-up additions – a whole life dividend option. Dividends purchase additional amounts of permanent insurance that has its own cash value and generates its own dividends.

Participation rate – the percentage of the return or interest rate that is credited to the invested value of a stated index (also subject to any other limitations)

Payor benefit – a rider that waives the premium should the “payor” (usually the mother or father) die or be totally disabled while paying the premium for an “insured” (child). This rider typically terminates at the insured’s (child’s) age of 25.

Per Capita – a method of paying life insurance proceeds to those equally related to the decedent without regard to the lines of descent

Per Stirpes – a stipulation stating that should a beneficiary predecease the Named Insured, the beneficiary's share of the proceeds will go to their heirs in equal percentages

Permanent life insurance – insurance that offers lifelong protection with the added value of accumulating cash value, allowing these policies to serve as both a protective measure and a vehicle for investment

Policy expenses – for any form of universal or variable universal life insurance, the amount deducted from cash values is intended to pay the insurance company for its expenses in administering the policy

Pre-admission certification – a provision that requires notifying the insurer in advance of a planned hospital admission or surgery and obtaining approval for the treatment

Probate – a court-supervised settling of a decedent's estate, which involves verifying the will, paying off debts and taxes, and distributing assets to beneficiaries

Reinstatement – restoring a life insurance policy after it has lapsed due to non-payment of premiums (generally within two to three years); it requires the owner to repay all back premiums and outstanding loans and is not guaranteed; the insurer will require a reinstatement application, up to full underwriting with medical questions

Return of Premium rider – a rider that, when attached to term life insurance policies, returns paid premiums if the insured outlives the term

Rider – an optional addition to a policy that can modify coverage

Sandwich generation – individuals who are caretakers for dependent children and elderly parents. Their life insurance may need to provide financial security for surviving spouses and children, as well as for financially dependent parents.

Section 162 Executive Bonus Plan – a non-qualified plan where a key executive owns a permanent life insurance policy on their life, with the employer paying the premium either directly or indirectly to the insurance company by means of a bonus paid to the executive

Sinking fund – an option for funding a buy-sell agreement in which the business regularly sets aside money over time in preparation for a future buyout

Sole proprietorship – the simplest form of business ownership. The business is unincorporated and owned and operated by a single individual.

Glossary

Spread – the percentage of the index interest rate that (subject to any other limitations) is credited to the funds in a fixed index annuity

Stock Redemption Plan – a plan that structures the ownership of life insurance in buy-sell agreements. The corporation purchases a life insurance policy for its stockholders and uses the death benefit to purchase the stocks of a deceased member.

Subaccounts – these allow variable annuity or variable universal life insurance owners to choose between a broad array of investment and guaranteed interest accounts with the policy or contract owner assuming the investment risk (accounts mirror mutual funds – not direct market investment)

Supplementary Medical Insurance Trust fund – one of the two trust funds used for Medicare. It relies on funds authorized by Congress, premiums from people enrolled in Medicare Parts B and D, and interest earned on trust fund investments.

Tax-deferred basis – this allows an individual to invest money without paying taxes on interest or investment gains until funds are withdrawn, usually in retirement

Term life insurance – coverage for a specified period (or term), typically 5–40 years, that provides affordable protection during critical years (paying off a mortgage, financial support for dependent children, etc.). The face amount is payable only if death occurs during the specified years; nothing is paid if the insured lives past the end of the term coverage period. There are two types:

- **Level:** the face amount (death benefit) and premium remain the same
- **Decreasing:** the death benefit decreases over time while policy premiums remain level; typically used for mortgage insurance

Term life insurance (convertible) – insurance that allows the policyholder to convert their term policy into a permanent policy without a medical exam or additional underwriting

Term life insurance (group plans) – insurance generally offered as a part of a benefits package paid for by the employer; group term insurance provides benefits to employees' beneficiaries in the event of death

Term life insurance (renewable) – insurance that allows the policyholder to extend coverage beyond the original term without undergoing additional underwriting; premiums increase based on the policyholder's age at renewal

Term life insurance (rider) – a rider that provides an additional amount of temporary coverage, which may be attached to a permanent policy for a specified period of time

Total Needs Analysis – the most accurate method for determining the appropriate amount of life insurance, with comprehensive knowledge of a client's debt, income needs, living expenses, and long-term financial goals

TRICARE – a public plan that provides group medical benefits for active-duty members of all military services as well as military retirees and their families

Trust – a legal document, instrument, or agreement where ownership of property is transferred, and management of the property is given to a named trustee for the intent expressed in the trust agreement

Trustee – the individual who manages the benefits of a life insurance contract owned by a trust

Uniform Simultaneous Death Act (USDA) – a rule stating that if the primary beneficiary does not survive the insured by at least 120 hours (5 days), they are considered to have predeceased the insured, and the death benefit passes to the contingent beneficiary

Universal life insurance – a flexible premium, adjustable death benefit contract with cash values that accumulate based on differing investment selections. There are three policy types:

- **Guaranteed/fixed:** insurance with a guaranteed principal and interest credited on a fixed basis. Although the interest earned is considered fixed, the company may adjust the rate of interest payable based on current assumptions about the rate of investment returns and/or mortality.
- **Indexed:** the cash value earns interest based on a stock market index selected by the insurer, such as the S&P 500. The policy funds are not directly invested in the index. While the policy may offer a minimum guaranteed interest rate, the index earnings generally have a participation rate, up to a specified cap.
- **Variable:** the cash value is invested in subaccounts that mirror mutual funds. Unlike indexed products, the policy's cash value is invested in the actual funds and reflects the true gains or losses of those funds. Since there is no guaranteed minimum rate of return (but also no participation rate or cap on earning potential), a VUL policy is inherently riskier than other types of life insurance.

Universal life insurance (Option A) – insurance with a death benefit option in which the beneficiary receives only the stated policy face amount

Glossary

Universal life insurance (Option B) – insurance with a death benefit option in which the beneficiary receives the face amount of the policy and the accumulated cash value

Universal life insurance (partial surrender) – insurance that allows the policyholder to withdraw a portion of the cash value with no intention of repaying it (reducing the face amount)

Valid group – an important underwriting consideration for group medical insurance. Only groups such as employer-employee, association, or union are considered valid to avoid adverse selection (i.e., groups of people with high care needs forming associations to obtain coverage).

Waiver of Premium – a rider stating that if the insured becomes totally disabled by bodily injury or disease, the insurer will waive the payment of subsequent premiums, subject to certain requirements and the company's determination of disability

Whole life insurance – a permanent form of life insurance with cash value that is designed to provide lifetime coverage with a fixed premium. A payout is guaranteed whenever death occurs, if the insured paid the premiums they are obligated to pay.