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R05 - Protection

Practice paper C

These questions relate to tax year 2017/2018

Attempt to answer all questions:

1	An IFA is comparing two life offices. Both companies have the same rating from Standard & Poor. A colleague has suggested using each company's free asset ratio (FAR). What is it?
A	The total value of the company's assets.
B	The company's surplus assets divided by its total liabilities.
C	The share price compared to the total value of assets
D	The company's profits divided by the number of shares
2	What is the key difference between a MPPI policy and an accident sickness & unemployment (ASU) insurance policy?
A	The benefit in an ASU policy are not automatically linked to a mortgage
B	ASU is a short term policy.
C	MPPI will normally have a short deferred period
D	ASU benefits will be restricted.
3	Helen & James are buying a house. On Helen's death the house belongs 50% to James and 50% to Helen's estate. Under what arrangement is the house owned?
A	Joint tenancy
B	Trust
C	Tenancy in common
D	Power of attorney
4	What is paid out as the death benefit from a unit-linked whole of life assurance plan?
A	The value of the fund
B	The sum assured
C	The sum assured plus the value of the fund
D	The greater of the guaranteed sum assured and the value of the fund
5	A life assurance company has a 'non-medical limit' of £300,000 for a man aged below 40. What does this mean?
A	Sum assureds of greater than £300,000 are not acceptable without reinsurance
B	Males under 40 with sums assured of less than £300,000 no further medical evidence will be automatically required
C	Males over 40 will require medical examination
D	Sums assured of £300,000 can be accepted without reinsurance

6	What is normally NOT a consideration in the pricing and underwriting of Income Protection Insurance?
A	Age
B	Occupation
C	Marital Status
D	Health
7	David Green is thinking of taking out a personal accident & sickness policy (PAS). How will his existing asthma affect the underwriting of his policy?
A	It would not affect the contract
B	Any claim resulting from his asthma is likely to be excluded
C	The policy does not cover accidents abroad
D	The deferred period would be extended
8	How long can Statutory Sick pay, be paid?
A	28 days
B	3 months
C	28 weeks
D	Until the recipient is fit to return to work
9	What is the main tax benefit of writing a regular premium life assurance policy under trust?
A	There are no tax advantages however it speeds up payment
B	It becomes free of income tax
C	It becomes free of capital gains tax
D	It becomes free of inheritance tax
10	What is the normal reason for a policyholder choosing an increasable term assurance rather than a level term policy?
A	To cover a repayment mortgage
B	To cover an interest only mortgage
C	To cover the affect of tax on the benefits paid
D	To offset the effects of inflation
11	For how long will an accident, sickness and unemployment (ASU) policy normally pay a regular benefit if the insured is unable to work?
A	90 days
B	28 weeks
C	1 – 2 years
D	Until the recipient is able to return to work

12	Which of the following best describes Critical Illness Insurance cover?
A	Pays a lump sum on diagnosis of a specified illness
B	Pays a lump sum on death caused by a specified illness
C	Pays a regular income on diagnosis of a specified illness
D	Pays a regular income for a maximum period of 2 years on diagnosis of a specified illness
13	Which is the most commonly used arrangement for providing funds in partnership share agreements to protect the partnership in the event of the death of one of the partners?
A	Individual personal pensions
B	Level term assurance written under a business trust
C	Whole of life assurance written under a MWPA 1882
D	Endowment assurance written under a business trust
14	Name a major advantage of 'group' IPI provision over individual cover.
A	Benefits are paid tax free
B	Benefits can be paid for longer
C	Maximum deferred period 4 weeks
D	A level of free cover
15	Frank Cooper has made a will, which apart from a few minor gifts leaves the bulk of his estate to his wife Fran. Frank and Fran later divorce. What is the situation regarding his will?
A	The whole will is void
B	The will stands except for any benefits to Fran
C	The will is unaffected
D	As a joint will both parties must act to change it
16	Jonathan has an endowment policy that is due to mature but he can't find the original documents. What would normally happen in these circumstances?
A	The insurer doesn't have to pay out until he finds the original documentation so the payment will be put on hold.
B	Jonathan will have to sign a declaration in front of a local magistrate to confirm that he is the owner of the plan and therefore entitled to the proceeds before the insurer will forward a cheque to him.
C	The insurer will normally expect a search to take place but will usually pay out if they have records of the plan.
D	A Special Waiting Period will have to be completed in order to give time for the policy document to turn up. After that period of time, if they have not been found, the insurer will pay the proceeds direct to Jonathan.

17	James has surrendered his non-qualifying, whole life policy and a chargeable gain of £10,000 has occurred. Who is responsible for declaring that chargeable gain to HMRC for taxation purposes?
A	The insurers
B	The assured (James)
C	The financial adviser of the assured
D	There is no requirement to declare the chargeable gain.
18	To whom would the life company pay the benefit of a policy written into trust to?
A	The settlor
B	The beneficiary
C	The trustees
D	The assured
19	Peter takes out a whole of life assurance policy on the life of his wife Nina. At what stage of proceedings must insurable interest exist for the contract to be valid?
A	At inception only
B	Throughout the term of the policy
C	At the time of the claim only
D	Husband and Wife do not automatically have insurable interest
20	Which one of these is NOT subject to Insurance Premium Tax?
A	IPI
B	MPPI
C	PAS
D	PMI
21	What could a customer convert their convertible term assurance to?
A	IPI
B	Whole life or endowment
C	Unit Trust
D	Any investment based contract

22	Why should a financial adviser carry out a fact find?
A	Because the company required him to do so
B	To impress the client
C	To record clients' details to enable his supervisor to check up on him
D	It ensures suitable advice is given
23	Miss O'Malley, self-employed aged 29, is a higher rate taxpayer. She lives alone and has no dependants. Why should an income protection policy be considered rather than relying on state benefits?
A	She will not require income protection
B	She will not be eligible for state benefits as she is self employed
C	She will only be eligible for state benefits for the first 28 weeks
D	State benefits will be low compared to her income
24	Which type of life assurance policy forms the basis of a family income benefit policy?
A	IPI
B	Term assurance
C	Whole of life
D	Endowment
25	What could be considered a drawback of a traditional with-profits endowment?
A	The level of reversionary bonuses
B	The addition of terminal bonuses
C	The level of the sum assured
D	The level of the early surrender values
26	Jack takes out a qualifying with-profits whole of life assurance policy on his own life with a guaranteed sum assured of £50,000. The policy is written under trust for the benefit of his son. On his death 20 years later the policy pays out a sum of £65,000 including bonuses. What tax liability, if any, might Jack's son incur in these circumstances?
A	The policy is subject to CGT as the son is not the original owner
B	The policy will be subject to IHT as part of Jack's estate
C	There will be an income tax liability if Jack's son is a higher rate tax payer
D	There is no tax liability on Jack's son.

27	Which form of partnership agreement binds the deceased partner's estate to sell his share of the business to the surviving partners?
A	Buy and sell agreement
B	Cross / Double option agreement
C	Automatic accrual
D	Single option agreement
28	What is the position regarding taxation and means-testing of Statutory Sick Pay?
A	It is not taxable but it is means tested
B	It is taxable but not means tested
C	It is both taxable and means tested
D	It is neither taxable nor means tested
29	Explain the tax treatment of MPPI policies.
A	Premiums receive tax relief, benefits are taxable
B	Premiums do not receive tax relief, benefits are tax free
C	Premiums receive tax relief, benefits are tax free
D	Premiums do not receive tax relief, benefits are taxed
30	What is the minimum period that a person must live after making a potentially exempt transfer to ensure that no inheritance tax will be payable on that transfer?
A	28 days survival period
B	5 years
C	7 years
D	14 years
31	When Paul Jenkins committed suicide his estate made a claim on his life assurance policy. Will the insurer meet the claim?
A	No
B	No, if within the first 5 years of the contract
C	Yes, but the policy proceeds must be paid into the court of protection
D	Yes, unless suicide is specifically excluded

32	John has lent a considerable amount of money to his son who intends to repay the amount borrowed plus agreed interest after 5 years. He wants to take out a term assurance policy on his son's life for the period of the loan. What is the extent of his insurable interest?
A	There is no insurable interest between father and son.
B	The agreed interest only
C	The value of the loan only
D	The value of the loan plus reasonable interest
33	Paul Jones has decided to sell his endowment policy rather than surrendering it. What document must be present for ownership of the policy to be legally transferred?
A	The policy
B	A deed of assignment
C	A contract note
D	A trust deed
34	Sheila Dobson is a company representative of Premier Life. Sheila is struggling to find a suitable contract from her company's range. What action should she take?
A	Recommend the policy which is closest to her clients needs
B	Recommend another company's product that is suitable
C	Recommend a less risky option
D	Not recommend anything, she can refer the client to an IFA
35	Which of the following will qualify for the full Flat Rate pension on retirement after April 2016?
A	John, with 5 years of NI contributions
B	Jill with 25 years National Insurance contributions
C	Jack, with 35 years of National Insurance contributions
D	Jim with 10 years National Insurance contributions
36	Which of these is NOT included in the ordinary premium rate?
A	Office expenses
B	Mortality costs
C	Profits
D	Medical extras

37	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 premium income so as to meet the claims made.' This is known as.....
A	Free cover
B	Lifestyle premium
C	Level premium
D	Natural premium
38	A trust set up by John Smith names the potential future beneficiaries in general terms (e.g. my spouse, living children of our marriage, grandchildren etc.) and also names a default beneficiary to whom the benefits will be paid if no other beneficiaries exist. What is this form of trust called?
A	A life interest trust
B	Discretionary trust
C	Absolute trust
D	Married Woman's Property Act trust
39	Assuming a Term Assurance policy is used as the basis of a Key Person Insurance plan, how can it be taxed?
A	There are no tax implications
B	Premiums are allowed as a business expense, benefits are taxable
C	Premiums are allowed as a business expense, benefits are tax free
D	Tax relief is only given for long term contracts
40	A particular long-term care plan is described as follows: 'The benefit period is unlimited but a maximum annual benefit is set. The benefits are paid for by encashing units in a unit-linked fund. When the insured dies the value of any remaining units is paid out as a death benefit.' Which type of plan is being described?
A	An immediate care plan
B	An ERC/ SHIP plan
C	A pre-funded plan
D	A home income plan
41	What is proportionate benefit in relation to income protection plan?
A	It is payable if earnings are reduced due to illness or disability
B	Where original benefits are set as a percentage of current earnings
C	Where state benefits are included in the percentage used to calculate benefits
D	The period benefits can be paid outside the UK

42	Steve and Claire Bowles have taken out a life assurance policy. Both of their lives are insured and the policy will pay out when the last of the two dies. How is this policy arrangement written?
A	Under a joint life trust
B	Under a double option agreement
C	Joint life first death
D	Joint life second death
43	An IFA, Moira has just completed some new business with a client. When is the latest she should diarise their next review meeting?
A	Before the next budget
B	After 6 months
C	After 1 year
D	After 2 years
44	Edgar Potter suffers from chronic bronchitis and has applied for life assurance. The insurer has decided to accept Edgar with special terms attached to the policy. How would the underwriter view this?
A	A reducing extra risk
B	An increasing extra risk
C	A level extra risk
D	No extra risk
45	Which of the plans that protect income is likely to offer the longest deferred period?
A	IPI
B	MPPI
C	ASU
D	FIB
46	Mr Smith (a widower) died on 1 June 2017 without any children but with a brother. He has no will. What happens to his estate?
A	£125,000 goes to the brother, excess to the state
B	£200,000 goes to the brother, excess to the state
C	Everything goes to the brother
D	Everything goes to the state
47	What is a viatical settlement?
A	The transfer of a life policy on divorce
B	The sale of an endowment policy on the second hand market
C	The sale of a life policy by someone terminally ill
D	The gift of a life policy to a charity

48	Colin Matthews pays the premium of a life assurance policy on his life written under bare trust for his son. What is the IHT situation regarding the premiums?
A	They will always constitute a gift each time they are paid and therefore included in the estate on death within 7 years
B	They are exempt as they are a gift within the family
C	They create an immediate chargeable lifetime transfer
D	They may be exempt under the normal expenditure rule
49	What are the basic details of the Basic State Pension for a single man born before 6th April 1951?
A	Around £6,359 per annum payable from age 66
B	Around £6,359 per annum payable from age 65
C	Around £8,286 per annum payable from age 66
D	Around £8,286 per annum payable from age 65
50	Which of these is a disadvantage of writing a policy under trust?
A	The policy becomes non-qualifying.
B	The policy is no longer the property of the settlor.
C	Surrender values are low.
D	The settlor will have an immediate income tax liability if a higher rate taxpayer.