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R05 - Protection

Practice paper B

These questions relate to tax year 2017/2018

Attempt to answer all questions:

1. Protection products provide either a lump sum or a regular income depending on the situation they are designed to cover. Which of the following is designed to provide an income?
A. Private Medical Insurance
B. Mortgage Payment Protection
C. Critical Illness Cover
D. Life Assurance
2. Charlie Cross is married with 3 children who all attend the local school. Which of the following should he consider as his primary need?
A. Protecting his income against the possibility of long term illness
B. Protecting his income against the possibility of redundancy
C. Protecting his family against the possibility of his premature death
D. Protecting his mortgage repayments against the effects of inflation
3. Finish the sentence.....In the event of divorce.....
A. The court cannot order a transfer of ownership of a policy from one party to another
B. The court can make any order that it sees fit regarding policies and other assets
C. The court can make any order that it sees fit regarding other assets but not policies
D. The ex spouses automatically lose insurable interest in the other party unless the court rules differently
4. Why might a financial adviser use a fact find?
A. To obtain information on a product
B. To obtain information on the investment performance of a product provider
C. To record stats for the advisers manager
D. To record information about a client and his / her finances
5. Mandy and Martin have young children. Which of the following should you discuss with them as their main priority?
A. Pre Retirement Planning
B. Post Retirement Planning
C. Life Assurance
D. Lump Sum Investments

6. Deborah was widowed in June 2017. She is only 35 years old and now has two young children to care and support. Which state benefits will she be entitled to receive?
A. The Widowed Parents Allowance and the Bereavement Payment
B. The Bereavement Support Payment
C. The Bereavement Payment and the Bereavement Allowance
D. The Widowed Parents Allowance, the Bereavement Payment and the Bereavement Allowance
7. The State Pensions Credit consist of two elements:
A. The Guaranteed Credit and the married Couples Credit
B. The Winter Fuel Allowance and the Minimum Income Credit
C. The Guaranteed Credit and the Savings Credit
D. The Minimum Income Credit and the married Couples Credit
8. Which ONE of the following is correct?
A. The Basic State Pension is available to all British citizens irrespective of their working history.
B. The Basic State Pension is a taxable, contributory and non means tested benefit
C. By 2016 the state pension ages will be harmonised at 70
D. The Basic State Pension is only paid to those who have a complete NI contribution record.
9. Which of the following describes Child Tax Credit?
A. It replaces child benefit for families where both parents are working
B. It is paid in addition to Child Benefit at a flat rate for families with income below a set threshold
C. It is paid in addition to Child Benefit on a sliding scale depending on the families income
D. It is paid to families on low incomes, where a child stays on in full time education after the age of 16
10. The monthly premium quoted to customers for their life assurance policy is composed of:
A. The net premium and a policy fee and the frequency loading
B. The chargeable premium and a policy fee and the frequency loading
C. The pure premium and a policy fee and the frequency loading
D. The level premium and a handling charge and a frequency loading

11. Which type of life assurance policy forms the basis of Family Income Benefit?
A. A Decreasing Term Assurance
B. A Low Cost Endowment Assurance
C. A Flexible Endowment Assurance
D. A Unit Linked Whole of Life Assurance
12. What is paid out as a death benefit from a Unit Linked Whole of Life Assurance plan
A. The guaranteed sum assured
B. The cash value of the policy holders units
C. The greater of the guaranteed sum assured or the value of the policy holders units
D. The lower of the guaranteed sum assured or the value of the policy holders units
13. What is generally perceived as being the main drawback with the traditional with profits endowment plan?
A. A Low Early Surrender Value
B. Expensive Premiums
C. Heavy Taxation
D. Low Premium Limits
14. A Life Assurance company has adopted the following premium system: In the early years the premium is higher than needed to meet the expected claims and the surplus is invested. In the later years, the reserves are used to boost the pot to meet claims made?
A. This is known as the Pure Premium method
B. This is known as the Natural Premium method
C. This is known as the Level Premium Method
D. This is known as the Chargeable Premium method
15. Peter takes out a Whole of Life Assurance policy on the life of his wife Nichola. At what stage must insurable interest exist for the contract to be valid?
A. At the inception of the policy
B. At the time of a claim only
C. At the inception of the policy and the time of a claim
D. Constantly for the whole term of the policy

16. Which of the following is not part of the ABI's Code of Practice governing the use of genetic testing?
A. The reason why an insurer is applying special terms or is declining an application must be provided to the applicant's GP on request.
B. A blood relatives test result cannot be used to affect another's application
C. Any existing test results must be disclosed whether requested or not, if they show an increased risk of illness or death
D. A test that shows a low increase in risk will not necessarily affect the premium
17. A Life Assurance company has a non-medical limit of £300,000 for a man aged 40. What does this mean?
A. That if the life assured is a male under the age of 40 and the sum assured is less than £300,000 then further medical evidence is not automatically required
B. The customer must pay for a medical report if they are either over aged 40 or the sum assured is over £300,000
C. That men under 40 cannot borrow more than £300,000 unless they pay for a medical report showing evidence of good health
D. All men either over 40 or borrowing more than £300,000 must provide, at their own cost a medical report showing evidence of their good health
18. Tim Smith has decided to sell his endowment policy rather than surrendering it. Which of the following must be present for ownership of the policy to be legally transferred?
A. A notice of assignment signed by Tim and a copy of the original policy
B. A notice of assignment, including a specific legal wording, dated within the policy term and at a time when Tim is still alive
C. A deed of assignment, dated within the policy term and at a time when Tim is still alive
D. A deed of assignment, clearly transferring the legal interest in the policy dated within the policy term and at a time when Tim is still alive
19. When Paul Jenkins committed suicide his estate made a claim on his life assurance policy. Did the insurers meet the claim?
A. Yes Insurers do not discriminate between accidental death and suicide
B. Yes, Because the claim was made after the mandatory suicide waiting period of 3 years
C. Yes, but only because the estate could prove that Paul was not of sound mind at the time he committed suicide
D. No, they did not pay out because it was deemed that the estate would be profiting from Paul's own deliberate act.

20. Jack took out a qualifying with profits whole of life assurance policy in his own name and based on his own life. The policy has a guaranteed sum assured of £50,000. He placed the policy under trust for the benefit of his son, David. 20 years later, Jack died and the policy paid out £65,000 including bonuses. What tax, if any might David incur?
A. An Income Tax Liability on the £15,000 he has gained. If this pushes David into the Higher Tax Band he will have to pay tax on the marginal element at 40%.
B. A Capital Gains Tax Liability on the £15,000 he has gained. If this pushes David into the Higher Tax Band he will have to pay tax on the marginal element at 18%.
C. An Inheritance Tax Liability. If this pushes Jacks Estate over the nil rate band he will have to pay tax on the excess at 40%.
D. There will not be any Income Tax, Capital Gains Tax or Inheritance tax to Pay.
21. In 2017/2018 Lee Bradley, a High Rate Tax payer surrendered a non qualifying policy which gave a gain of £10,000. He had held the policy for 5 complete years. Ignoring any effect of the personal savings allowance, what tax is payable on the gain?
A. £2,000
B. £1,800
C. £800
D. £360
22. In 2017/2018 Martine, who lives and works in London, has a gross income of £35,000. She makes a gain of £8,000 on her non qualifying policy. The encashment happened after 8 ½ years. What is the tax payable on the gain?
A. None
B. £1,600
C. £200
D. £600
23. What is the minimum period of time that Jonathan must survive after making a potentially exempt transfer to ensure no inheritance tax will be payable on the transfer?
A. 3 Years
B. 5 Years
C. 7 Years
D. 10 Years

24. A widow aged 49 has an estate valued at £350,000 above the nil rate band. She now wants to leave this to her two children. Which Life Assurance product, if any, should she effect to protect against any IHT liability that may arise?
A. Decreasing term assurance
B. Level term assurance
C. Low Cost Endowment Assurance
D. Whole of Life Assurance
25. Dina Connell has been asked to act as a trustee for a trust set up by her sister. How much can Dina charge for the services she will provide?
A. No Charges
B. A Reasonable market rate
C. A rate equivalent to that that would be paid by a solicitor or bank
D. The current rate for a lay person as set out in the Trustee Act 2000
26. To whom would the life company pay the benefits of a policy written in trust to?
A. The Beneficiaries
B. The Settlor
C. The Trustees
D. The Estate
27. When calculating the value of the transfer out of a person's estate for IHT purposes, how is an existing Whole Life policy valued, when it is transferred into a trust?
A. The greater of the open market value of the policy and the value not less than the total premiums paid under the policy minus any sums previously paid out.
B. The lesser of the Open market value of the policy and a value not less than the total premiums paid under the policy minus any sums previously paid out
C. The Open market Value of the policy.
D. The Surrender Value of the policy plus any sums previously paid out.

28. Suzie Laidler had been contributing to a term insurance policy for the last 5 years when she decided to put the policy in trust for the benefit of her niece. Suzie continues to pay the premiums and the policy benefits are an outright gift to her niece (i.e. no available exemption applies). Four years after the trust was created Suzie dies. Which of the following is correct?
A. There is a transfer of value equal to the premiums paid which may be subject to IHT.
B. There is a transfer of value equal to the value of the policy at the date of the gift and all subsequent premiums which may be subject to IHT
C. There is a transfer value equal to the value of the policy at the date of Suzie's death plus all premiums since the trust was created which may be subject to IHT.
D. Because the gift was a PET and Suzie lived for the required length of time after the gift was made there is no IHT liability
29. William died intestate on 1 June 2014. Denise his wife now has to care for their son David who is aged 15. How is William's estate distributed?
A. Denise gets a set amount and half of any remainder. David receives the other half of any remainder at age 18.
B. Denise will get a set amount and then a life interest in half of what is remaining. David receives the remaining half when he reaches 18 and his mother's half when she dies
C. Denise gets one half absolutely. The other half passes to David on his 18 th birthday,
D. Everything goes to Denise.
30. Which of the following people is most likely to incur a tax liability on the benefits received from their insurance policy?
A. Jack has been declared as unable to carry out certain activities of daily living and makes a claim under his long term care insurance.
B. Jill receives a large lump sum payment on diagnosis of a critical illness. The premiums under her critical illness policy are paid by her employer.
C. Terry has a PMI paid for by his employer. He made a claim under the policy for the cost of in patient treatment.
D. Harry is a member of his employer's group IPI scheme. He receives benefits under the scheme while off work with a long term illness.

31. Which of the following is normally the most important consideration in the pricing and underwriting of Income Protection Insurance?
A. Postcode
B. Occupation
C. Earnings
D. Age
32. Which of the following is a feature of Income Protection Insurance (IPI)?
A. Men generally pay more for cover than women.
B. If the claims experience is poor, the insurer retains the option to cancel cover at renewal
C. The policy will pay a proportionate benefit if the insured takes a lower paid job due to the disability.
D. Defined capital benefits are paid in the event of loss of a limb or eye.
33. Which type of Insurance Policy will pay out in the event of the insured suffering a stroke, but not requiring them to take time off work?
A. A Critical Illness Policy
B. A Mortgage Protection Policy
C. A Permanent Health Insurance Policy
D. A personal Sickness and Accident Plan
34. What is the normal requirement for a valid claim under a Long term Care Policy?
A. A Claimants inability to carry out a number of specified activities
B. A minimum of 6 months total incapacity
C. Diagnosis of a specified illness
D. Medical evidence to support the need for residential care
35. Which of the following describes the tax treatment of accident, sickness and unemployment (ASU) insurance policies owned by an employee, but paid for by an employer?
A. The employer can claim the premiums as a business expense, but the employee will pay a special tax levied on the regular premium
B. The employer can claim the premium as a business expense but the employee will be taxed on the amount as a benefit in kind. The employee will receive the regular benefit payments free from tax
C. The employer is taxed on the premiums but the employee will receive the regular benefit payable free of tax
D. The employer can claim the premiums as a business expense and the employee is not taxed on them. The employee will receive the regular benefit payments free of tax

36. What is the key difference between a MPPI policy and an ASU policy?
A. The benefits in an ASU policy will be much higher
B. There is no deferred period with an ASU policy
C. Benefits in an ASU policy are paid as a lump sum
D. The benefits in an ASU plan are not linked to a mortgage
37. For what period of time, if at all, will an accident sickness and unemployment policy normally pay a regular benefit if the insured is unable to work?
A. This type of policy does not pay regular benefits, only fixed lump sum benefits.
B. For a specified period of 1 – 2 years.
C. For a specified period of 5 – 10 years.
D. Until the insured returns to work or reaches normal retirement age
38. Jerry Thompson is diagnosed with heart disease and elects to be treated privately, claiming on his budget PMI policy. Which of the following statements applies to his policy?
A. Budget plans will cover treatment for heart disease
B. If the heart disease is deemed to be chronic, a reoccurrence may not be covered
C. Charges for home nursing, if required, will be covered
D. Private ambulance services will be included in the cover
39. In comparing PAS and IPI, which of the following statements is valid?
A. Both policies offer protection against long term disability
B. PAS cover is only available as an individual policy. IPI is often sold on a group basis
C. PAS cover is cheaper
D. PAS policies normally have a longer deferred period
40. Which form of partnership agreement, if any, binds the deceased partner's estate to sell his share of the business to the remaining partners?
A. Cross Option Agreement
B. Buy and Sell Agreement
C. Automatic Accrual Method
D. No form of agreement can legally bind the estate in this way

41. Which of the following statements about partnership agreements is true?
A. Under a Buy and Sell agreement, the remaining partners have the option to buy the deceased partner's share from his estate if they so desire
B. The cross option agreement is generally preferred to a buy and sell agreement for IHT reasons
C. Under an automatic accrual agreement, the deceased partners share passes automatically to the remaining partners and no insurance cover is required.
D. The automatic accrual arrangement normally gives rise to an IHT liability
42. From the options below. Select the most commonly used arrangement for providing funds in partnership share purchase agreements.
A. Level term assurance, written under a business trust
B. Decreasing term assurance, written under a business trust
C. Whole of life, written under a discretionary trust
D. Level term assurance, written under an absolute trust
43. Four partners have a partnership valued at £400,000. Kevin owns 20%, Jim 25%, Helen 20% and Nick 35%. Each partner has signed the cross option agreement, which gives the option to buy the shares of any deceased partner in proportion to the remaining partners share in the business and has life cover reflecting their share in the business. Jim dies and under their agreement the partners buy his shares from his estate. How much does Nick's share of Jim's holding cost?
A. £35,000
B. £25,000
C. £23,666
D. £46,666
44. What are the consequences for individual directors if the company pays the life insurance premiums on a director's share protection scheme?
A. There are no personal consequences
B. Each director would have to pay employees NICs on the premiums
C. Each director would be taxed as a benefit in kind for the premiums
D. Each director would receive a tax credit for the premiums

45. A firm with gross profits of £6,000,000 wants to take out Key Person Insurance on the life of a senior employee. The employee's salary is £100k. The firm's total wage bill is £3,000,000. The firm calculates it would take 4 years to recruit and train a suitable replacement. What, using the 'profit method' is a suitable sum assured under key person insurance?
A. £100,000
B. £200,000
C. £400,000
D. £800,000
46. Alfred Jones is an active 80 year old granddad. He still lives in his own home, now worth £700,000 and has an estate worth £1,500,000. Which protection needs might apply to him?
A. IPI
B. CIC
C. Immediate care plan
D. IHT
47. When is a customer's attitude to risk likely to play a part in his protection needs?
A. When comparing unit linked and with profit plans
B. When comparing term assurance and whole of life policies
C. When comparing fixed and reviewable policies
D. In all of the above cases
48. Sheila Dobson is a company representative from Premier Life. Her client has specified a whole of life but Sheila is struggling to find a suitable product from her company's range. What should she do?
A. Explain the situation and don't recommend anything but refer the client to seek out an IFA
B. Explain the situation, then recommend the nearest option
C. Recommend only the closest product
D. Ask the customer to consider an alternative product
49. Marie is an IFA and she has just completed some new business for her client. When should she next arrange to meet with them?
A. In 6 months time
B. On the anniversary of the business being transacted
C. For 5 years time
D. 6 months before the policy with the shortest life is due to lapse

50. Which of the following applies to Child Benefit?
A. It is means tested
B. It is contributory
C. It is taxable
D. It is tax free