R05 - Protection

Practice paper A

These questions relate to tax year 2017/2018

Attempt to answer all questions:

1. This product provides "an income or a lump sum if the injured suffers an accident or is unable to work due to sickness, unemployment or redundancy"?
A. Mortgage Protection Insurance.
B. Personal Accident and Sickness Insurance.
C. Accident, Sickness and Unemployment Insurance.
D. All Risk Income Protection.
2. Which statement is Untrue?
A. The majority of people who suffer a critical illness (Heart Attack / Stroke) die within 12 months.
B. Stats show that 1 in 5 men under retirement age will be off work for 6 months or more, through accident or sickness.
C. The cost of help to replace a partner that stays at home to look after children can be protected.
D. The family of a sole trader can take out cover to protect themselves should he/she die leaving business debts.
3. Chantelle and Vicki have successfully been running U Beauty for 5 years. Why would they need to protect against their premature death?
A. Because the remaining partner will need cash available to buy out the other share from the deceased partners family.
B. Because each partner takes over the others debt on death.
C. A Joint partnership tax bill will become payable on death.
D. Because the remaining partner will become solely liable for all the business loans.
4. James Jackson is an IFA. He has just sold a life assurance policy to Will Brown who is a new customer. Which documents must now be sent to Will?
A. A copy of the Fact Find and a Suitability Report.
B. A Suitability Report, Key Features Document and a Cancellation Notice.
C. A Cancellation Notice and a Key Features Document.
D. A copy of the Fact Find and a Statement of Charges.

5. The FCA COB requires advisers to "Know your Customer". What does this mean?
A. The financial adviser must refer anyone known to them personally to another adviser.
B. The financial adviser recommends only the products which they know are most suitable for their client's needs.
C. The financial adviser gathers sufficient relevant information before making a recommendation.
D. Financial advisers must meet with their clients on a regular basis to ensure they remain aware of their client's needs.
6. Mrs McGregor is a high rate tax payer. She is divorced and lives alone, her children having flown the nest. Why should she consider an Income Protection Policy rather than relying on State Benefit.
A. The state benefit to which she may be eligible will only be paid for a maximum of 28 weeks.
B. The state benefit to which she may be eligible will be a lot lower than her income.
C. She will not be eligible for any state benefits until she reaches retirement.
D. She has no need to consider an Income Protection Policy at the moment.
7. Statutory Sick Pay Is?
A. Taxable and Means Tested.
B. Taxable but Not Means Tested
C. Not Taxable but Mean Tested.
D. Not Taxable and Not Means Tested.
8. Statutory Sick Pay (SSP) is paid to employees for how long?
A. 24 Weeks
B. 26 Weeks.
C. 28 Weeks.
D. 52 Weeks
9. What is the Single State Pension?
A. A Flat Rate Scheme, providing benefits in relation to a person's earnings up to the lower earnings threshold.
B. A Flat Rate Scheme, providing benefits in relation to a person's earnings up to the upper earnings limit.
C. A banded Scheme providing varying benefits in relation to a person's earnings up to the lower earnings threshold.
D. A banded Scheme providing varying benefits in relation to a person's earnings up to the upper earnings limit.

10. Which of the following would not be considered as a life event?
A. Divorce
B. Making a Will.
C. Separation
D. Starting at University
11. Les and Margaret Brown have taken out a life assurance policy. They both have cover and the policy will pay after they both die. What is this arrangement known as?
A. A Two Life, Last Survivor Policy.
B. Life of Another, last Survivor.
C. Joint Life, First Death Policy.
D. Joint Life, Second Death Policy.
12. A Convertible Term Assurance allows the Policyholder the option to convert to?
A. A Critical Illness Policy.
B. An Endowment Policy.
C. Another Convertible Policy.
D. An Increasing Life Assurance Policy.
13. What would be the normal reason for a client to choose an Increasing Term Assurance over a Level Term Assurance policy?
A. In case further children are born in the term of the policy.
B. To offset the effects of inflation.
C. Because it is a cheaper option.
D. In case their health takes a downturn during the policy.
14. Adrian Cole has a With-Profit Whole of Life Plan with his civil partner as the life assured. Which of the following best describes the Reversionary Bonus mentioned in the documentation?
A. A bonus that is declared and added to the policy each year and which increases the value of the policy from the moment it is added.
B. A bonus that is declared and added to the policy only when the sum assured is paid out.
C. A bonus which is declared each year and is added to the policy for investment calculations but which is not paid out if the policy is surrendered.
D. A bonus that is only payable in full at the same time as the sum assured but which will increase the surrender value by a proportion of the full amount.

15. What am I? I am a policy written as a cluster of smaller ones. My maturity date is set but an early surrender is at least part guaranteed. I pay the guaranteed sum assured plus any bonuses on death and I will not change the premiums for my plan throughout the term.
A. A Flexidowment.
B. A With Profits Endowment.
C. A Unit Linked Endowment.
D. A Low Cost Endowment.
16. Lenny has lent his son a sum of money to help set up his business. His son has said he will repay this over the next 5 years and will add interest at the going rate. Lenny wants to take out a Term Assurance to cover his son’s life for the term of the loan. What if any is Lenny’s Insurable Interest?
A. There is no Insurable Interest in his son’s life.
B. Insurable Interest exists to the extent of the loan but not for any interest payments.
C. Insurable Interest exists to the extent of the loan and for any reasonable interest payments.
D. There is unlimited Insurable Interest in his son’s life.
17. Utmost Good Faith means what to the proposer?
A. To always take steps to reduce the possible loss as far as possible.
B. To disclose all material facts to the insurer.
C. To pay regular premiums to the insurer.
D. To take steps to prevent and insured loss.
18. If Mel has chronic bronchitis, the insurer may attach a special term if she applies for life cover. Which special term is most likely to be added?
A. Exclusions.
B. Debt Loading.
C. Rating Up.
D. Monetary extra.
19. Hannah and Dylan had a joint life, 1st death, assurance policy. Hannah died and Dylan received 50% of the plan proceeds with the remainder going to Hannah’s estate. Why?
A. The Plan was set up as a Joint Tenancy.
B. The Plan was set up as a Tenancy in Common.
C. The Plan was set up as an Assignable Tenancy.
D. The Plan was set up as an Equally Assigned Tenancy.

20. 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. The insurer will normally expect a search to take place but will usually pay out if they have records of the plan.
C. 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.
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.
21. Who is responsible for declaring a chargeable gain for tax purposes and why?
A. The Life Office as they pay the proceeds net of tax.
B. HMRC – They audit life offices annually in respect of proceeds paid out.
C. The policyholder – he / she must declare it on their annual tax return to HMRC.
D. The Life Office as they pay the proceeds gross and send a certificate to show the amount of the gain to HMRC.
22. How is the "Top Slice" on a gain calculated for a full surrender?
A. The gain multiplied by the number of complete years left until the end of the plan.
B. The gain multiplied by the number of complete years from the start of the plan.
C. Divide the gain by the number of complete years left until the end of the plan.
D. Divide the gain by the number of complete years from the start of the plan.
23. Which of the following is a Chargeable Event?
A. An assignment of an Endowment Policy into trust.
B. Surrender of a Whole of Life Plan, with a 20 year premium term, after 16 years.
C. The payment of death benefits from a 12 years Endowment Policy that was made paid up after 9 years.
D. The maturity of a 15 year Endowment which was made paid up in the 9th Year.

24. Which of the following would form part of the calculation for someone's IHT liability?
A. A £50,000 gift to a friend made 2 years before death.
B. A transfer to a spouse 3 years before death.
C. A donation to a registered charity made 6 months before death.
D. The proceeds from a Life Assurance Policy written under trust for a named beneficiary.
25. Mrs Evans has died leaving an estate with a value of £635,000. Half of this has been left to her husband and the remainder to her children. If the IHT threshold is £325,000, How much IHT, if any, will need to be paid?
A. £63,500
B. Nil
C. £127,000
D. £124,000
26. A trust has a list of 'potential beneficiaries', including Spouse, children and grandchildren and a default beneficiary to whom the benefits will be paid if the settlor/trustees make no appointment of beneficiaries. What type of trust is this?
A. An Absolute Trust.
B. A MWPA Trust.
C. A Life Interest Trust.
D. A Discretionary Trust
27. Bill Burgess wants to arrange for a sizable sum of money to be placed in trust for his children. Once he has done this, who is the legal owner of the money?
A. Bill as he set up the trust and is the Settlor.
B. The Trustees.
C. The Children.
D. Bill and his children equally.
28. What is the main tax advantage of writing a life assurance policy in trust?
A. There will be no Income Tax to pay on the premiums.
B. There will be no Capital Gains Tax to pay if the policy pays out.
C. The proceeds would only be taxed at 10% if it paid out.
D. The proceeds would not be included in the deceased's estate for any Inheritance Tax Liabilities.

29. Chris Matthews pays the premiums on a life policy for which he is the life assured. It is in a discretionary trust with his wife as the default beneficiary in the event of his death. Which of the following statements is true in the event of his death?
A. His wife will be liable to IHT to the extent of the premiums paid by her husband.
B. The Trustees will have to pay IHT on the value of the premiums.
C. There will be no IHT if the premiums were paid from regular income.
D. The premium can be regarded as a gift to his wife and therefore there will be no IHT liability.
30. Jill and John made matching wills 5 years ago before they divorced earlier this year. Some small items had been gifted individually to their children but on death the bulk of the estate was to simply pass to each other. What is the situation now they have divorced?
A. The Wills stand in their original format until they decide to make new ones.
B. The will no longer have any value as they have divorced.
C. The wills remain in force but the benefits relating to each other will not be honoured.
D. The Will only holds firm for the first 90 days following the issue of the decree absolute.
31. Which of the following is a major benefit to Group Income Protection Insurance (IPI) over an individual arrangement?
A. Tax Free Benefits.
B. Higher Maximum benefits payable.
C. A level of free cover.
D. Wider scope of cover.
32. What is the tax position in relation to an Individual Income Protection Insurance (IPI) arrangement?
A. Premiums attract tax relief at source and benefits are taxed as earned income.
B. Policy benefits are free of tax on qualifying policies but taxable on non qualifying policies.
C. There is no tax relief available on premiums and the proceeds are payable at the higher rate of income tax.
D. There is no tax relief on premiums and the proceeds are paid tax free.

33. Which of the following best describes Critical Illness Cover?
A. A policy which pays out a regular income to an insured person who is not able to work due to a critical illness.
B. A policy that pays out a lump sum benefit to the children should the policy holder die of a critical illness.
C. A policy which pays a lump sum benefit to the policyholder on diagnosis of a specified critical illness.
D. A policy that pays the insured the costs of medical treatment and care incurred through suffering a critical illness.
34. Alongside which of these products is Terminal Illness cover often included?
A. Term Assurance.
B. Critical Illness.
C. Income Protection.
D. Long term Care.
35. Which type of Long Term Care Plan am I? I have a maximum annual benefit but the benefit time is unlimited. My benefits are tax free and can include an escalation option. Units are encashed in a unit linked fund and on death the value of any remaining units is paid out.
A. An Investment based Pre Funded Plan.
B. An Immediate Care Plan.
C. A Unit Linked Double Care Plan.
D. A Pre Funded Pure Insurance Plan.
36. Which of the following is a common feature of a Mortgage Payment Protection Insurance (MPPI) policy?
A. A maximum limit on benefits.
B. Cover excludes mortgage related costs such as insurance.
C. Cover limited to the mortgage interest only.
D. Benefits to be paid for a maximum of 40 weeks.
37. What is the tax treatment on Mortgage Payment Protection Insurance (MPPI) Policies?
A. Tax relief is available on premiums but the benefits are paid at the highest marginal rate.
B. Tax relief is available on premiums and the benefits are paid free of any income tax.
C. Tax relief is not available on premiums and the benefits are paid at the highest marginal rate.
D. Tax relief is not available on premiums and the benefits are paid free of any income tax.

38. Which of the following is a feature of a Personal Accident and Sickness Plan?
A. Tax relief on contributions.
B. Tax free weekly and lump sum benefits.
C. Weekly benefits in the event of permanent disability.
D. Permanent cover which cannot be cancelled by the insurer.
39. Which of these statements is true for Fred Malloney who is a self employed plumber who has an active social life mainly involving rock climbing in the UK and abroad and is considering taking out a Personal Accident and Sickness Plan (PAS) policy?
A. The Policy would not cover medical expenses in the event of an accident.
B. The policy would not cover absence from work due to sickness because he is self employed.
C. The policy would not cover accidents abroad.
D. The policy would not cover any accidents related to his rock climbing.
40. Which product has the longest deferred period?
A. Income Protection Insurance
B. Personal Accident and Sickness
C. Accident, Sickness and Unemployment
D. Mortgage Payment Protection Insurance
41. Which, If any of the following are subject to Insurance Premium Tax?
A. Short term Insurances.
B. Long term Insurances only.
C. Both Long and Short Term Insurances.
D. Neither Long or Short Term Insurances.
42. Partnership Protection would be arranged?
A. To enable the surviving partner to purchase a deceased partners share of the partnership from his family.
B. To protect the partnership from the consequences of financial default by a major customer / supplier.
C. To protect the partnership from liabilities that may occur due to professional negligence of either or both of the partners.
D. To protect the surviving partner from any IHT liability on death of the other partner.

43. A Partnership agreement with a single option does what?
A. That one partner can force the others to buy their share but protects their right not to sell.
B. That any one partner can sell their shares to any other partner at will.
C. That no one partner can leave the partnership without the agreement of at least one other person.
D. That any single partner can buy the whole of a deceased partners share with the agreement of the other partners.
44. HY Ltd has 4 directors. They are considering floatation on the stock market. What effect if any would this have on their Directors Share Protection Scheme?
A. None – It continues as before.
B. The premiums would cease to be allowable as a business expense.
C. It would have to stop.
D. It could continue but the shares would no longer qualify for Business Property Relief for IHT purposes.
45. If a Term Assurance policy is used for Key Person Insurance (i.e. the Company took out the policy on the life of a non-shareholding key employee), how will it normally be taxed?
A. Both the premiums and the proceeds are taxable.
B. The premiums are taxable but the proceeds are tax free.
C. Tax Relief may be allowed on the premiums and the proceeds will be tax free.
D. Tax Relief may be allowed on the premiums and the proceeds will be taxable.
46. Melanie is 58 years old. She has her own businesses and affords a very comfortable lifestyle. She has never married and has no dependants. Which of these policies could be most attractive to her?
A. CIC
B. IPI
C. LTC
D. IHT
47. Peter Brown is 36 years old and works as a typesetter. He is married to Amy who stays at home to care for their twins Harry and Jessica. Which of the following protection needs is likely to be most important to him?
A. CIC
B. IPI
C. LTC
D. IHT

48. When analysing and recommending solutions to your clients needs, why must you consider the interrelationship between products?
A. Because having one policy effectively precludes offering another.
B. Because the cover under one policy may already be available within another policy.
C. Because having one product with a provider may result in a more favourable deal for a subsequent plan.
D. Because a customer cannot have duplicate cover.
49. You are an IFA comparing two life offices. Both have the same S & P Financial Rating. You have been advised to also consider the company's free asset ratio (FAR). What is the FAR?
A. The company's gross profits expressed as a % of total assets divided by its total liabilities.
B. The company's surplus assets divided by its liabilities expressed as a % of total assets.
C. The company's net profit divided by its liabilities expressed as a % of total assets.
D The company's surplus assets divided by its liabilities expressed as a % of gross profit.
50. If a life office offers the same rates for smokers and non smokers they are known as?
A. Standard Rates
B. Average Rates.
C. Augmented Rates.
D. Aggregate Rates.