

# PASSTCERT

QUESTION & ANSWER

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**Exam** : **LLQP**

**Title** : Life License Qualification  
Program (LLQP)

**Version** : DEMO

1. Harold is a 66-year-old retired school bus mechanic. He receives \$900 a month from his defined benefit pension plan (DBPP). His husband Karl is also retired and receives his own pension benefit. Harold would like to know the minimum monthly pension benefit from his DBPP that Karl will receive upon Harold's death.

- A. \$0
- B. \$450 to \$495 depending on the province they reside.
- C. \$540 to \$594 depending on the province they reside.
- D. \$900

**Answer: A**

**Explanation:**

Defined Benefit Pension Plans (DBPPs) provide a guaranteed income stream to the plan member after retirement, based on a formula considering factors like years of service and salary history. Generally, unless explicitly set up with survivor benefits, DBPPs do not automatically transfer income to a surviving spouse upon the member's death. In Harold's case, if no survivor benefit option was selected during retirement setup, Karl would not receive any income from Harold's DBPP. Therefore, the correct answer is A. \$0 as no automatic provision ensures Karl receives benefits unless Harold had chosen and paid for survivor benefits.

2. Jasper is the sole breadwinner in his family. His wife Stephanie has chosen to dedicate all of her time to raising their 3 young children. Luckily, Jasper earns a monthly after-tax income of \$25,000 working as a family doctor in the local clinic. Jasper meets with his insurance agent Odda to purchase a life insurance policy that will ensure his family will be able to continue to enjoy their current lifestyle in the event of his death.

If his average tax rate is 40% and the investment return is 4%, how much life insurance should Jasper purchase based on the income replacement approach?

- A. \$625,000
- B. \$1,041,666
- C. \$7,500,000
- D. \$12,500,000

**Answer: D**

**Explanation:**

The income replacement approach calculates the amount of life insurance needed to replace Jasper's after-tax income for his dependents over a given period, accounting for an investment return. To maintain the family's current lifestyle, we need to determine the capital required to generate a monthly after-tax income of \$25,000.

Calculate the Annual Income Needed:

Monthly income required: \$25,000

Annual income required:  $\$25,000 \times 12 = \$300,000$

Adjust for Tax:

Since Jasper's income needs to be replaced at a pre-tax level with a tax rate of 40%, his gross income requirement is calculated as follows:

$$\text{Gross annual income} = \frac{300,000}{1 - 0.4} = 500,000$$

### 3. Calculate Capital Required for Income Replacement:

Using the formula for the capital needed to replace income:

$$\text{Capital required} = \frac{\text{Gross annual income}}{\text{investment return rate}} = \frac{500,000}{0.04} = 12,500,000$$

Thus, Jasper needs a life insurance policy worth \$12,500,000 to replace his income, allowing his family to maintain their lifestyle with a 4% investment return. This calculation aligns with LLQP principles, ensuring that the income replacement fully addresses both current lifestyle needs and tax implications.

3. Jasper owns TeleVida, a successful production company with over 50 employees. He wants to expand the company by opening an office in another province. Jasper needs to take out a \$500,000 20-year loan to make this expansion happen.

However, he wants to make sure that if he dies while there's an outstanding balance on the loan, the balance will be paid in full by the insurance company.

- A. 20-year decreasing term life insurance.
- B. 20-year term life insurance.
- C. Term-100 life insurance policy.
- D. Universal life insurance policy.

**Answer: A**

#### **Explanation:**

In this case, Jasper is concerned with covering a specific loan balance that will decrease over time as the loan is repaid. A 20-year decreasing term life insurance policy is typically used for situations where the coverage amount decreases over the policy term, aligning with the declining balance of a loan. This is often the most cost-effective option, as the coverage amount decreases in line with the outstanding loan balance, ensuring that the insurance will pay off any remaining loan balance if Jasper dies within the 20-year term.

Other options, such as a standard term policy with a level benefit (Option B), a Term-100 (Option C), or a Universal Life policy (Option D), provide level or flexible coverage not specifically suited to decreasing liabilities like a loan. Therefore, Option A is the best choice to meet Jasper's needs cost-effectively.

4. Alana, Meaghan, and Beatrice are equal shareholders of Advanced Tech Inc. They each own 100 shares of the company. Each share is currently worth \$5,000. They recently signed a cross-purchase buy-sell agreement that is funded by life insurance.

What will happen under this agreement if Alana dies today?

- A. Meaghan and Beatrice would each still own 100 shares of the company.
- B. There would now be 200 outstanding shares of the company.
- C. Each share would now be worth \$7,500.
- D. Alana's estate would receive a total of \$500,000.

**Answer: D**

#### **Explanation:**

In a cross-purchase buy-sell agreement funded by life insurance, each shareholder purchases a life

insurance policy on the lives of the other shareholders. Upon the death of a shareholder, the surviving shareholders use the proceeds from the insurance to buy out the deceased shareholder's shares at the agreed value. Since each share is valued at \$5,000, Alana's 100 shares would be worth:  $100 \text{ shares} \times 5,000 = 500,000$ . Thus, Meaghan and Beatrice would collectively purchase Alana's shares from her estate, providing her estate with a total of \$500,000. Each surviving shareholder will then own an additional 50 shares, resulting in each now holding 150 shares of Advanced Tech Inc. This option aligns with the principles of cross-purchase agreements discussed in the LLQP.

5. Goran and Tanja married two years ago. Last year, they purchased and moved into a three-bedroom house in the suburbs. The current balance on their mortgage is \$655,000. They meet with Ljubomir, an insurance agent, to purchase a joint term life insurance policy to cover the mortgage. When Ljubomir asks about their existing coverage, Goran shares that he has none. Tanja explains that she owns a universal life (UL) policy with a level death benefit of \$50,000 and a cash surrender value (CSV) of \$5,000, purchased 6 years ago from another agent. Tanja would like to surrender her UL policy and use the \$5,000 CSV to pay for a trip to Europe.

What additional information about Tanja's UL policy does Ljubomir need to collect?

- A. The investment vehicle of the policy's CSV.
- B. The adjusted cost basis (ACB) and surrender charges of the policy's CSV.
- C. The dividends and paid-up additions.
- D. The premiums upon renewal.

**Answer: B**

**Explanation:**

When considering surrendering a universal life (UL) policy, it is essential to understand the tax implications and any costs associated with surrender. The adjusted cost basis (ACB) helps determine the taxable portion of the policy's cash surrender value (CSV) because any amount received above the ACB may be subject to tax. Additionally, surrender charges could reduce the CSV received upon surrender. Therefore, Ljubomir needs to collect both the ACB and any surrender charges applicable to Tanja's policy. These factors will help Tanja make an informed decision regarding the net amount she would receive from surrendering the policy and the potential tax liability.