

CALIFORNIA

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1. What is the purpose of the Uniform Simultaneous Death Act as it pertains to life insurance?
 - A. To ensure that all beneficiaries are treated equally.
 - B. To determine the order of death when the insured and primary beneficiary die in the same accident.
 - C. To distribute the policy proceeds equally among all living relatives.
 - D. To mandate a waiting period before paying a claim.
 2. An Exclusive Provider Organization (EPO) differs from a PPO primarily because an EPO:
 - A. Requires a primary care physician referral for all services
 - B. Provides no coverage for out-of-network services except in emergencies
 - C. Uses a capitation payment model
 - D. Is regulated exclusively by the federal government
 3. The Waiver of Premium rider ensures that if the policyowner becomes totally disabled:
 - A. The policy's face amount is paid out immediately.
 - B. The insurer will waive the premiums for the duration of the disability.
 - C. The cash value can be withdrawn without a penalty.
 - D. A monthly income is paid to the insured.
 4. A life settlement broker represents the:
 - A. Life settlement provider (the company buying the policy)
 - B. Insured (the person selling the policy)
 - C. Insurance company that issued the policy
 - D. State of California
 5. In California, what is the primary distinction between an insurance agent and an insurance broker?
 - A. An agent represents the insured; a broker represents the insurer
 - B. An agent represents the insurer; a broker represents the insured
 - C. There is no distinction under California law
 - D. A broker can only sell group policies
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6. What is the 'parol evidence rule'?
 - A. It prevents oral evidence from being used to contradict the terms of a written contract.
 - B. It requires all contract ambiguities to be interpreted against the insurer.
 - C. It requires that insurance contracts be unilateral.
 - D. It allows for oral agreements to modify a written policy.
 7. If an individual pays the premiums for their own disability income policy, how are the benefits received treated for tax purposes?
 - A. They are fully taxable.
 - B. They are received income tax-free.
 - C. They are partially taxable.
 - D. They are taxed as capital gains.
 8. Who is ultimately responsible for ensuring that a recommended annuity is suitable for the consumer?
 - A. The agent only
 - B. The insurer only
 - C. Both the agent who recommends it and the insurer who issues it
 - D. The consumer only
 9. Knowingly committing an unfair method of competition is punishable by a fine of up to:
 - A. \$1,000.00
 - B. \$5,000.00
 - C. \$10,000.00
 - D. \$25,000.00
 10. Under the ACA, employers with 50 or more full-time equivalent employees are subject to the employer mandate. This means they must:
 - A. Offer affordable and minimum value health coverage to full-time employees or face a penalty.
 - B. Pay 100% of the premium for their employees.
 - C. Offer a specific Platinum-level plan.
 - D. Enroll all employees in a government plan.
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11. What legal principle prevents a party from re-asserting a right they have previously waived?
- A. Waiver
 - B. Estoppel
 - C. Adhesion
 - D. Subrogation
12. Which of the following is NOT a primary factor in underwriting a life insurance policy?
- A. Age
 - B. Gender
 - C. Health history
 - D. Marital status
13. The voluntary relinquishment of a known legal right is called a:
- A. Estoppel
 - B. Waiver
 - C. Consideration
 - D. Concealment
14. When comparing life insurance policies during a replacement, agents should use which standardized cost comparison method?
- A. Total premium comparison
 - B. Surrender cost index and net payment cost index
 - C. Rate of return analysis
 - D. Cash value growth comparison
15. An agent recommending an annuity to a client must have a reasonable basis for believing the recommendation is:
- A. Profitable for the agent
 - B. The highest-yielding product available
 - C. Suitable for the client's financial situation and needs
 - D. Approved by the insurer's CEO
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16. Modified Whole Life and Graded Premium Whole Life are similar in that:
- A. Both have a flexible premium.
 - B. Both have a lower premium in the early years that increases in later years.
 - C. Both offer a flexible death benefit.
 - D. Both are types of term insurance.
17. A policyowner who stops paying premiums on a whole life policy and chooses the Cash Surrender option will receive:
- A. The total premiums paid back.
 - B. The accumulated cash value, less any outstanding loans.
 - C. A paid-up term policy.
 - D. A reduced paid-up whole life policy.
18. Which Medigap plans are no longer available for sale to individuals newly eligible for Medicare on or after January 1, 2020?
- A. Plans A and B
 - B. Plans C and F
 - C. Plans K and L
 - D. Plans M and N
19. A quarter of coverage under Social Security is earned by:
- A. Working for any employer for three consecutive months
 - B. Earning a specified minimum amount of wages or self-employment income in a calendar quarter
 - C. Paying a flat quarterly fee to the Social Security Administration
 - D. Being employed full-time for at least one quarter of the year

20. An annuity that credits interest based on the performance of a stock market index, but guarantees the principal, is a(n):
- A. Fixed Annuity
 - B. Variable Annuity
 - C. Equity-Indexed Annuity
 - D. Immediate Annuity
21. An insurer is marketing a new Medicare Advantage plan. The marketing materials must be approved by whom before they can be used?
- A. The state Department of Insurance (DOI)
 - B. The Centers for Medicare & Medicaid Services (CMS)
 - C. The National Association of Insurance Commissioners (NAIC)
 - D. The local HICAP office
22. An Equity-Indexed Universal Life (EIUL) policy offers cash value growth linked to:
- A. The insurer's general account performance.
 - B. A stock market index, like the S&P 500, with a guaranteed minimum interest rate.
 - C. The performance of subaccounts chosen by the policyowner.
 - D. The prime interest rate.
23. The mandatory 'Time of Payment of Claims' provision requires the insurer to pay claims:
- A. Within 30 days of receiving notice of claim
 - B. Within 60 days of receiving proof of loss
 - C. Immediately upon receiving proper proof of loss
 - D. Within 90 days of the date of loss
24. What is the difference between an 'internal replacement' and an 'external replacement' of a life insurance policy?
- A. Internal involves replacing with the same insurer; external involves a different insurer
 - B. Internal involves individual policies; external involves group policies
 - C. Internal is initiated by the agent; external is initiated by the client
 - D. There is no distinction under California replacement regulations
25. Under the SECURE Act, a non-spouse beneficiary who inherits a qualified annuity (such as one held in an IRA) must generally distribute the entire account within:
- A. 5 years of the owner's death
 - B. 10 years of the owner's death
 - C. The beneficiary's own life expectancy
 - D. 20 years of the owner's death
26. Which of the following benefits is available to a currently insured worker's survivors but NOT exclusively to a fully insured worker's survivors?
- A. Widow or widower benefits at age 60
 - B. A lump-sum death benefit of \$255
 - C. Retirement benefits
 - D. Disabled widow benefits at age 50
27. An Attending Physician Statement (APS) is:
- A. A report from the applicant's personal doctor providing their medical history
 - B. A statement from the insurer's medical director
 - C. A summary of the agent's observations about the applicant
 - D. A government form required for all insurance applications
28. An irrevocable beneficiary has certain rights in the policy. Which of the following is NOT a right of the irrevocable beneficiary?
- A. To veto a change in beneficiary
 - B. To receive the death benefit
 - C. To prevent the policyowner from taking a policy loan
 - D. To change the premium payment mode

29. An agent threatening to not provide a service unless the client purchases insurance from them is an example of:
- A. Boycott
 - B. Coercion
 - C. Intimidation
 - D. All of the above
30. A 'natural person' in the insurance code refers to:
- A. An environmentally-friendly agent
 - B. A human being
 - C. A corporation
 - D. A trust
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31. An agent's authority that is written into their agency contract is known as:
- A. Apparent authority
 - B. Implied authority
 - C. Express authority
 - D. Assumed authority
32. To be considered fully insured under Social Security (OASDI) a worker generally needs how many quarters of coverage?
- A. 20 quarters
 - B. 40 quarters
 - C. 6 quarters
 - D. 30 quarters
33. The cash value of a variable life insurance policy is held in the insurer's:
- A. General account
 - B. Surplus account
 - C. Separate account
 - D. Reserve account
34. Under the ACA, how long can a young adult remain on their parent's health insurance plan?
- A. Until age 18
 - B. Until age 21
 - C. Until age 26
 - D. Until they are married
35. The Insurance Commissioner may issue a Cease and Desist Order to:
- A. Prevent an agent or insurer from engaging in an illegal or unfair practice.
 - B. Cancel a client's policy.
 - C. Force an insurer to lower its rates.
 - D. Appoint a new agent.
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36. In an Independent Practice Association (IPA) model HMO, physicians:
- A. Are salaried employees of the HMO
 - B. Maintain their own private practices and contract with the HMO to see its members
 - C. Practice only in HMO-owned clinics
 - D. Are employed by a single multispecialty medical group
37. Benefits from California's SDI program are:
- A. Taxable by both state and federal governments.
 - B. Taxable by the state, but not the federal government.
 - C. Not subject to California state income tax, but may be federally taxable if they are a substitute for unemployment insurance.
 - D. Completely tax-free.

38. Under California's Fair Claims Settlement Practices regulations, which of the following is required when an insurer denies a claim?
- A. A verbal notification to the insured within 48 hours
 - B. Written notice stating the specific reasons for the denial
 - C. A personal visit from the claims adjuster
 - D. Referral of the matter to the Department of Insurance before denial
39. The act of persuading a policyowner to drop an existing policy and buy a new one that is not in their best interest is known as:
- A. Twisting
 - B. Churning
 - C. Replacement
 - D. Conservation
40. Who has the right to change a revocable beneficiary designation?
- A. The beneficiary
 - B. The insured
 - C. The policyowner
 - D. The insurer
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41. A 1035 exchange allows for the tax-free transfer of funds from:
- A. An annuity to a life insurance policy.
 - B. A life insurance policy to a qualified retirement plan.
 - C. An annuity to another annuity.
 - D. A mutual fund to an annuity.
42. Which of the following is considered an eligible group for group life insurance in California?
- A. A group formed solely to obtain insurance
 - B. An employer-employee group with a minimum number of participants
 - C. A social media group with shared interests
 - D. A neighborhood association with no formal structure
43. Dividends received from a participating life insurance policy are:
- A. Taxable as ordinary income.
 - B. Taxable as capital gains.
 - C. Generally considered a tax-free return of premium.
 - D. Tax-deductible for the policyowner.
44. Which of the following is NOT a type of insurance license issued in California?
- A. Life-Only
 - B. Accident and Health
 - C. Life, Accident and Health (combined)
 - D. Universal License
45. What is the significance of the policy's effective date?
- A. It is the date the agent submitted the application.
 - B. It is the date the policy was mailed by the insurer.
 - C. It is the date from which the policy's coverage begins.
 - D. It is the date the first claim can be filed.
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46. Which of the following is NOT a risk classification used by underwriters?
- A. Standard
 - B. Substandard
 - C. Preferred
 - D. Reciprocal

- 47.** Which of the following events would qualify an individual for a Special Enrollment Period (SEP) under the ACA?
- A. Deciding that their current plan is too expensive
 - B. Losing minimum essential coverage due to job loss
 - C. Wanting to switch to a different metal tier plan
 - D. Reaching the age of 30
- 48.** In California, what is the 'HICAP' program?
- A. A state-run LTC insurance plan.
 - B. A program to prosecute insurance fraud.
 - C. A free, state-sponsored volunteer counseling service for Medicare and long-term care issues.
 - D. A subsidy for low-income seniors to buy LTC insurance.
- 49.** In a group life insurance plan, if the employer pays 100% of the premium, this is known as a:
- A. Contributory plan
 - B. Noncontributory plan
 - C. Voluntary plan
 - D. Executive bonus plan
- 50.** An annuity is designed primarily to provide:
- A. A death benefit
 - B. Protection against outliving one's income
 - C. Coverage for medical expenses
 - D. Short-term savings

Answer Key

1. **B** — This act addresses common disaster situations. It stipulates that if it cannot be determined who died first, the insured is presumed to have survived the primary beneficiary. This allows the death benefit to pass to the contingent beneficiary or the insured's estate, avoiding probate for the primary beneficiary.
2. **B** — An EPO restricts coverage to in-network providers only, with the exception of emergency situations. Unlike a PPO, which provides reduced benefits for out-of-network care, an EPO generally provides no coverage for non-emergency services obtained outside the network.
3. **B** — With the Waiver of Premium rider, if the insured becomes totally and permanently disabled (after a waiting period), the insurance company will waive all future premium payments for as long as the disability continues. The policy remains in force as if premiums were being paid.
4. **B** — A life settlement broker is a licensed professional who, for a fee, negotiates life settlement contracts between a policy owner (the viator or insured) and life settlement providers. They have a fiduciary duty to represent the interests of the policy owner.
5. **B** — In California, an agent is appointed by and represents the insurer (the company). A broker, on the other hand, represents the insured (the client) and is not tied to any particular insurer. Brokers have a fiduciary duty to their clients and can shop multiple carriers for the best coverage.
6. **A** — The parol evidence rule states that when a contract is put in writing, the written document represents the entire agreement. Any prior oral or written statements are inadmissible in court to change or contradict the terms of the policy.
7. **B** — Because the premiums were paid with after-tax dollars, any disability benefits received by the individual are not subject to income tax.
8. **C** — While the agent has the primary responsibility for making the initial suitability determination, the insurer has a corresponding obligation to establish a supervision system to ensure that its agents are complying with suitability requirements. Both parties share responsibility.
9. **C** — If the Commissioner determines after a hearing that an agent has knowingly violated the rules on unfair competition (e.g., boycott, coercion), the penalty can be a fine of up to \$10,000 for each act, in addition to license suspension or revocation.
10. **A** — The ACA's 'employer shared responsibility' provision (employer mandate) requires applicable large employers (ALEs) to either offer qualifying health coverage to their full-time employees and their dependents or potentially pay a penalty if at least one employee receives a premium tax credit on the marketplace.
11. **B** — Estoppel is the legal principle that prevents someone from arguing something or asserting a right that contradicts what they previously said or did. For example, if an insurer consistently accepts late premiums, they may be estopped from canceling the policy for a late payment.
12. **D** — Key underwriting factors for life insurance include age, gender, health history, occupation, hobbies, and habits (like smoking). Marital status is generally not a primary factor in determining risk or premium.
13. **A** — A waiver is the intentional and voluntary giving up of a known right. For instance, if an insurer accepts an incomplete application, it may have waived its right to require the missing information later.
14. **B** — The surrender cost index and net payment cost index are standardized methods used to compare the cost of life insurance policies on an equal basis. These indexes account for the time value of money and allow consumers to make meaningful comparisons between policies during a replacement transaction.
15. **C** — Suitability is a cornerstone of annuity sales. The agent must make a diligent effort to understand the client's financial status, tax status, investment objectives, and other relevant information to ensure the recommended product is appropriate for them.
16. **B** — Both Modified and Graded Premium Whole Life are designed for individuals who need permanent insurance but cannot afford the level premiums of a traditional whole life policy at the outset. Both have lower initial premiums that increase over time before leveling off for the remainder of the policy.
17. **B** — The Cash Surrender Value nonforfeiture option allows the policyowner to terminate the policy and receive the net cash value (cash value minus any surrender charges and outstanding loans).
18. **B** — The Medicare Access and CHIP Reauthorization Act (MACRA) of 2015 prohibited the sale of Medigap plans that cover the Part B deductible (Plans C and F) to newly eligible Medicare beneficiaries. Those who were eligible before 2020 can still keep or buy these plans.
19. **B** — A quarter of coverage (also called a credit) is earned by receiving a minimum amount of earnings subject to Social Security tax in a calendar quarter. The amount required is adjusted annually for inflation. A maximum of 4 credits can be earned per year.
20. **C** — An Equity-Indexed Annuity (EIA), also known as a Fixed-Indexed Annuity (FIA), is a type of fixed annuity. It offers the potential for higher returns by linking its interest crediting to an external index (like the S&P 500), while also protecting the principal from market losses with a guaranteed minimum interest rate.
21. **B** — All marketing materials for Medicare Advantage and Part D plans must be submitted to and approved by CMS before they can be distributed to potential enrollees. This is to ensure they are accurate and not misleading.
22. **B** — EIUL policies credit interest to the cash value based on the performance of a stock market index. They offer the potential for higher returns than traditional UL, but also protect the principal with a guaranteed minimum interest rate, so the cash value will not decrease due to market performance.
23. **C** — The insurer must pay benefits immediately upon receipt of due written proof of loss. For disability income benefits, periodic payments must be made at least monthly, if the period of disability is sufficiently long.
24. **A** — An internal replacement occurs when an existing policy is replaced with a new policy from the SAME insurer. An external replacement involves replacing the existing policy with one from a DIFFERENT insurer. California replacement regulations apply to both types, though some requirements differ.

- 25. B** — The SECURE Act of 2019 eliminated the 'stretch' option for most non-spouse beneficiaries. They must now distribute the entire inherited account within 10 years of the original owner's death. Exceptions exist for eligible designated beneficiaries such as surviving spouses, minor children, disabled individuals, and beneficiaries not more than 10 years younger than the deceased.
- 26. B** — The lump-sum death benefit of \$255 is payable to survivors of both currently insured and fully insured workers. Widow/widower benefits at age 60 and retirement benefits require fully insured status.
- 27. A** — An APS is a detailed report obtained from the applicant's personal physician. It provides the underwriter with the applicant's medical history, diagnoses, treatments, and prognosis. It is one of the most thorough and reliable sources of medical underwriting information.
- 28. D** — An irrevocable beneficiary can prevent changes to the policy that affect its value, such as changing the beneficiary, assigning the policy, or taking a loan. However, they do not have the right to manage administrative aspects of the policy, such as changing the premium mode (e.g., from annual to monthly).
- 29. D** — Coercion and intimidation involve using threats or force to restrict fair trade or create a monopoly. Refusing a service (like a mortgage loan) unless insurance is purchased from a specific source is a classic example of this prohibited practice.
- 30. B** — The term 'natural person' is used in legal and regulatory contexts to distinguish a human individual from a legal entity like a corporation, partnership, or trust.
- 31. C** — Express authority is the authority explicitly granted to an agent in their written contract with the insurer. It specifies the agent's duties and responsibilities.
- 32. B** — A worker is considered fully insured under Social Security after earning 40 quarters of coverage (equivalent to 10 years of work). Fully insured status qualifies the worker for retirement benefits and provides survivor benefits to dependents.
- 33. C** — Variable life insurance cash values are invested in separate accounts, which are segregated from the insurer's general account. This is a critical distinction — the separate account holds the policyholder's invested funds in subaccounts (similar to mutual funds), and the investment risk is borne by the policyowner, not the insurer.
- 34. C** — The Affordable Care Act allows young adults to stay on a parent's health insurance plan until they turn 26. They can remain on the plan even if they are married, not living with their parents, attending school, or financially independent.
- 35. A** — If the Commissioner has reason to believe a person or entity is engaging in an unfair or deceptive act, they have the authority to issue a Cease and Desist Order, which legally requires the person to stop the prohibited activity.
- 36. B** — In an IPA model, independent physicians maintain their own offices and private practices. They contract with the HMO to provide services to its members, typically on a capitated or negotiated fee basis. The physicians also see non-HMO patients, giving them more independence than staff model physicians.
- 37. C** — California SDI benefits are not subject to California state income tax. However, if the benefits are received as a substitute for unemployment compensation, they may be subject to federal income tax.
- 38. B** — California regulations require that when an insurer denies a claim, it must provide written notice to the claimant that includes the specific factual and legal reasons for the denial. This ensures transparency and allows the claimant to understand the basis for the decision.
- 39. A** — Twisting is a specific form of misrepresentation. It is the act of making a misleading comparison of policies to induce a person to lapse, surrender, or exchange an existing policy for a new one.
- 40. C** — The policyowner holds all rights to the policy, including the right to change the beneficiary designation at any time, as long as the current designation is 'revocable'.
- 41. C** — A Section 1035 exchange permits the direct transfer of a non-qualified annuity to another non-qualified annuity (or from a life policy to an annuity) without triggering immediate taxation on the accumulated gains. The cost basis and tax deferral carry over to the new contract.
- 42. B** — Eligible groups must exist for purposes other than obtaining insurance. Employer-employee groups are among the most common eligible groups. A group formed solely to purchase insurance is not eligible.
- 43. C** — Policy dividends are not guaranteed and are considered a return of an overpayment of premium. As such, they are not taxable income to the policyowner. However, if dividends are left to accumulate at interest, the interest earned is taxable.
- 44. D** — California issues several types of producer licenses, including Life-Only, Accident and Health, and a combined Life, Accident and Health license. There is no 'Universal License.' Agents must hold the appropriate license type for the products they sell.
- 45. C** — The effective date is the date on which insurance coverage officially begins. It is critical for establishing contestability and suicide clause periods.
- 46. D** — Underwriters classify risks as Preferred (lowest risk, lowest premium), Standard (average risk), or Substandard (higher risk, higher premium). Reciprocal is a type of insurance organization, not a risk classification.
- 47. B** — A Special Enrollment Period is triggered by a qualifying life event such as loss of minimum essential coverage, marriage, birth or adoption of a child, or a permanent move to a new coverage area. Simply wanting a different plan or finding the current plan too expensive does not qualify.
- 48. C** — The Health Insurance Counseling and Advocacy Program (HICAP) provides free, unbiased information and assistance to Medicare beneficiaries and their families. They help with understanding Medicare, Medigap, Medicare Advantage, and long-term care insurance options.
- 49. B** — In a noncontributory group plan, the employer pays the full premium. 100% of eligible employees must be covered under this arrangement.
- 50. B** — Annuities are financial contracts issued by life insurance companies that are designed to protect against the risk of 'superannuation' or outliving your money. They provide a stream of income, typically during retirement.