# Chapter L2: Types of Life Policies

The course's own whiteboard summaries, key numbers and common traps for the lessons open so far (5 of 9). Separate from the PrepPass book.

For your own study. Please do not share.

## L2.1 Participating, individual, group

About 4 minutes of narration.

BOARD 1 Two sorting questions — L2.1

- 1. Share in surplus?
- 2. One person, or a group?

They cut across every type

BOARD 2 Participating — L2.1

✓ Participating: may pay dividends

- Better results: surplus may come back

✓ Dividends are not guaranteed

- A return of part of the premium

Ins. Code 10509.973

Dividend options: chapter L5

✗ Last year's dividend is ~~a promise for next year~~

BOARD 3 Non-participating — L2.1

✓ Non-participating: no dividends

- No surplus comes back
- Mutual: traditionally participating
- Stock: traditionally non-participating

A tendency, not a rule

- Mutual: owned by policyowners
- Stock: owned by shareholders


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BOARD 4 Individual L2.1

✓ Individual: its own contract

- That applicant's own risk
- Owner picks amount and plan
- Not tied to a job

BOARD 5 Group L2.1

✓ One master policy

✓ Each person: a certificate

- Certificate: evidence of coverage
- Usually cheaper. Fewer choices.
- Medical exam usually not required
- Employer may pay part or all
- Not formed to buy insurance
- Most group cover is term

More in the group life lesson

BOARD 6 Leaving a group L2.1

- Individual: stays with the owner
- Group: depends on the group

✓ Group coverage ends: may convert

- Likely much more expensive
- Sold at work is not always group

BOARD 7 One client, both questions L2.1

Nina's work cover: certificate, no dividends

Her own policy: dividends may be paid

Work cover: group, non-participating

Her own: individual, participating

- Neither answer gives the policy type


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BOARD 8 Carry this L2.1

✓ Participating: dividends may be paid

✓ Group: master policy, certificates

Key numbers and formulas L2.1

- Work cover: group, non-participating
- Her own: individual, participating

Common traps: each line is a wrong belief L2.1

✗ Last year's dividend is a promise for next year


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Why the tempting answers fail (from the section practice) L2.1

1. A 'participating' whole life policy is one that: L2.1

   Right: May pay policy dividends to the owner. It may pay dividends to the owner.

   - Guarantees a fixed investment return above six percent: Participating does not promise a fixed return.
   - Never accumulates any cash value: A participating whole life policy builds cash value.
   - Can be sold only by stock insurers: It is traditionally the other way around.

2. Which statement about a non-participating policy is true? L2.1

   Right: It pays no dividends. That is what non-participating means.

   - It has no premium: A premium is still charged.
   - It pays no death benefit: It still pays its death benefit.
   - It can have no beneficiary: A beneficiary can be named.

3. Which kind of insurer is traditionally known for participating policies? L2.1

   Right: A mutual insurer. That is the traditional link.

   - A reinsurance intermediary: An intermediary does not issue policies.
   - A surplus lines broker: A broker does not issue policies.
   - A stock insurer: Stock insurers are traditionally known for the other kind.

4. Which fact points to an individual life policy rather than a group one? L2.1

   Right: The insurer looks at that one applicant's own risk. An individual policy is underwritten on the applicant's risk.

   - Coverage is shown on a certificate: Certificates belong to group cover.
   - A master policy is held by the employer for everyone: A master policy is group cover.
   - Choices of amount are limited by the plan: That is what CDI says of group plans.

5. CDI's outline describes group life for an association. What limit does it set on the association? L2.1

   Right: It was not formed just to buy insurance. That is the condition CDI's outline states.

   - It operates only in one county: The outline sets no geographic limit. It asks that the association was not formed just to buy insurance.
   - Its members hold the same occupation: Members need not share a job. The concern is a group formed only to buy insurance.
   - It has more than five hundred members: This outline line gives no member count. Its limit is about why the association was formed.

6. CDI's outline compares group plans with individual policies. What does it say? L2.1

   Right: Cost is usually lower, but choices may be limited. That is the trade-off CDI's outline names.

   - Cost is usually higher, but choices are wider: It is the reverse.
   - Cost is lower, and choices are unlimited: It says choices may be limited.
   - Cost is the same, and choices are the same: CDI's outline names a difference.

## L2.2 Term insurance and its forms

About 5 minutes of narration.


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BOARD 1 What term does L2.2

✓ Covers a stated period

Dies within the term: pays

Outlives the term: nothing

- Temporary cover

BOARD 2 No cash value L2.2

✓ No cash or surrender value

Stops paying: lapses, nothing back

- Nothing to borrow

✓ Limited budget: more coverage per dollar

- Price rises with age

BOARD 3 Level term L2.2

✓ Face amount: constant

✓ Premium: planned to stay level

- Common for income replacement

Three premium forms

Outline II.B.5.a

BOARD 4 Three premium promises L2.2

Guaranteed level: cannot go up

Non-guaranteed: may change

Indeterminate: starts below a stated maximum

- May rise, never past the maximum

BOARD 5 Same idea in CDI's guide L2.2

- Guaranteed maximum and current premiums
- Current: usually lower, can change

✓ Never above the guaranteed maximum

- Ask which premium the quote shows


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BOARD 6 Renewable L2.2

✓ Renewable: another term

- No physical examination

Premium rises with age

- Annual: steps up every year
- Still term

BOARD 7 Convertible L2.2

✓ Convertible: to permanent

Ins. Code 10509.3(c)

✓ Regardless of health. No exam.

- No denial or extra charge for health

✓ Same underwriting class

- Likely a higher premium

BOARD 8 Renewable or convertible L2.2

✓ Still term: renewed

✓ Now permanent: converted

Which age?

- Attained age: age now
- Original age: age at issue, catch-up payment

BOARD 9 Decreasing L2.2

Face amount falls. Premium stays level.

- Fits a shrinking debt
- Usual example: a mortgage

✗ Decreasing term: ~~the premium falls~~


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BOARD 10 Universal life built like term L2.2

Outline II.B.5.e

- Universal life, built to act like term
- GUL, survivorship GUL
- ✓ Low premium, little cash value
- ✓ No-lapse guarantee to a stated age
- Long protection, not savings

BOARD 11 Match the form to the need L2.2

Alicia, 29. Newborn. Mortgage.

Mortgage: decreasing term

Income: 20-year level term

Add a conversion privilege

- Ill later: converts, same class

BOARD 12 Carry this L2.2

- ✓ Stated period. No cash value.
- ✓ Cannot. May. Below a maximum.
- ✓ Renew. Convert. Decrease.

Key numbers and formulas L2.2

- Dies within the term: pays
- Outlives the term: nothing
- Stops paying: lapses, nothing back
- Guaranteed level: cannot go up
- Non-guaranteed: may change
- Indeterminate: starts below a stated maximum
- Premium rises with age
- Face amount falls. Premium stays level.
- Mortgage: decreasing term
- Income: 20-year level term
- Add a conversion privilege


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Common traps: each line is a wrong belief L2.2

✗ Decreasing term: the premium falls


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Why the tempting answers fail (from the section practice) L2.2

1. Which statement best describes term life insurance? L2.2

   Right: It provides death benefit protection for a specified period and normally builds no cash value. That is term: a stated period and normally no cash value.

   - It pays a benefit only if the insured survives the term: It pays only on death, not on survival.
   - It provides lifetime protection and builds guaranteed cash value: That describes whole life.
   - It allows the policyowner to skip premiums using the policy's savings element: Term has no savings element to draw on.

2. Which form of term insurance keeps both the premium and the death benefit constant for the entire term? L2.2

   Right: Level term. Level term keeps both constant.

   - Increasing term: The death benefit would grow.
   - Decreasing term: The death benefit would fall.
   - Annual renewable term: The premium would rise each year.

3. Why does term usually cost less than cash value insurance at the start, for the same face amount? L2.2

   Right: It has no savings element. The premium buys only the protection.

   - It is sold only to the young: That is not so. The premium buys only the protection.
   - It is free of all expenses: Term has expenses too.
   - It has a smaller death benefit: The face amount is the same here.

4. A term policy states a current premium and a higher guaranteed maximum. The insurer raises the current premium up to the maximum. Is this allowed? L2.2

   Right: Yes, up to that maximum. CDI's guide says current premiums can change, but not past the maximum.

   - Only if the insured consents: The guide does not ask for consent.
   - No, it can never rise: That describes a guaranteed level premium.
   - Yes, and past the maximum: The maximum is the ceiling.

5. Which feature fits a guaranteed level premium? L2.2

   Right: It is promised for the whole level period. That is the promise.

   - It is set again each year by the insurer: A premium reset each year is not promised at all. A guaranteed level premium is fixed for the whole level period.
   - It starts low and may rise to a maximum: That is indeterminate.
   - It is expected to stay level but may change: That is non-guaranteed.

6. A term quote says the premium is expected to stay at $40 a month, but the insurer can change it, with no stated ceiling in the facts. Which form is this? L2.2

   Right: Non-guaranteed premium. The figure is expected, not promised.

   - Limited pay premium: That is a whole life payment plan.
   - Single premium: That is one payment.
   - Guaranteed level premium: That cannot be changed.


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7. What happens when a term owner simply stops paying and the policy has no grace time left? L2.2

   Right: It lapses with no cash value. CDI's guide says it will generally lapse without cash value.

   - It becomes paid-up whole life: Term has no value to buy paid-up cover.
   - It converts without any request: Conversion is a choice the holder makes.
   - It pays half the face amount: There is no such benefit.

8. Which feature of an Annual Renewable Term (ART) policy makes it different from a level term policy? L2.2

   Right: The premium increases each year based on the insured's attained age. Each year's premium reflects attained age.

   - Both the premium and the face amount stay constant for the contract life: That is level term.
   - Premiums are paid only once at issue and the coverage lasts for life: That is a single premium.
   - The face amount declines each year and the premium stays level: That is decreasing term.

9. A term policy that permits the insured to exchange it for a permanent policy without providing new evidence of insurability is described as: L2.2

   Right: Convertible. Convertible means exchanging for permanent without new evidence.

   - Increasing: Increasing term raises the face amount.
   - Participating: Participating means dividends.
   - Renewable: Renewable stays term.

10. A homeowner buys a 30-year policy where the premium stays level but the face amount declines each year along with the mortgage balance. This is best described as: L2.2

    Right: Decreasing term. The face falls with the mortgage, and the premium is level.

    - Annual renewable term: There the premium rises and the face amount holds.
    - Return-of-premium term: That refunds premium.
    - Level term: There the face stays level.

11. A California term policy has a term conversion privilege. The insured's health has declined. What may the insurer do at conversion? L2.2

    Right: Convert it, in the same underwriting class. Section 10509.3 says so.

    - Deny it because of the health change: The holder cannot be denied for health problems.
    - Charge extra for the health change: The holder cannot be charged more for health problems.
    - Require a medical examination: The privilege applies without an examination.

12. Which statement separates renewable from convertible? L2.2

    Right: Renewable stays term, and convertible becomes permanent. That is the test.

    - Renewable lowers the premium, and convertible raises it: Renewal usually raises it.
    - Renewable is for groups, and convertible is for individuals: Neither is limited that way.
    - Renewable needs an exam, and convertible does not: Renewal needs no examination either.

13. Which product is an example of universal life designed as term? L2.2

    Right: Guaranteed universal life. The outline names GUL and survivorship GUL.

    - Modified whole life: That is a whole life premium plan.
    - Variable annuity: That is an annuity.
    - Annual renewable term: That is term itself, not universal life.


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14. What is a guaranteed universal life design mainly built to give? L2.2

Right: Long-lasting cover at a low premium. It is low premium and little cash value.

- Investment choice among mutual funds: That is variable life.
- The largest possible cash value: It has little or no cash value.
- A monthly retirement income: That is an annuity.

## L2.4 Whole life and premium patterns

About 5 minutes of narration.

BOARD 1 What whole life promises L2.4

✓ Covers the entire lifetime

- Also straight life, ordinary life

✓ Guaranteed benefit. Guaranteed flat premium. Cash value.

- Cash value can be borrowed against

BOARD 2 Why the premium can stay flat L2.4

Young: premium above the cost

The extra builds cash value

Old: cost above the premium

- The reserve helps fill the gap

✓ Spreads the cost over a lifetime

BOARD 3 Using the cash value L2.4

- Borrow, at the stated rate

Unpaid loans: deducted from proceeds

- Surrender: cash out, cover ends
- Early surrender can be costly


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BOARD 4 If premiums stop L2.4

After one full year: paid-up benefit

Ins. Code 10160

After three full years: cash surrender value

Nonforfeiture options: chapter L5

BOARD 5 When it is the right tool L2.4

✓ The need lasts for life

- Wants level premium, guaranteed values
- Short need, tight budget: term
- Some policies: premiums for a set number of years

BOARD 6 A list of six L2.4

Outline II.B.3

- How long? Does the amount change?

Outline wording: modes

- Guide: annual, semiannual, quarterly, monthly

BOARD 7 Level L2.4

✓ Level: same amount each time

- Straight whole life: for life
- Above the cost early. Below it later.
- Lowest yearly premium of the whole life plans

BOARD 8 Single and limited L2.4

✓ Single: one payment, paid up at once

✓ Limited pay: premiums for a set time

- Premiums stop. Coverage goes on.

✗ Paid up means ~~coverage ended~~

Fewer payments: higher each


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BOARD 9 Modified L2.4

✓ Modified: lower first, then higher and level

- Buyer expects income to grow
- Later premium: above the straight level figure
- Death benefit stays the same

BOARD 10 Who sets the amount L2.4

Fixed: contract sets amount and dates

- Traditional whole life

Flexible: owner chooses, within limits

- Universal life

✗ Flexible means ~~no premium ever needed~~

BOARD 11 Initial and maximum L2.4

✓ Initial: charged at the start

✓ Guaranteed maximum: the ceiling

- It can move between them
- Ask for both figures

BOARD 12 Carry this L2.4

✓ Lifetime. Cash value.

✓ Level. Single. Limited.

✓ Modified. Fixed or flexible.

✓ Initial and ceiling


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### Key numbers and formulas

L2.4

- Young: premium above the cost
- The extra builds cash value
- Old: cost above the premium
- Unpaid loans: deducted from proceeds
- After one full year: paid-up benefit
- After three full years: cash surrender value
- Fewer payments: higher each
- Fixed: contract sets amount and dates
- Flexible: owner chooses, within limits

### Common traps: each line is a wrong belief

L2.4

✗ Paid up means coverage ended

✗ Flexible means no premium ever needed


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Why the tempting answers fail (from the section practice) L2.4

1. A key characteristic that distinguishes whole life insurance from term insurance is that whole life: L2.4

   Right: Provides lifetime coverage and accumulates cash value. Lifetime cover and cash value are the marks.

   - Never pays a death benefit if the insured lives a long time: It pays whenever the insured dies, if in force.
   - Has premiums that increase each year: The classic premium is level.
   - Covers the insured only until age 65: It has no such end date.

2. Which combination of elements is guaranteed in a traditional whole life policy? L2.4

   Right: The death benefit, the premium, and the cash value. All three are part of the traditional promise.

   - The annual dividend the owner will receive: Dividends are not guaranteed.
   - The interest rate credited to separate account sub-accounts: Those belong to variable products.
   - The return earned by the stock market each year: Traditional whole life is not tied to the market. Its death benefit, premium and cash value are guaranteed.

3. Whole life insurance is generally most suitable for a client who wants: L2.4

   Right: Lifelong protection combined with a savings element. That is the whole life profile.

   - Pure investment growth with no death benefit at all: Whole life always has a death benefit.
   - The lowest possible premium for a short-term need: That points to term.
   - Coverage only until the youngest child finishes college: That is a temporary need.

4. A whole life policy on which premiums are payable for the insured's entire lifetime and remain level is commonly called: L2.4

   Right: Straight (ordinary) whole life. Level premiums for life is straight whole life.

   - Decreasing term insurance: That is a term form.
   - 20-pay limited-payment life: That stops premiums after 20 years.
   - Modified endowment contract (MEC): That is a tax label.

5. In California, after how many full years of premiums does ordinary life insurance need a cash surrender value on surrender? L2.4

   Right: Three. Section 10160 says three full years for ordinary insurance.

   - One: One full year is the paid-up benefit.
   - Ten: The section does not use ten.
   - Five: Five is the industrial insurance figure.

6. Why does CDI warn against buying cash value insurance if you plan to surrender it early? L2.4

   Right: Substantial surrender penalties may apply. CDI's guide warns about this.

   - The death benefit doubles at surrender: Surrender ends the policy, so no death benefit is left to double. CDI warns of surrender penalties.
   - The owner would owe the face amount: An owner who surrenders owes no face amount. The warning is that penalties can shrink what comes back.
   - The insurer may refuse all surrenders: A surrender right exists in the policy.


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7. Single-premium whole life insurance is funded by: L2.4

   Right: One lump-sum payment that fully pays up the policy at issue. One lump sum pays the policy up at issue.

   - Premiums that are waived after the first policy year: That is not a payment plan. One lump sum pays the policy up at issue.
   - A benefit amount that declines steadily over the years: That describes a falling benefit.
   - Level monthly premiums paid for the insured's lifetime, as in ordinary whole life: That is straight whole life, as it says.

8. Sara purchases a 20-pay whole life policy at age 30. Which statement is correct? L2.4

   Right: Premiums are paid for 20 years; coverage continues for the rest of her life. Premiums run 20 years, and coverage runs for life.

   - Coverage ends 20 years after purchase, on the date the final premium payment is made: Coverage does not end with the last premium.
   - She pays no premium at all because the policy funds itself entirely out of policy dividends: A policy does not fund itself this way.
   - She must keep paying premiums every year until she reaches age 100, when the policy endows: She pays for 20 years only.

9. Which life insurance design starts with lower premiums during the first few policy years and then steps up to a higher level premium that remains constant for life? L2.4

   Right: Modified whole life. Lower first, then a higher level premium for life.

   - Annual renewable term: That premium rises each year.
   - Single-premium whole life: That is one payment.
   - Decreasing term: That lowers the benefit, not the first premiums.

10. Under the level premium approach used in whole life, the premiums charged in the early policy years are: L2.4

    Right: Higher than the current cost of insurance, with the excess building reserves and cash value. The excess builds reserves and cash value.

    - Exactly equal to each year's actual mortality claim cost: Early premiums are above that cost.
    - Set below the actual cost of insurance, leaving the policy underfunded in each one of the early policy years: That would underfund the policy.
    - Waived entirely until the insured reaches age sixty-five: Nothing is waived.

11. A policy lets the owner decide how much to pay and when, within limits. Which premium feature is this? L2.4

    Right: Flexible. The owner chooses within limits.

    - Single: That is one payment.
    - Fixed: The contract would set it.
    - Limited pay: That is a set number of years.


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12. Which statement fits the initial premium and the guaranteed maximum premium? L2.4

    Right: The insurer may charge more than the first, never more than the second. That is how they work together.

    - The first is the ceiling on the charge, and the second is only where it starts: That reverses them.
    - The two are always the same amount: They are usually different.
    - The insurer may charge more than either: The maximum is a ceiling.

13. Which of these whole life plans would have the lowest yearly premium for the same face amount at the same age? L2.4

    Right: Straight whole life. Payments spread over a lifetime are the smallest each year.

    - Paid up at age 65: Fewer payments than for life means more each year.
    - 20-pay whole life: Twenty payments still cost more each year.
    - 10-pay whole life: Ten payments means a far larger one each year.

## L2.6 Universal, indexed, variable

About 5 minutes of narration.

BOARD 1 Universal life, taken apart L2.6

✓ Separate: premium, death benefit, cash value

- Most flexible

✓ Change or skip premium. Change benefit.

- Interest sensitive

BOARD 2 How the account works L2.6

In: premiums + interest

Out: cost of insurance + expenses

- Cost of insurance: pure protection
- Credited rate has a guaranteed minimum
- Cash value depends on interest rates


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BOARD 3 The danger in flexibility L2.6

- Skip a premium: charges keep coming
- Cost tends to rise with age

Value below charges: lapse

- Projections depend on rate assumptions

✗ Flexible premium ~~means the policy cannot lapse~~

BOARD 4 Option A and Option B L2.6

Option A: level, the face amount

- A: pure insurance shrinks

Option B: face amount plus cash value

- B costs more

Face $200,000. Cash value $30,000.

*Your turn: worked step by step in lesson L2.6.*

BOARD 5 Indexed universal life L2.6

✓ Credit follows an outside index

- No shares owned

✓ Floor: often zero

✓ Cap or participation rate: limits the upside

- Charges still come out
- Low funding can still lapse it

BOARD 6 Who takes the market risk L2.6

✓ From whole life, without the guarantees

✓ Values follow a separate account

Good return: benefit rises. Poor return: benefit falls.

✓ Owner bears the risk

- Menu, typically mutual funds


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BOARD 7 Separate account L2.6

- Kept apart from the general account
- Fixed: the insurer carries it

Gains and losses flow to the policy

Ins. Code 10506

- First page: benefits are on a variable basis

BOARD 8 Variable universal L2.6

✓ Flexibility + investment choice

- Flexible premium. Owner directs.
- Whole, universal: no choice of investments
- Variable, variable universal: choice
- Can lapse if underfunded

BOARD 9 Two regulators L2.6

- Considered securities

✓ Life license + FINRA registration

Financial Industry Regulatory Authority

✗ ~~A life license alone is enough to sell it~~

- Buyers get a prospectus

BOARD 10 Two California details L2.6

- Free look refund can be account value

Lesson L4.1

✓ Flexible premium variable life: 61-day grace

CDI 2025 outline, citing Bulletin 87-3

- Other life: not less than 60 days


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BOARD 11 Carry this L2.6

✓ Separate parts. A or B.

✓ Floor. Limit.

✓ Owner's risk. FINRA.

Key numbers and formulas L2.6

- In: premiums + interest
- Out: cost of insurance + expenses
- Value below charges: lapse
- Option A: level, the face amount
- Option B: face amount plus cash value
- Good return: benefit rises. Poor return: benefit falls.
- Gains and losses flow to the policy

Common traps: each line is a wrong belief L2.6

✗ Flexible premium means the policy cannot lapse

✗ A life license alone is enough to sell it


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Why the tempting answers fail (from the section practice) L2.6

1. Which type of permanent policy is known for allowing the policyowner to adjust the premium amount and the death benefit within limits after issue? L2.6

   Right: Universal life insurance. Universal life allows these changes within limits.

   - Traditional (ordinary) whole life insurance: Traditional whole life has fixed premiums.
   - Level term insurance: Level term has fixed premiums and benefit.
   - Single premium immediate annuity: That is an annuity.

2. A universal life policy is at risk of lapsing if: L2.6

   Right: The cash value becomes insufficient to cover the monthly cost-of-insurance and expense charges. The value cannot cover the charges, so it can lapse.

   - The credited interest rate rises: A higher rate helps.
   - The insured reaches age forty: Age alone does not lapse it.
   - The owner names a contingent beneficiary in addition to the primary beneficiary already listed on the application: Naming a beneficiary has no effect.

3. Under a universal life policy, the periodic charge the insurer deducts from the cash value to pay for the pure insurance protection is called the: L2.6

   Right: Cost of insurance (mortality charge). This is the charge for protection.

   - Policy dividend (a return of divisible surplus): A dividend is a return of surplus.
   - Surrender charge (contingent deferred sales load): A surrender charge applies when value is taken out.
   - Exclusion ratio: That is an annuity tax term.

4. Under a Universal Life policy with Option A (Type I), how does the death benefit behave as cash value grows? L2.6

   Right: Total death benefit stays level; the pure insurance portion shrinks. The total holds, and pure insurance shrinks.

   - Total death benefit rises along with the cash value: That would be Option B.
   - Total death benefit is unrelated to cash value because UL has no cash value: Universal life has a cash value.
   - Total death benefit shrinks at the same rate as the cash value grows: The total does not shrink.

5. What feature of an indexed universal life (IUL) policy protects the policyowner from a market downturn? L2.6

   Right: The guaranteed floor on credited interest, often 0%. The floor protects against a negative credit.

   - FDIC insurance covering the policy cash value: Policy cash value is not FDIC-insured.
   - Direct ownership of shares in the S&P 500 index: The owner holds no shares.
   - A guaranteed double-digit return each year: No such return exists. The floor protects against a negative credit.


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6. An indexed universal life policy credits 8 percent one year when its cap is 8 percent and the index rose 14 percent. Why not 14 percent? L2.6

   Right: The cap limits the credit. The cap limits the upside.

   - The insurer owns the shares: Ownership is not the reason.
   - The owner skipped a premium: A premium does not set the credit.
   - The floor limits the credit: The floor limits the downside.

7. An indexed universal life policy earned no credit in a flat year, yet its cash value fell. Why? L2.6

   Right: Charges still came out. The monthly charges keep coming.

   - The index had a negative credit: The floor stops negative credit.
   - The cap had been reached: A cap limits gains, and there were none.
   - The floor was removed: Nothing here removes a floor. The monthly charges keep coming.

8. In a variable life insurance policy, the cash value is held in: L2.6

   Right: Separate account sub-accounts selected by the policyowner. Separate account subaccounts, chosen by the owner.

   - The insurer's general account, earning a fixed guaranteed rate of interest: That backs fixed products.
   - A government-managed trust fund: No government trust is involved.
   - An FDIC-insured bank savings account owned by the insured: Cash value is not in an FDIC account.

9. Variable universal life (VUL) insurance combines: L2.6

   Right: The premium and death-benefit flexibility of universal life with the investment choice of variable life. It combines both of these features.

   - Level term insurance with a fixed deferred annuity: Neither piece is universal or variable. VUL joins universal life's flexibility with variable life's investment choice.
   - Whole life insurance with an individual disability income policy, a combination that is not what variable universal life provides: The option itself says that is not what it provides.
   - A fixed annuity with a long-term care benefit: Those are annuity features.

10. In a variable life policy, what can poor investment results lower? L2.6

    Right: The death benefit and cash value. CDI's guide says so.

    - The owner's insurable interest: Insurable interest depends on the relationship at the start, not on market returns.
    - The agent's license class: A license belongs to the agent, and markets do not touch it. Returns move the policy's values.
    - The insured's age for premium: Age comes from the calendar. Returns move the policy's death benefit and cash value.

11. Which statement about choice of investments matches CDI's life guide table? L2.6

    Right: Variable products offer it, and whole and universal do not. That is the line in the table.

    - All four kinds of policy offer it: Whole and universal do not.
    - Whole and universal offer it, and variable products do not: That is reversed.
    - None of the four offers it: Variable products do.


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12. Why do CDI's objectives say a variable agent needs more than a life license? L2.6

Right: The products are considered securities. That is the reason given.

- The premiums are too high: Premium size is not the reason.
- The policy has no beneficiary: A beneficiary can be named.
- The agent must also hold a broker license first: CDI's extra requirement is FINRA registration, because the products are considered securities. No broker license is named.

13. What must a California variable life contract say on its first page? L2.6

Right: That benefits are on a variable basis. Section 10506 requires a statement to that effect.

- That cash values cannot fall: Values can fall.
- That the premium is tax deductible: Nothing here is about tax. Section 10506 requires the first page to say benefits are on a variable basis.
- That FINRA has reviewed its returns: This first page rule does not mention FINRA. Section 10506 requires it to say benefits are on a variable basis.

## L2.8 Special policies, license list

About 5 minutes of narration.

BOARD 1 Graded death benefit L2.8

- Level premium. Little or no underwriting.

Early years: reduced benefit

- Early natural death: premiums back

After the period: full face amount

- Accident: normally full from the start

BOARD 2 Graded is about the benefit L2.8

✓ Graded death benefit: the benefit is limited

✓ Graded premium: the price changes

Period comes from the policy form

- Read the policy form

BOARD 3 Mortgage redemption L2.8

✓ Pays off or reduces a mortgage

✓ Benefit tracks the loan balance

- It works as decreasing term
- Group through creditors, or individual
- Keeps the home. No nest egg.

BOARD 4 Family coverage L2.8

✓ Family policy: everyone, one contract

- Whole life on one. Term on the others.

✓ Family rider: added to a policy

✓ Family protection: covers the family's income need

- Read the facts closely

BOARD 5 Juvenile policies L2.8

✓ Child insured. Adult usually owns and pays.

✓ Jumping juvenile: face amount jumps

- Often five times. Same premium.

Payor rider

✓ Payor rider: premiums waived

- Stays in force on the child

BOARD 6 Return of premium L2.8

✓ Outlives the term: premiums refunded

- Dies in the term: death benefit

Premium: much higher than level term

✗ Return of premium is ~~free term cover~~


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BOARD 7 Two lives, one policy L2.8

✓ Joint life: first death

- Ends at the first death
- Shared mortgage, business agreement

✓ Survivorship: second death

- Common use: estate costs
- Lower than two separate policies

BOARD 8 Credit life L2.8

Life license scope

✓ Pays off or reduces a loan

- Tracks the balance. Sold through creditors.
- Code: individual or group, on the term plan

Ins. Code 779.3

✓ Limit: unpaid amount + earned interest

Ins. Code 779.4

BOARD 9 Funeral and burial L2.8

✓ Initial face amount: $20,000 or less

- Designated for funeral and burial

$20,000: from CDI's objectives

- Licensed life agent only

Ins. Code 10252

- Limited benefit period: not over 2 years

Ins. Code 10248


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BOARD 10 Third-party and endowment L2.8

✓ Owned by someone other than the insured

- Parent on child. Firm on key employee.

Endowment

Dies during the period: pays

Alive at maturity: pays

- Pays either way

BOARD 11 Carry this L2.8

✓ Graded. Mortgage.

✓ Family. Jumps. Waives.

✓ First or second death

✓ Credit. Funeral: $20,000 or less.

Key numbers and formulas L2.8

- Early years: reduced benefit
- After the period: full face amount
- Premium: much higher than level term
- Dies during the period: pays
- Alive at maturity: pays

Common traps: each line is a wrong belief L2.8

✗ Return of premium is free term cover


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Why the tempting answers fail (from the section practice) L2.8

1. A guaranteed-issue final expense policy that pays only a portion of the face amount if death occurs within the first two years is using a: L2.8

   Right: Graded death benefit. A reduced early benefit is graded.

   - Accidental death rider: That adds a benefit for accidents.
   - Level benefit structure: Level means no reduction.
   - Return-of-premium feature: That refunds premium for surviving a term.

2. Which fact is most typical of a graded death benefit policy? L2.8

   Right: Accidental death is covered in full from the start. That is the normal design.

   - Accidental death is excluded for good: It is the other way round. Graded plans usually limit natural death early, and pay accidents in full.
   - The premium doubles once the early years have passed: The premium is level.
   - The full benefit is never paid: The full benefit is paid after the period.

3. Which description matches CDI's description of mortgage life? L2.8

   Right: Term life that can pay off or reduce a mortgage. That is CDI's description.

   - Whole life that a lender must buy for each borrower: It is term, and not a lender's duty.
   - An annuity paid to the lender: It is not an annuity.
   - Term life for a car loan only: That is credit life.

4. How may mortgage life be sold in California, per CDI's list? L2.8

   Right: Through creditors or through agents. CDI names both routes.

   - Through the state alone: The state does not sell it. CDI's list describes creditors on a group basis, or agents individually.
   - Only through creditors, on a group basis: Agents can sell it individually.
   - Only through agents, on an individual basis: Creditors can offer it on a group basis.

5. A client adds term cover on her spouse to her existing whole life policy. What did she add? L2.8

   Right: A family rider. A rider adds term to an existing policy.

   - A family policy: That is one contract written from the start for the family.
   - A payor benefit: That waives a child's premiums.
   - A jumping juvenile: That is a child's policy.

6. What need does family protection coverage address? L2.8

   Right: Money for the family if the income stops. That is the need behind these products.

   - Cover for the family's home against fire: That is property insurance.
   - Saving for the owner's old age: That is an annuity need.
   - Paying the insurer's expenses: Insurer expenses are part of pricing, not a family's need. Family protection replaces income that stops.


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7. 'Juvenile' life insurance refers to a policy in which the: L2.8

   Right: Insured is a child, typically with an adult as the policyowner and premium payer. The child is the insured, and an adult usually owns and pays.

   - Owner and the insured must both be minors under the age of 18: The owner need not be a minor.
   - Death benefit can never exceed $10,000 before the child reaches the age of majority: No such cap is stated. The child is the insured, and an adult usually owns and pays.
   - Policy automatically terminates at age 18 unless the child is reunderwritten as an adult: It does not end at 18.

8. A 'jumping juvenile' policy is a form of juvenile life insurance in which the face amount: L2.8

   Right: Automatically increases, often fivefold, when the child reaches a stated age, without a premium increase. It jumps at a stated age with no premium increase.

   - Decreases as the insured child gets older: It rises rather than falls.
   - Is available only to adults over age twenty-one, even though this coverage is specifically written on the life of a young child: It is written on a child, as the option says.
   - Is payable directly to the child's school: It is paid under the policy's terms, not to a school.

9. Which of the following BEST illustrates 'return-of-premium term' insurance? L2.8

   Right: If the insured outlives the term, the insurer returns the premiums paid. Premiums come back if the insured outlives the term.

   - Premiums become fully tax-deductible at the end of the level term period: The feature is not about taxes.
   - Premiums are waived during any period of total disability of the insured: That is a waiver of premium.
   - Premiums are refunded any time the policyowner surrenders the contract early: That is not the feature. Premiums come back if the insured outlives the term.

10. A joint life (first-to-die) policy covering two people is designed to pay: L2.8

    Right: A single death benefit when the first of the insureds dies. It pays once, at the first death.

    - The benefit only at the death of the second insured: That is survivorship.
    - A benefit only if both insureds die at the same time: Nothing requires a shared death.
    - Two separate full death benefits, one for each insured under the single contract: One death benefit is paid.

11. A survivorship (second-to-die) life insurance policy pays the death benefit: L2.8

    Right: When the second of the two insureds dies. It pays at the second death.

    - When the first of the two insureds dies: That is joint life.
    - To whichever insured is still living at policy maturity: No maturity payment is described.
    - In equal monthly installments over both insureds' lives: It does not pay this way.

12. A 'credit life' insurance policy is designed to: L2.8

    Right: Pay off the balance of a specific loan if the borrower dies. It pays the loan balance if the borrower dies.

    - Provide retirement savings that the borrower can draw on later: That is an annuity use.
    - Insure the life of the lender's owner or chief officer: The borrower is the insured.
    - Pay the borrower a monthly income for life: That is an annuity use.


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13. Which limit does the California Code place on the initial amount of credit life insurance? L2.8

    Right: Unpaid amount financed plus earned interest. Section 779.4 says so.

    - The lender's total capital: The lender's size has nothing to do with it. The cap follows the debt: unpaid amount financed plus earned interest.
    - Twice the original amount financed, plus fees: Doubling would insure more than the debt. The cap is unpaid amount financed plus earned interest.
    - The borrower's yearly income: Income is not the measure, because the cover tracks the debt and not the borrower's pay.

14. Who may sell a California funeral insurance contract? L2.8

    Right: A licensed life agent. Section 10252 says so.

    - Any funeral director: A funeral director alone does not qualify.
    - Any licensed broker of property: That line does not cover it.
    - Any cemetery employee: That job alone does not qualify.

15. An endowment policy pays its face amount: L2.8

    Right: At death or at policy maturity, whichever occurs first. It pays at death or maturity, whichever comes first.

    - Only when the proceeds are left to a charity: An endowment does not depend on who collects. It pays at death in the period, or at maturity.
    - Only if the insured dies within a short specified term of years: That describes term.
    - Never, because an endowment has no death benefit: It has a benefit.

16. A company owns a policy on its finance manager's life. Which item on CDI's list describes it? L2.8

    Right: Third-party contract. The owner is not the insured.

    - Endowment: That pays at maturity too.
    - Credit life: That is tied to a debt.
    - Funeral and burial: That is for funeral expenses.

## Not in these notes yet

These lessons of the chapter are not open yet. They are added to the notes when they open.

- L2.3 Renewable, convertible, decreasing, and UL designed as term
- L2.5 How premiums are paid
- L2.7 Variable life and variable universal life
- L2.9 Return of premium, joint life, survivorship; what a life agent may sell

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