

FN241 class 9-10 review questions

Provide precise and concise responses to the following questions referring to theories, concepts, and frameworks as discussed in the class materials and the main textbook. For quantitative problems, demonstrate the process of calculation and clearly highlight your answers as appropriate. Write down your answers clearly so that the lecturer can read them easily.

Review questions

1. What are major characteristics of universal life insurance? How does variable universal life insurance differ from universal life insurance?
2. Explain the annuity principle. Why is it said that annuities are the opposite of life insurance?
3. Differentiate between:
 - a. Immediate and deferred annuities
 - b. The life annuity (no refund) settlement option and life annuity with guaranteed payments settlement option
4. Many countries have nonforfeiture laws that require the payment of a cash-surrender value when a cash-value policy is surrendered. Briefly explain the following nonforfeiture options that are found in a typical life insurance policy.

Application questions

1. Life insurance policies have different characteristics. For each of the following, identify the life insurance policy that meets the description:
 - a. A policy where the face amount of insurance increases if the investment results are favorable
 - b. A policy that can be used to insure the human life value of an individual, age 35, at the lowest possible annual premium
 - c. A policy that permits the policyholder to determine how the premiums are to be invested
 - d. A policy that allows cash withdrawals for a down payment on a home or payment of college tuition
2. Richard, age 35, is married and has two children, ages 2 and 5. He is considering the purchase of additional life insurance. He has the following financial goals and objectives:
 - Pay off the mortgage on his home, which has 25 years remaining
 - Accumulation of a sizeable retirement fund
 - Payment of monthly income to the family if he should die
 - Withdrawal of funds from the policy when the children reach college ageFor each of the following life insurance policies, indicate which of the above financial goals, if any, could be met if the policy is purchased. Treat each policy separately.

- a. Decreasing term insurance
 - b. Ordinary life insurance
 - c. Universal life insurance
 - d. Variable universal life insurance
3. Kent purchased a whole life policy. Some questions have arisen with regard to his coverage. Name the policy provision that Kent should review to clarify each of the following questions
- a. When Kent purchased the policy, he lied about his family's health history. Kent wonders if his lie will prevent his beneficiary from collecting the face amount of the coverage when he dies.
 - b. Kent became distraught when his marriage and business failed simultaneously. He is considering killing himself, but wonders if his beneficiary will be permitted to collect the face amount of the policy if he takes his own life.
 - c. Kent is facing a liquidity crunch. He needs some cash, but he does not want to exercise a nonforfeiture option. He wonders whether his life insurance policy can help.
 - d. Kent discovered the premium was due 2 weeks ago. He wonders if the coverage is still in force.