INSTITUTE OF ACTUARIAL & QUANTITATIVE STUDIES

Subject: Life Insurance - PPP

Chapter: Application Based Questions

Category: Practice Questions

1. Victor bought a whole life policy with an annual premium of $956, but he wants to pay the premiums monthly. If the modal factor is 0.088, what is his monthly premium?

- His monthly premiums will be $84.13, calculated as ($956 × 0.088).
  Over the course of one year, he will pay a total of $1009.56 in premiums, calculated as ($84.13 × 12).
  This annualized premium is 6% higher than the quoted annual premium.

2. Angela and Doug are in their late twenties. They have been married for three years and just bought their first house. While they both have promising careers, they have just had their first child and Angela is home on maternity leave. With Angela's reduced income while on leave, together with a new mortgage, a car loan, and student loans, cash flow is very tight, and yet they realize that their young family needs life insurance protection.
At this time, ___________ provides them with the most viable option.

- Convertible term insurance.
  At this time, term insurance provides them with the most viable option. Because their finances are expected to improve over time, they should consider a convertible term policy, because it will give them the more affordable term insurance coverage now, while giving them the option of converting that to permanent coverage when their finances permit.

3. As the owner of a new business, Felix was able to get a $100,000 loan from a private investor. The loan is interest only for 5 years, when it is payable in full. As a condition of the loan, Felix is required to obtain ___________ policy.

- Life insurance with a minimum death benefit of $100,000, with the lender named as the beneficiary. A $100,000 5-year term insurance policy would be the most cost-effective option for Felix, and it is ideal for covering a 5-year risk.

4. Sandra would like to leave a legacy to her adult son, Tristan, when she dies, so she bought a $300,000 10-year term life insurance policy on her own life, with Tristan named as the _________. Sandra is both the _________and the_________.

- Tristan named as the beneficiary. Sandra is both the policyholder and the life insured.

5. Henry is 50 years old, and he is in great health. He is widowed with one son, Jack, who is currently 14 years old. Henry and Jack enjoy the time they spend together at the cottage, and Henry would like Jack to receive title to the property when he dies. Based on his family history, Henry believes he will live until at least age 90.
Henry expects the value of the cottage to triple by the time he dies, and he is worried that there will not be enough money in his estate to pay the income tax
on the taxable capital gain that will result from the deemed disposition of the cottage when he dies. He estimates that this tax liability could be $200,000 or even higher, depending on

the real estate market.
Henry would like to use life insurance to make sure that this risk is covered. What type of life insurance policy does he need?

- He will not be able to get term insurance coverage that lasts until age 90 or beyond. A whole life policy would give him the protection he is looking for. If he changes his mind about leaving the cottage to Jack and he instead decides to sell the cottage before he dies, he can always keep the policy for other estate needs or surrender the policy and use the cash surrender value (CSV) as he chooses.

6. Hamish bought a 25-pay life policy on his own life when he was 45 years old. He only must pay premiums for 25 years, at which point he will be 70 years old. However, the coverage will continue past age 70, right up until his death. What type of life insurance is this?

- Limited payment whole life insurance policy.

<u>Additional Questions:</u>

1. You're a 25-year-old working professional into the first year of your job, planning to start a family in the next 2 years. You're going to be wife is a homemaker.
   a) What type of life insurance would you buy after marriage, and why?
   b) What are the riders if any that would complement your policy?
   c) Would you opt in or out of Group Insurance offered by your company? Why?
   d) Discuss the saving and investment aspect of Life Insurance.

2. A) An actuary of a Life Insurance Company has designed a new product and is at the premium setting stage, what must he consider during pricing the same?
   B) After 5 years he has decided to discontinue the product, as per what parameters did, he consider before taking such a call?

3. Life insurance in short is concerned with two hazards that stand across the life path of every person 'that of dying prematurely leaving the dependent family to fend for itself' and 'that of living too long without visible means of support'. Of the two hazards which is more serious and difficult to manage? Give your views with reasons.

4. Do you agree with the view that a bachelor without dependents needs no insurance? If you feel that he needs insurance, state the reasons in support of your view.

5. Explain in this context how material facts and their concealment affect the amount of premium charged from a person and results in adverse selection.

6. Explain how the principle of insurable interest adds legal validity to an insurance contract. Cite the instances of life insurance contracts where insurable interest must be proved.

7. What are the various premium payment plans? Explain why there are various premium payment plans in the market for life insurance policies.

Application Based Questions

8. “The endowment plan continues to be a great favorite among the insuring public in the country even today”. Why? State your reasons in detail.

9. Discuss the consequences of lapsation of life insurance policies on l Insurance companies l Policyholders l Intermediaries l Government