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PRACTICE QUESTIONS



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Exam : Life-Producer

**Title : Maryland Life Producer
Exam (Series 20-27)**

Version : DEMO

1. An individual purchased an annuity contract with \$100,000 received in settlement of a lawsuit. No further purchase payments are permitted, and benefit payments are to start in 17 years.

The contract is:

- A. An individual life annuity
- B. An individual retirement annuity (IRA)
- C. A retirement annuity
- D. A single premium deferred annuity

Answer: D

Explanation:

Key facts from the question.

One lump-sum payment

No additional premiums allowed

Payments begin in the future (17 years later)

Define single premium deferred annuity (SPDA).

Funded with one premium payment

Includes an accumulation period

Income begins at a future date

Why this is not another type of annuity.

Individual life annuity: Describes payout form, not funding method.

IRA annuity: Must be held within an IRA; lawsuit proceeds are non-qualified.

Retirement annuity: A general term, not a specific contract type.

Maryland suitability and disclosure relevance.

Maryland requires clear explanation of surrender periods and deferred income timing for SPDAs.

Conclusion.

The described contract is a single premium deferred annuity.

2. The provision in a life insurance policy that allows the policyowner to cancel the policy within a limited period of time after delivery of the policy and receive a full premium refund is the:

- A. Discovery period
- B. Probationary period
- C. Grace period
- D. Free look period

Answer: D

Explanation:

Purpose of the free look period.

The free look period allows the policyowner to review the policy after delivery.

Consumer protection function.

Maryland law requires a minimum free look period (commonly 10 days).

If cancelled within this time, the policyowner receives a full refund.

Why the other options are incorrect.

Discovery period: Related to claims-made policies.

Probationary period: Often associated with health insurance waiting periods.

Grace period: Allows late premium payment, not cancellation.

Conclusion.

The correct provision is the free look period.

3. In general practice, which one of the following is true of the powers of the Maryland Insurance Administration with respect to access to a producer's business records?

- A. Records can only be accessed by an order of a state court
- B. Authorization must come from the National Association of Insurance Commissioners
- C. Records must be produced upon the request of the Maryland Insurance Administration
- D. The Maryland Insurance Administration has no right to access a producer's business records because of privacy considerations

Answer: C

Explanation:

Regulatory authority of the Maryland Insurance Administration (MIA).

The MIA is granted statutory authority to examine, investigate, and audit producers to ensure compliance with insurance laws.

Evaluate each option.

A. Court order required

Incorrect. The MIA has direct administrative authority.

B. NAIC authorization required

Incorrect. The NAIC is advisory, not regulatory.

C. Records must be produced upon request

Correct. Licensed producers are required to comply with MIA record requests.

D. No right due to privacy

Incorrect. Licensing carries an obligation to regulatory oversight.

Good-faith and compliance relevance.

Failure to provide records may itself constitute a regulatory violation and undermine good-faith conduct.

Conclusion.

Producers must produce business records upon request of the Maryland Insurance Administration.

4. Which advantage does an employer gain by providing a qualified retirement plan, as contrasted to a non-qualified plan?

- A. It can be designed for the exclusive benefit of several key employees
- B. The employer's contributions to the plan are tax deductible
- C. The plan funds are available for general business needs
- D. It is useful in rewarding selected employees for good work performance

Answer: B

Explanation:

Qualified retirement plans, such as 401(k) and pension plans, offer significant tax advantages for employers:

Tax-deductible contributions (B): Employer contributions to qualified plans are deductible as business expenses, reducing taxable income.

Exclusive benefit for key employees (A): Not allowed under IRS rules, as qualified plans must follow non-discrimination requirements.

Funds available for business needs (C): Incorrect, as plan funds are held in trust and cannot be used for business operations.

Rewarding selected employees (D): Qualified plans must comply with anti-discrimination rules, so rewards must benefit all eligible employees.

References: IRS Publication 560, Maryland Retirement Plan Standards, and COMAR 31.09.11.

5. The nonforfeiture option which permits a policyowner to purchase the same type of policy with the net cash value is the:

- A. Endowment value option
- B. Extended term insurance option
- C. Loan value option
- D. Reduced paid-up insurance option

Answer: D

Explanation:

Purpose of nonforfeiture options.

Nonforfeiture options ensure that a policyowner does not lose all value if premiums stop.

Evaluate each option.

A. Endowment value option

Not a standard nonforfeiture option.

B. Extended term insurance option

Uses cash value to buy term insurance for the same face amount, not the same policy type.

C. Loan value option

Involves borrowing, not policy continuation.

D. Reduced paid-up insurance option

Correct. Uses net cash value to purchase a paid-up policy of the same type with a reduced face amount.

Maryland consumer protection relevance.

Maryland nonforfeiture requirements ensure policyholders retain fair value upon lapse.

Conclusion.

The reduced paid-up insurance option meets the description, making option D correct.