

Accident and Sickness Insurance

Examples of exam questions

Competency: Recommend individual and group accident and sickness insurance products adapted to the client's needs and situation

Accident and Sickness Insurance

Question 1

Denis is self-employed. Last year, his business generated total revenues of \$250,000 and operating expenses of \$120,000. Denis also received \$5,000 in dividends paid by a multinational in which he has shares. He contacts you to purchase the maximum individual disability insurance coverage.

In this situation, what income amount do you use to calculate the maximum benefits Denis will be entitled to?

- a) \$255,000.
- b) \$135,000.
- c) \$130,000.
- d) \$125,000.

Correct answer: b)

Calculations:

- a) $\$250,000 + \$5,000$
- b) $\$255,000 - \$120,000$
- c) $\$250,000 - \$120,000$
- d) $\$250,000 - \$125,000$

Explanations

Answer a: **False.** This amount consists of Denis's gross revenues and does not take into account his business's operating costs.

Answer b: **Correct answer.** Denis could obtain \$135,000 in individual disability insurance coverage, i.e. \$250,000 minus \$120,000, plus \$5,000 representing his investment income.

Answer c: **False.** This amount does not factor in the investment income, which must be taken into account when analyzing Denis's needs for disability income replacement insurance.

Answer d: **False.** This amount does not represent the maximum benefit to which Denis is entitled because it does not include the investment income paid.

References

Relevant section of exam preparation manual: *Accident and sickness insurance*, 2nd Edition, 2015, section 6.2.2

Evaluated competency sub-component in Curriculum: 1.1. Determine the client's situation

Accident and Sickness Insurance

Question 2

Marc-André, 37 years old, participates in his employer's group insurance plan. The plan provides a long-term disability insurance payable after employment insurance benefits expire and corresponding to 50% of his monthly salary. The disability benefits are non-taxable.

With an annual salary of \$60,000 and sole financial support of his 3 children, Marc-André's estimated current financial expenses are \$3,500/month. If he were to become ill, his personal savings would enable him to meet his financial requirements for 4 months.

What additional disability insurance coverage should Marc-André take out?

- a) Marc-André does not need additional disability coverage.
- b) Marc-André should purchase disability insurance of \$500 per month with a 4-month waiting period.
- c) Marc-André should purchase disability insurance of \$1,000 per month with a 4-month waiting period.
- d) Marc-André should purchase disability insurance of \$1,500 per month with a 4-month waiting period.

Correct answer: c)

Explanations

Calculations: After using his four months of Employment Insurance and his personal savings, Marc-André will receive his employer's plan disability benefit that is equal to $\$5,000 \times .50 = \$2,500/\text{month}$; therefore, Marc-André will need $\$3,500 - \$2,500 = \$1,000/\text{month}$.

Distractor a) $\$3,500 - 70\% (\$5,000) = \$3,500 - \$3,500 = \$0$

Distractor b) $\$3,500 - 60\% (\$5,000) = \$3,500 - \$3,000 = \$500$

Distractor d) $\$3,500 - 40\% (\$5,000) = \$3,500 - \$2,000 = \$1,500$

Answer a: **False.** Four months after the beginning of his disability, Marc-André would only get \$2,500/month, or 50% of his monthly salary of \$5,000. With monthly financial needs of \$3,500, Marc-André would be short by \$1,000/month.

Answer b: **False.** Since Marc-André would only get \$2,500/month four months after the start of his disability and his financial needs are \$3,500/month, individual disability insurance of \$500/month would increase his income to \$3,000/month and he would be short by \$500/month.

Answer c: **Correct answer.** With personal coverage of \$1,000/month and group coverage of \$2,500/month, or 50% of his monthly salary of \$5,000/month, Marc-André would perfectly meet his financial needs of \$3,500/month.

Answer d: **False.** With personal coverage of \$1,500/month and group coverage of \$2,500/month, Marc-André would receive more than his monthly financial needs.

References

Relevant section of exam preparation manual: *Accident and sickness insurance*, 2nd Edition, 2015, section 6.2.2.6

Evaluated competency sub-component in Curriculum: 1.2 Assess the appropriateness of the client's existing coverage in regard to his or her situation

Accident and Sickness Insurance

Question 3

Jérémy founded a computer graphics business three years ago. The business quickly achieved success thanks to Jérémy's numerous contacts at the local Chamber of Commerce. He had to hire three paid employees at \$2,000 a month each and move his business to a prestigious office building where rent and maintenance cost \$8,000 a month. Jérémy is acutely aware that the company's revenue is directly related to his skills and contacts; thus, if he were to suffer a disability following an illness or accident, the business would no longer be able to pay the employees' salary or rent.

What should Jérémy do?

- a) Purchase critical illness insurance.
- b) Purchase long-term care insurance.
- c) Purchase business overhead expense (BOE) insurance.
- d) Purchase individual disability insurance.

Correct answer: c)

Explanations

Answer a: **False.** Critical illness insurance would not cover the business's day-to-day operating expenses such as salaries and rent.

Answer b: **False.** Long-term care insurance would not cover the business's day-to-day operating expenses.

Answer c: **Correct answer.** Jérémy should purchase accident and illness insurance for businesses, and business overhead expense insurance would allow him to keep the business afloat for several months, until the owner or employee recovers.

Answer d: **False.** Individual disability insurance would not cover the business's day-to-day operating expenses such as salaries and rent.

References

Relevant section of exam preparation manual: *Accident and sickness insurance*, 2nd Edition, 2015, section 1.2.4

Evaluated competency sub-component in Curriculum: 1.3 Articulate the client's needs based on the risks that could affect his or her financial situation

Accident and Sickness Insurance

Question 4

Darius works for himself as an independent contractor, cutting lawns and maintaining gardens. To protect his income against losses due to illness or injury, Darius took out an individual disability income replacement policy. The policy has a \$2,500 monthly benefit, a 90-day waiting period, a 24-month benefit period and a recurring disability clause with a 6-month recurrence period. A year after taking out the policy, Darius was injured when his riding tractor overturned. He was off work for eight months with ruptured tendons in his left leg and then returned to work. Four months later he re-injured the same leg due to returning to work too soon and was off work for another eight months.

How much income replacement benefit would Darius have received for his disabilities?

- a) \$12,500.
- b) \$25,000.
- c) \$32,500.
- d) \$40,000.

Correct answer: c)

Explanations

Calculations:

Darius would receive no benefits for the first three months of his first 8-month period of disability, because the first three months were excluded from benefits by the 90-day waiting period, leaving him with five months of benefits. Since the second period of disability arose from the original cause and within six months of his returning to work, no second waiting period would have applied and Darius would have received benefits for the full eight additional months of disability. In total he would have been paid for 13 months of disability ($[8 - 3 = 5] + 8 = 13$) at a rate of \$2,500 a month, for total benefits of $(13 \times \$2,500) = \$32,500$.

Answer a: **False**. Allows for five months of benefits for the first 8-month period of disability and nothing for the recurrent disability.

Answer b: **False**. Assumes that the second period of disability would also be subject to a 90-day waiting period and there would therefore be only 10 months of benefits.

Answer c: **Correct answer**.

Answer d: **False**. Does not allow for any waiting period and assumes the full 16 months' worth of benefits.

References

Relevant section of exam preparation manual: *Accident and sickness insurance*, 2nd Edition, 2015, sections 2.2.2.2 and 2.2.2.7

Evaluated competency sub-component in Curriculum: 2.1 Analyze the types of contracts that meet the client's needs

Accident and Sickness Insurance

Question 5

René is a machinist and runs his own business, which employs two specialized employees. Following an illness last year, René was off work for eight months during which time he received disability benefits from his insurer.

Although René recently returned to work, he is still unable to perform some of his duties. As such, he receives reduced benefits from his insurer as well as a reduced salary.

Which rider had René added to his accident and sickness insurance policy?

- a) Residual disability benefits.
- b) Partial disability benefits.
- c) Return of premium (ROP).
- d) Future purchase option (FPO).

Correct answer: a)

Explanations

Answer a: **Correct answer.** René had added a residual disability rider, which allows him to receive reduced benefits from his insurer and a reduced salary. The residual disability benefits are paid to René following his total disability and return to work part-time.

Answer b: **False.** René received total disability benefits for eight months, and it was only after he returned to work that the benefits were reduced to reflect his lingering disability. The payment of partial disability benefits is not contingent on a total disability period.

Answer c: **False.** The return of premium rider does not provide for reduced benefits to reflect the inability to perform certain duties.

Answer d: **False.** The future purchase option guaranteeing the insured the right to purchase additional coverage in the future does not provide for reduced benefits to reflect the inability to perform certain duties.

References

Relevant section of exam preparation manual: *Accident and sickness insurance*, 2nd Edition, 2015, section 2.2.4.6

Evaluated competency sub-component in Curriculum: 2.2. Analyze the riders that meet the client's needs

Accident and Sickness Insurance

Question 6

Claude is an optometrist and has purchased individual disability insurance, providing \$3,000 a month coverage, with a 90-day waiting period, benefits payable up to age 65, a cost of living adjustment rider and a guaranteed insurability option. A car racing enthusiast, Claude takes part once or twice a year in car races on a professional circuit. The insurer issued the policy as a standard financial and medical risk, as was applied for, but modified the policy because of Claude's car racing activities.

What change did the insurer make in the policy?

- a) A benefit limitation.
- b) An exclusion.
- c) A premium rating.
- d) A deductible.

Correct answer: b)

Explanations

Answer a: **False.** The benefit limitation does not apply here. The insurer did not impose any restriction on the amount or duration of the benefits.

Answer b: **Correct answer.** The insurer modified the policy because Claude takes part in car races on a professional circuit. This is an excluded risk.

Answer c: **False.** Since the policy was issued as a standard financial and medical risk, no premium rating was imposed.

Answer d: **False.** Since the policy was issued as a standard financial and medical risk, there is no deductible.

References

Relevant section of exam preparation manual: *Accident and sickness insurance*, 2nd Edition, 2015, section 7.1.3.1

Evaluated competency sub-component in Curriculum: 3.1. Consider the impact of underwriting criteria as they apply to the client's situation

Accident and Sickness Insurance

Question 7

Donald and Hilary are equal co-shareholders in a private corporation that runs their dental practice. They have a buy/sell agreement that, among other provisions, establishes the terms for a buyout should one of them become ill or injured and unable to work in the practice for a prolonged period (six months or longer), providing for an immediate buyout at the fair market value of the disabled shareholder's interest. They wish to fund this element of the agreement with corporate-owned disability insurance.

Which of the following provisions of disability insurance policies would match up with the terms of the buy/sell agreement?

- a) A 180-day waiting period on each of the lives insured.
- b) Annual benefit payments of 1/10th of the purchase price for 10 years.
- c) An *any occupation* definition of disability on each of the lives insured.
- d) A payor waiver of premium rider on each of the disability policies.

Correct answer: a)

Explanations

Answer a: **Correct answer.** The 180-day waiting period matches up with the 6-month triggering period of disability in the agreement. A longer waiting period would leave the agreement temporarily unfunded at the end of six months, when the buyout would be triggered. A shorter waiting period would trigger a payout unnecessarily early and be too costly.

Answer b: **False.** The agreement calls for a lump-sum buyout after six months of disability, not periodic payments.

Answer c: **False.** The buyout is triggered if one of the co-shareholders is disabled and unable to work in the dental practice. An *own occupation* definition of disability is called for. An *any occupation* definition could result in a situation where the disabled co-shareholder is able to work in some other capacity, but not in the practice, triggering the buy/sell agreement but not benefits under the funding policy.

Answer d: **False.** The policy is owned and paid for by the corporation itself, not the individual shareholders.

References

Relevant section of exam preparation manual: *Accident and sickness insurance*, 2nd Edition, 2015, section 5.4.2

Evaluated competency sub-component in Curriculum: 3.2. Propose a recommendation adapted to the client's needs and situation

Accident and Sickness Insurance

Question 8

Artemus took an application for disability insurance from Daedelas on July 12, 2015, along with a cheque for \$145.00 – one month's premium under the policy. The policy was approved and issued in early August and sent to Artemus for delivery. The policy was not delivered to Daedelas until the following November, due to the fact that both the agent and the applicant were on holiday at various times over the summer and early fall and then the delivery appointment simply slipped Artemus's mind until early November. Daedelas had continued to pay the monthly premium throughout all this time via automatic bank debit. When Daedelas finally received the policy, he decided that he no longer wanted it and immediately asked that it be returned to the insurance company for cancellation.

What are the implications of the situation for both the applicant and the insurance company?

- a) Daedelas had no coverage until such time as the policy was delivered but was entitled to a full refund of premiums once it was cancelled.
- b) Daedelas was covered from early August until the policy was cancelled in November but was entitled to receive all of his paid premiums back when the policy was cancelled.
- c) The insurance company cancelled the policy as instructed and kept all of Daedelas's premiums. They would have had to pay benefits had a claim been filed in the interim.
- d) Daedelas was covered from early August until the policy was cancelled in November and so was not entitled to receive all of his paid premiums back.

Correct answer: a)

Explanations

Answer a: **Correct answer.** The policy must be delivered to Daedelas in order to be legally effective. Daedelas was therefore not covered before the policy was delivered. Moreover, Daedelas is entitled to receive all of his paid premiums back if he returns the policy to the insurance company for cancellation within 10 days of receipt.

Answer b: **False.** Daedelas was not entitled to coverage from early August to the time the policy was cancelled because the policy had not been delivered to him in August. However, Daedelas is entitled to receive all of his paid premiums back.

Answer c: **False.** Since Daedelas returned the policy as soon as he received it, he is entitled to receive all of his paid premiums back. The insurer cannot keep the premiums by claiming that it would have paid benefits had a claim been made during that time.

Answer d: **False.** Daedelas was not entitled to coverage as of early August since the policy was only delivered in November. However, Daedelas is entitled to receive all of his paid premiums back since legally, the policy was never in effect.

References

Relevant section of exam preparation manual: *Accident and sickness insurance*, 2nd Edition, 2015, section 7.4.1

Evaluated competency sub-component in Curriculum: 3.3. Confirm the requirements that must be met to implement the recommendation

Accident and Sickness Insurance

Question 9

Félix is general manager of a legal firm, which offers a group insurance plan to its employees. In addition to life insurance, the group plan offers short- and long-term disability benefits as well as health and dental benefits.

You meet with Félix to renew the group insurance plan. During this meeting, Félix notes that results regarding the plan's claims experience show a high number of claims for short-term disability insurance coverage. Félix recognizes that the stress to perform within very tight deadlines explains a large part of the employee claims history. Félix asks if you can propose a modification to the plan to improve results.

What would you propose to him?

- a) Reduce the short-term disability insurance waiting period.
- b) Add an Employee Assistance Plan.
- c) Add an insurance guarantee against critical illness.
- d) Reduce the long-term disability insurance benefit amount.

Correct answer: b)

Explanations

Answer a: **False.** By decreasing the short-term disability insurance waiting period, the insurer would pay disability benefits more quickly for a higher total amount, which would further reduce results.

Answer b: **Correct answer.** Adding an Employee Assistance Plan, including psychological counselling, would allow employees to develop coping strategies to deal with stress at work and thereby decrease short-term disability claims.

Answer c: **False.** Adding critical illness insurance coverage is not a solution for employees required to work in a stressful environment.

Answer d: **False.** Decreasing the long-term disability insurance benefit amount does not affect the plan's claims for short-term disability insurance coverage.

References

Relevant section of exam preparation manual: *Accident and sickness insurance*, 2nd Edition, 2015, section 8.2.1

Evaluated competency sub-component in Curriculum: 4.1 Validate the appropriateness of contract amendment, renewal and termination applications in regards to the client's situation

Accident and Sickness Insurance

Question 10

Sébastien is a group insurance representative. He proposes a group plan to the car dealership president who sold him his latest vehicle. The president shows interest, but fears potential conflicts between him and his 10 employees in the event they were to file claims.

What do you tell the president to reassure him about the claims issue?

- a) The insurer will help the president resolve conflicts.
- b) The insurer handles the entire claims administration process.
- c) Sébastien handles the entire claims administration process.
- d) Sébastien is responsible for managing conflicts between the president and his employees.

Correct answer: b)

Explanations

Answer a: **False.** The insurer's role is not to resolve conflicts but to administer claims.

Answer b: **Correct answer.** It is the responsibility of the group insurer to administer claims from first notification to final payment (if any). The insurer therefore handles the entire claims administration process.

Answer c: **False.** The insurer, not Sébastien, is responsible for handling the claims administration process from start to finish.

Answer d: **False.** Sébastien is not responsible for managing conflicts between the president and his employees.

References

Relevant section of exam preparation manual: *Accident and sickness insurance*, 2nd Edition, 2015, section 8.5

Evaluated competency sub-component in Curriculum: 4.2. Inform the claimant of the claims process