Annuities

Exam Study Guide

This document contains all the questions that will included in the final exam, in the order that they will be asked. When you have studied the course materials, reviewed the questions in this document, and feel that you are ready to take the exam, return to the login page to take the online final exam.
Annuities Final Exam

Select the best answer to complete the following statements.

1. A deferred annuity contract must always include all of the following parties:
   a. owner, annuitant, beneficiary
   b. payee, tertiary beneficiary, annuitant
   c. owner, joint owner
   d. owner, joint owner, beneficiary

2. Choose the answer which is always true: A fixed annuity base rate:
   a. is the rate paid on additions.
   b. is not credited to an annuity contribution during the bonus rate guarantee period for that contribution.
   c. is the same as the floor rate.
   d. is the same as the minimum guaranteed rate.

3. Factors in interest rate setting on a fixed deferred annuity may include:
   a. Competition
   b. Commission paid
   c. Investment return
   d. all of the above

4. A life with cash refund annuity option:
   a. always ends at the death of the annuitant.
   b. continues payments at the death of the annuitant.
   c. pays a lump sum equal to the remaining principal to a beneficiary at the annuitant’s death.
   d. is not available as a variable income option.

5. All of the following statements are accurate concerning non-natural ownership of an annuity, except:
   a. A non-natural owner may cause an annuity to lose tax-deferral status.
   b. Some insurance companies do not accept non-natural ownership of the annuities they issue.
   c. A non-natural owner may not own an annuity, according to the IRS code.
   d. Certain types of non-natural owners do not cause loss of tax-deferral in an annuity.

6. When an annuity is assigned or pledged as collateral for a loan:
   a. interest no longer accrues in the annuity.
   b. the IRS treats the portion assigned as a distribution.
   c. the annuity must be surrendered.
   d. all of the above
7. The annuity contract:
   a. is another term for the application
   b. is issued after the application and premium are accepted by the insurance company or its agent
   c. is not binding on the insurance company
   d. normally takes thirty to sixty days to issue

8. Annuity death proceeds:
   a. are income tax free to the beneficiary.
   b. are taxable to the beneficiary in so far as the amount received exceeds the cost basis in the contract.
   c. are excluded from estate tax calculations.
   d. none of the above.

9. Market Value Adjustments:
   a. reflect the increase or decrease in cost to the insurance company to replace withdrawn or surrendered money.
   b. apply only to variable annuities
   c. refer to the changing perspective of the marketplace when new annuity features are added to annuity products
   d. apply only to CD annuities

10. Life only income annuities:
    a. will pay a lump some to the beneficiaries at the death of the annuitant.
    b. will not pay a lump sum to the beneficiaries at the death of the annuitant.
    c. can be converted to a period certain annuity prior to the annuitant's death.
    d. none of the above

11. The annuity rates in a fixed annuity are:
    a. generally defined in the annuity contract in terms of guarantees and the length of time a rate will be in effect.
    b. based on five year treasury bonds
    c. always higher than CD rates
    d. level for the life of the contract
12. Benefits of annuity contracts include:
   a. tax-deferral, avoidance of probate, avoidance of estate tax, variety of income options, customer-friendly product features.
   b. tax-deferral, avoidance of estate tax, variety of income options, customer-friendly product features.
   c. tax-deferral, guaranteed high rates of return, avoidance of probate, variety of income options, customer-friendly product features.
   d. tax-deferral, avoidance of probate, variety of income options, customer-friendly product features.

13. A sub-account is:
   a. a pool of securities invested to meet a specified objective.
   b. not regulated as a security.
   c. guaranteed to reach a specified rate of return.
   d. FDIC insured.

14. Variable annuities are generally considered long-term investments because of:
   a. the tax ramifications for withdrawals prior to 59 1/2.
   b. deferred sales loads.
   c. the objectives of many of the sub-accounts within a variable annuity.
   d. all of the above.

15. Under current tax rules, withdrawals from an annuity are taxed on a(n) __________ basis:
   a. earnings first
   b. principal first
   c. part earnings, part principal
   d. no answer

16. Variable annuity sub-account valuation:
   a. is performed at the end of each trading day the NYSE is open.
   b. is performed only if units are purchased or liquidated from a sub-account.
   c. is performed at the VA provider’s discretion.
   d. is only performed annually to provide annual statement information.

17. The focus of the evaluation of bond rating agencies is:
   a. the relative stated interest rate of the bond
   b. the impact of inflation on the bond
   c. the relative ability of the issuer to meet the specific obligations of the bond
   d. the market environment in which the bond was issued
18. Annuitization options may include:
   a. period certain income.
   b. period certain and life income.
   c. life only income.
   d. all of the above.

19. The contingent beneficiary:
   a. is unnecessary, since the customer's will should identify his or her beneficiaries.
   b. is equal to the Class I beneficiary.
   c. should generally be included on a contract in case the primary beneficiary predeceases the annuity owner.
   d. should always be listed as the owner’s estate.

20. A variable annuity is one:
   a. which accepts "variable" contributions, or additional premium in various increments.
   b. whose return is based on the performance of the sub-accounts the annuity owner has selected.
   c. which has a menu of product features from which to select.
   d. all of the above.

21. Which of the following statements is inaccurate regarding systematic withdrawal payments?
   a. The taxable portion of systematic withdrawal payments are not calculated in the same manner as the taxable portion of annuity income payments.
   b. Systematic withdrawals occur only during the deferral stage of an annuity contract.
   c. Systematic withdrawals can effectively remove the tax-deferred feature of an annuity.
   d. Systematic withdrawals can be taken after a contract has been annuitized.

22. Joint owners on an annuity contract
   a. automatically create a gifting situation.
   b. may designate which owner's social security number will be reported to the IRS by the insurance company.
   c. are generally considered by the IRS to own the contract on a 50/50 basis.
   d. are never allowed regardless of the annuity contract purchased unless the joint owners are spouses.

23. CMO's are sometimes used by sub-account managers to reduce:
   a. pre-payment risk.
   b. default risk.
   c. exchange rate risk.
   d. market risk.
24. The “cap” in an equity-index annuity is:
   a. generally the length of time surrender charges are applied.
   b. a limit on the percentage increase resulting from the index benefit calculation.
   c. the lowest rate a contract may fall to before a contract holder may bail out.
   d. none of the above

25. Financial or default risk is the risk:
   a. that the underlying corporation or issuing entity will be unable to meet the obligations of the security.
   b. that the currency in a foreign country will decrease in value relative to other currencies.
   c. that a security will not increase in value to keep pace with inflation.
   d. that political events will result in price fluctuations in a security.

26. The two foremost advantages of a variable annuity are generally considered to be:
   a. the ability to start income immediately and the guaranteed high returns of the sub-accounts.
   b. the ability to accrue interest tax-free and the rate guarantees backed by the insurance company.
   c. the fool-proof inflation hedge provided by the sub-accounts and the guaranteed death benefit.
   d. tax-deferral and the many sub-account investment options.

27. All of the following are true statements regarding the free look period on an annuity, except:
   a. The free look period may be dictated by state regulations.
   b. The free look period is the period of time wherein the owner can surrender the contract without normally applicable surrender charges levied.
   c. The contract owner can designate the length of the free look period.
   d. If a contract is surrendered during the free look period, the amount returned does not generally include interest.

28. All of the following products avoid probate, except:
   a. individually held mutual fund shares.
   b. annuities.
   c. property held in joint tenancy with rights of survivorship.
   d. life insurance.
29. The “floor” in an equity-index annuity is:
   a. generally the length of time surrender charges are applied.
   b. a limit on the percentage increase resulting from the index benefit calculation.
   c. the lowest rate a contract may fall to before a contract holder may bail out.
   d. the minimum index-linked return the contract will pay.

30. Which of the following beneficiary designations would most likely be unclear to the insurance company?
   a. The Estate of Alice Jones
   b. Marsha Reardon, daughter of Alice Jones
   c. Marsha Reardon, daughter of Alice Jones, and Michael Jones, Son of Alice Jones
   d. Estate

31. Period Certain Income Annuity:
   a. payments are guaranteed for the annuitant’s lifetime or for a certain period of time, whichever is greater.
   b. payments are guaranteed for a certain period. If the annuitant dies during that time, payments will continue to the beneficiary until the specified period of time expires.
   c. payments are guaranteed for the annuitant’s lifetime or for a certain period of time, whichever is shorter.
   d. payments are guaranteed for a certain period. If the annuitant dies during that time, payments will cease.

32. All of the following statements are possible applications of a new money rate except:
   a. The new money rate may be applied to the opening premium contribution only.
   b. The new money rate may be applied to all new moneys contributed to the annuity while the rate is in effect.
   c. The new money rate can never be the rate applied to additional contributions.
   d. The new money rate may only be effective for one year.

33. All of the following are index benefit calculation methods, except:
   a. the annual reset method
   b. the averaging method
   c. the point-to-point method
   d. the high water mark method
For questions 34, 35 and 36, choose the sub-account which is generally **more** aggressive. Assume no hedging instruments, futures or options are used.

34.  
   a. Small-Company  
   b. Equity-Income  
   c. no answer  
   d. no answer

35.  
   a. US Government  
   b. Corporate - General  
   c. no answer  
   d. no answer

36.  
   a. US Government - Treasury  
   b. World Bond  
   c. no answer  
   d. no answer

37. All of the following statements regarding the annuitization of a variable annuity are true, except:
   a. Variable annuity contracts often allow the transfer of units among sub-accounts during the annuitization period.
   b. Since purchasing-power risk is addressed, selecting a variable annuitization option is always better for a customer than selecting a fixed annuitization option.
   c. Variable annuity contracts generally offer both fixed and variable annuitization options.
   d. none of the above.

38. In order to qualify as a “1035 Exchange”:
   a. a full surrender of the original annuity contract must be made to the owner who must re-invest the proceeds within sixty days.
   b. the transfer must be made to another sub-account within the same variable annuity.
   c. the annuity must be qualified.
   d. the new contract must be payable to the same person or persons as the surrendered contract.

39. Equity-index annuities:
   a. may include minimum guaranteed returns.
   b. may include a guaranteed minimum index benefit.
   c. may include a guaranteed death benefit.
   d. all of the above

40. Fixed annuities are not considered securities because:
   a. they are underwritten by an insurance company
   b. the insurance company assumes the investment risk of a fixed annuity contract
   c. no securities are allowed to be purchased by the insurance company with the premiums paid for a fixed annuity
   d. they have a free look period
41. Nursing home waivers:
   a. allow withdrawals without normally applicable surrender charges if the requirements of the nursing home waiver provision are met.
   b. define whether the waiver applies to the owner, the annuitant or both.
   c. normally do not apply just to nursing home care, but to other qualified medical facilities defined within the nursing home waiver provision.
   d. All of the above statements are true.

42. The variable annuity is regulated as a security because:
   a. the policyowner bears the preponderance of the investment risk.
   b. the annuity issuer bears the preponderance of the investment risk.
   c. the policyowner and annuity issuer share the investment risk.
   d. individual states have insurance regulations which mandate that the variable annuity be considered a security.

43. Dollar cost averaging:
   a. ensures a lower average price per unit.
   b. is only for the person with large amounts to invest.
   c. is only for the person with small amounts to invest.
   d. can result in a lower average price per unit than if random contributions are made.

44. No matter what distribution at death rules an annuity contract uses, which annuity structure will ensure the named beneficiary receives the death benefit at the owner’s death?

<table>
<thead>
<tr>
<th>OWNER</th>
<th>JOINT OWNER</th>
<th>ANNUITANT</th>
<th>JOINT ANNUITANT</th>
<th>BENEFICIARY</th>
</tr>
</thead>
<tbody>
<tr>
<td>a. John Smith</td>
<td>none</td>
<td>John Smith</td>
<td>none</td>
<td>Jane Smith</td>
</tr>
<tr>
<td>b. John Smith</td>
<td>Jane Smith</td>
<td>Jane Smith</td>
<td>none</td>
<td>John Smith</td>
</tr>
<tr>
<td>c. John Smith</td>
<td>none</td>
<td>Jane Smith</td>
<td>John Smith</td>
<td>Jane Smith</td>
</tr>
<tr>
<td>d. Jane Smith</td>
<td>none</td>
<td>Jane Smith</td>
<td>John Smith</td>
<td>Jane Smith</td>
</tr>
</tbody>
</table>

45. Which of the following is not likely to be found in a variable annuity prospectus?
   a. summary of expenses
   b. top ten shareholders
   c. performance data
   d. account valuation method
46. A gift may occur when:
   a. an owner is changed on an annuity contract.
   b. an owner is deleted from an annuity contract.
   c. a joint owner is added to a contract.
   d. all of the above.

47. Deferred annuities may:
   a. be single premium products
   b. be flexible premium products
   c. be annuitized at some date in the future
   d. all of the above

48. Mortality risk expense:
   a. covers the risk the sales load and administration fees may not be sufficient to cover the expenses to maintain the variable annuity
   b. is a fee charged at death of the owner
   c. is based on the promise to pay lifetime annuity payments, regardless of how long an annuitant might live
   d. is the expense related to issuing statements, processing transactions, and calculating and monitoring daily sub-account values

49. A separate account must be registered as an investment company based on:
   a. TRA '86.
   b. The Investment Company Act of 1940.
   c. TEFRA.
   d. state insurance laws.

50. "Kiddie" tax: rules:
   a. are not a consideration in determining the best product for a minor's money.
   b. are a consideration in determining the best product for a minor's money.
   c. apply a 10% tax on the minor’s income until the minor reaches 59 ½.
   d. are not applied to children under 14.