Insurance Test Practice

Connecticut Insurance Practice Test

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1. The 'net amount at risk' in a life insurance policy is:

A) The insurer's total risk exposure on all policies
B) The total death benefit minus any unpaid loans
C) The premium amount at risk of not being paid
✔ D) The difference between the face amount and the policy's cash value

Explanation: The net amount at risk is the portion of the death benefit that the insurer is actually 'at risk' for — calculated as the face amount minus the accumulated cash value. As cash value grows, the net amount at risk decreases. In term insurance, there is no cash value, so the entire face amount is the net amount at risk.

2. What is the 'option B' death benefit in a Universal Life policy?

A) A decreasing death benefit.
✔ B) An increasing death benefit equal to the face amount plus the cash value.
C) A level death benefit equal to the policy's face amount.
D) A death benefit linked to a stock market index.

Explanation: Universal Life Option B provides an increasing death benefit. The beneficiary receives the policy's specified face amount plus the accumulated cash value. This results in a higher death benefit but also higher monthly cost of insurance deductions.

3. An insurer refuses to issue a health policy to a person solely because they possess the sickle-cell trait. Under Connecticut law, what is this action classified as?

✔ A) Unfair discrimination
B) Acceptable underwriting practice
C) Redlining
D) Boycott

Explanation: Refusing to issue a policy or charging higher premiums solely because an individual has genetic traits like sickle-cell is illegal unfair discrimination.

4. The person or entity designated to receive the death benefit of a life insurance policy is the:

A) Insured
B) Annuitant
C) Policyowner
✔ D) Beneficiary

Explanation: The beneficiary is the individual, entity (like a trust or corporation), or class of people (like 'my children') named in the policy to receive the death benefit proceeds upon the insured's death.

5. The 'extended term' nonforfeiture option uses a lapsed policy's cash value to:

A) Continue the policy in force for 5 more years automatically
B) Provide a cash distribution to the policyowner
C) Purchase a reduced face amount of whole life insurance with no further premiums
✔ D) Purchase term insurance for the full original face amount for a limited term period

Explanation: The Extended Term nonforfeiture option uses the policy's cash value as a single premium to purchase term insurance for the full original face amount for as long as the cash value can support. A larger cash value extends the term for a longer period. This differs from Reduced Paid-Up, which lowers the face amount but provides permanent (whole life) coverage.

6. The 'annuity certain' payout option differs from a life income option because:

A) It cannot be left to a beneficiary
B) It pays income for life guaranteed
✓ C) It pays income only for a specified period regardless of whether the annuitant is alive or dead
D) It has a higher interest guarantee than life income options

Explanation: An annuity certain (period certain or fixed period) pays income for a guaranteed specific time period only — not for life. If the annuitant dies before the period ends, payments continue to a beneficiary. If the annuitant outlives the period, payments stop. Unlike life income options, there is no longevity protection.

7. In a Lloyd's association, the risk is assumed by:

A) The state Department of Insurance
B) The association as a corporate entity
✓ C) Individual underwriting members or syndicates
D) A single reinsurer

Explanation: In a Lloyd's association (such as Lloyd's of London), individual underwriters or syndicates assume risk individually rather than as a single corporate entity. Each member is personally liable for their share of the risk.

8. A family policy typically provides what kind of insurance on the children?

A) Universal life insurance
B) Whole life insurance
C) Variable life insurance
✓ D) Term life insurance

Explanation: A family policy is a package policy that usually provides whole life coverage for the primary breadwinner and a smaller amount of convertible term life insurance for the spouse and children.

9. An Exclusive Provider Organization (EPO) differs from a PPO primarily because an EPO:

A) Uses a capitation payment model
B) Requires a primary care physician referral for all services
✓ C) Provides no coverage for out-of-network services except in emergencies
D) Is regulated exclusively by the federal government

Explanation: 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.

10. The period of time after a benefit trigger is met but before LTC benefits begin is called the:

A) Probationary period
B) Benefit period
C) Grace period
✓ D) Elimination period

Explanation: Similar to a disability policy, an LTC policy has an elimination period (or waiting period). This is the number of days the insured must be receiving care before the policy will start paying benefits. Common periods are 30, 60, or 90 days.

11. Which of the following conditions is NECESSARY for a risk to be insurable?

A) The loss must be caused by a government-recognized peril
B) The premium must be equal to the expected loss
✔ C) There must be a sufficiently large number of similar exposure units for accurate loss prediction
D) The potential loss must be catastrophic in nature

Explanation: For risk to be insurable (and priced accurately), there must be a large enough number of homogeneous (similar) exposure units that the Law of Large Numbers can be applied. Without sufficient similar risks, the insurer cannot accurately predict losses and set reasonable premiums. Other requirements include accidental, definite, and non-catastrophic losses.

12. A client wants to purchase a life insurance policy to cover a 30-year mortgage. Which policy would be the most cost-effective and appropriate?

A) 30-Year Level Term
✔ B) 30-Year Decreasing Term
C) Universal Life
D) Whole Life

Explanation: Decreasing term insurance is specifically designed to cover the declining balance of a loan, such as a mortgage. The death benefit decreases over the 30-year term, and the premiums are typically lower than for a level term policy.

13. Which Medicare supplement plan (Medigap) covers the Medicare Part A and Part B deductibles AND has been available to new beneficiaries since 2020?

A) Plan F
B) Plan D
C) Plan C
✔ D) Plan G

Explanation: Since January 1, 2020, Medicare supplement Plans C and F are no longer available to newly eligible Medicare beneficiaries (those who turned 65 on or after January 1, 2020). Plan G is the most comprehensive plan available to new beneficiaries — it covers all of Plan F's benefits EXCEPT the Part B deductible. Existing Plan C and F holders before 2020 can keep them.

14. Which of the following statements about Key Person life insurance is CORRECT?

A) The employer deducts premium payments as a business expense
B) The death benefit is paid to the key employee's family
C) The key employee owns the policy
✔ D) The business is both the policyowner and beneficiary; death proceeds are received income-tax free

Explanation: In Key Person insurance, the business is the policyowner, premium payer, and beneficiary. Premiums are NOT tax-deductible (because the employer is the beneficiary). Death proceeds are received by the business income-tax-free under IRC Section 101(a), providing funds to cover the financial loss caused by the key employee's death.

15. An 'accumulation unit' in a variable annuity is:

A) A unit of the insurer's stock held in trust
B) The daily interest rate applied to fixed annuities
✓ C) A measure of the annuitant's investment during the accumulation phase
D) A dollar amount guaranteed by the insurer

Explanation: Accumulation units are the units of account used to measure the owner's investment during the accumulation phase of a variable annuity. As premiums are paid, accumulation units are purchased at their current NAV. The value of the owner's account is the number of accumulation units multiplied by the current unit value.

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16. An agent's authority that is written into their agency contract is known as:

✓ A) Express authority
B) Assumed authority
C) Apparent authority
D) Implied authority

Explanation: 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.

17. Under the ACA for plan years beginning on or after January 1, 2014, annual and lifetime dollar limits on:

A) All benefits are prohibited
B) All limits were grandfathered and remain in effect
C) Only inpatient hospital benefits are prohibited
✓ D) Essential health benefits are prohibited; lifetime limits on non-essential benefits may still apply

Explanation: The ACA prohibits annual and lifetime dollar limits on essential health benefits (EHBs) in non-grandfathered plans. Insurers cannot cap the annual or lifetime amount they will pay for EHBs. However, annual and lifetime limits may still be applied to benefits that are not EHBs.

18. A 'special enrollment period' (SEP) under the ACA is triggered by qualifying life events such as:

A) Any desire to change plans during the year
✓ B) Loss of other qualifying coverage, marriage, birth or adoption, or moving to a new coverage area
C) Only changes in income that affect subsidy eligibility
D) Having a medical emergency

Explanation: Outside of open enrollment, consumers can enroll in or change ACA marketplace plans during a Special Enrollment Period (SEP) triggered by qualifying life events including: losing other health coverage, getting married, having/adopting a child, or moving to a new area. Voluntary cancellation of prior coverage does not qualify for a SEP.

19. A 'participating' whole life policy pays policyowner dividends that are considered:

- ✔ A) A non-taxable return of excess premium
- B) A guaranteed minimum return
- C) Taxable investment income
- D) Interest earned on the cash value

Explanation: Dividends paid on participating life insurance policies represent a refund of excess premiums collected — the insurer collected more in premiums than was needed to cover claims and expenses. Because they are a return of already-taxed dollars (premium), dividends are generally not taxable unless they exceed the cumulative premiums paid (cost basis).

20. The 'assumed interest rate' (AIR) in a variable annuity's payout phase:

- A) Is the guaranteed minimum interest rate for all variable annuity subaccounts
- ✔ B) Is the benchmark interest rate used to calculate variable annuity income payments; if actual performance exceeds the AIR, payments increase
- C) Is the rate the IRS uses to determine the exclusion ratio
- D) Is the rate used to determine surrender charges

Explanation: In the annuitization phase of a variable annuity, the AIR is the assumed performance rate built into the initial payment calculation. If the subaccounts perform above the AIR, payments increase; if below, payments decrease; if exactly equal to the AIR, payments stay level. A lower AIR leads to initially lower payments but greater potential for payment growth.

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21. The mandatory 'Time Limit on Certain Defenses' provision (similar to the incontestability clause in life insurance) states that after a policy has been in force for how many years the insurer cannot void it for misstatements in the application?

- A) 1 year
- B) 5 years
- ✔ C) 3 years
- D) 2 years

Explanation: After an individual A&H policy has been in force for 3 years, the insurer cannot use misstatements in the application to void the policy or deny a claim, except for fraudulent misstatements. This is analogous to the 2-year incontestability clause in life insurance but is 3 years for A&H.

22. For a non-qualified annuity, the 'cost basis' is:

- A) The current accumulation value of the contract
- B) The total death benefit that will be paid tax-free
- C) The actuarial present value of all future income payments
- ✔ D) The total after-tax premiums paid into the contract (not yet received back as income)

Explanation: The cost basis in a non-qualified annuity equals the total after-tax premiums paid into the contract. Withdrawals are taxed LIFO (gains first). The cost basis represents dollars that were already taxed and can be recovered tax-free. Once all gains are withdrawn, subsequent withdrawals are treated as tax-free return of basis.

23. Individual accident and health insurance policies must contain certain mandatory (required) uniform provisions. How many mandatory provisions are there?

A) 8
B) 14
C) 10
✔ D) 12

Explanation: There are 12 mandatory (required) uniform policy provisions that must be included in every individual accident and health insurance policy. These provisions are designed primarily to protect the insured and ensure fair treatment.

24. Authority that is not explicitly stated in an agent's contract but is necessary to conduct business is called:

A) Fiduciary authority
✔ B) Implied authority
C) Apparent authority
D) Express authority

Explanation: Implied authority is not written in the contract but is assumed to be granted to an agent in order to perform their duties. For example, the authority to collect the initial premium.

25. A 'benefit period' in a major medical health plan is:

A) The time period during which disability benefits are paid
✔ B) The time period within which all covered expenses must be incurred to apply to the same deductible
C) The waiting period before coverage begins
D) The maximum years of coverage under the plan

Explanation: In a major medical health plan, the benefit period (usually a calendar year) is the period within which all covered expenses must be incurred to apply toward the same deductible and out-of-pocket maximum. At the end of the benefit period, these amounts reset. Most plans use January 1 to December 31 as the benefit period.

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26. A contract requires that both parties bring something of value to the exchange. This is known as:

A) Competent Parties
✔ B) Consideration
C) Agreement
D) Legal Purpose

Explanation: Consideration is the value that each party gives in the contractual agreement. The insured's consideration is the premium paid and the statements on the application; the insurer's is the promise to pay claims.

27. Statements made by an applicant on an insurance application that are believed to be true to the best of their knowledge are called:

A) Warranties
B) Guarantees
C) Concealments
✔ D) Representations

Explanation: Representations are statements that are true to the best of the applicant's knowledge. They are the basis upon which the policy is issued. An insurer can void a policy if a representation is material and false.

28. The facility of payment clause, often found in industrial or group life policies, allows the insurer to:

A) Pay the benefit directly to a hospital or nursing home.

✔ B) Pay a portion of the death benefit to a person or entity that has incurred funeral or medical expenses on behalf of the insured.

C) Facilitate an immediate loan from the policy's cash value.

D) Pay the claim to the state if no beneficiary can be found.

Explanation: The facility of payment clause permits the insurer to pay benefits (usually a limited amount) to a person who appears equitably entitled to it, even if they are not the named beneficiary. This is typically done to cover final expenses and avoids delays when the named beneficiary is a minor, deceased, or cannot be located.

29. The 'assignment clause' in life insurance means:

A) The producer is assigned responsibility for the policy after issue

B) The insurer can assign the policy to a new company without the insured's consent

C) The beneficiary can be assigned to another individual upon the insured's death

✔ D) The policyowner can transfer policy rights to another party through either an absolute or collateral assignment

Explanation: The assignment clause gives the policyowner the right to assign (transfer) ownership rights or a portion of them to another party. An absolute assignment transfers all ownership rights permanently. A collateral assignment temporarily transfers specific rights (like the right to the death benefit as loan collateral) while the original owner retains other rights.

30. Under the ACA employer mandate for ALEs with 100+ employees in 2015 and 50+ in 2016 and beyond:

A) All full-time employees must be enrolled in coverage whether they want it or not

B) All plans must be grandfathered to be exempt from the mandate

C) Coverage must be free to all employees with no employee contributions allowed

✔ D) The employer must offer qualifying coverage to full-time employees (30+ hours/week) and their dependents

Explanation: The ACA employer mandate requires ALEs (50+ FTEs) to offer minimum essential coverage that is affordable and meets minimum value to all full-time employees (those working 30+ hours/week) and their dependents (not spouses). Employers who fail to offer coverage (or offer unaffordable/insufficient coverage) and have at least one FT employee receive a premium tax credit may owe an employer shared responsibility payment.

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31. Who is the party to an annuity contract that has all the rights, such as naming the beneficiary and making withdrawals?

A) The beneficiary

✔ B) The owner

C) The agent

D) The annuitant

Explanation: The contract owner is the person or entity who purchases the annuity and has all rights of ownership. They control the contract, make the investment decisions (in a variable annuity), and can change the beneficiary.

32. ERISA (Employee Retirement Income Security Act) governs employer-sponsored benefit plans including group life insurance by:

A) Requiring all group plans to be underwritten individually
B) Requiring all group life insurance to be issued as permanent coverage
✓ C) Setting minimum funding, vesting, and fiduciary standards for benefit plans and preempting most state insurance laws for self-funded plans
D) Prohibiting employers from contributing to group life premiums

Explanation: ERISA governs employer-sponsored benefit plans and sets requirements for fiduciary standards, reporting, disclosure, and plan administration. For insured group plans, ERISA coexists with state insurance regulation. For self-funded plans, ERISA preempts state insurance laws. Employers must adhere to ERISA's fiduciary standards in managing benefit plans.

33. The 'own occupation' definition of total disability is MORE favorable to the insured than the 'any occupation' definition because:

A) It has no elimination period
✓ B) It considers the insured totally disabled if they cannot perform the duties of their specific occupation
C) It pays a higher benefit amount
D) It covers partial disability automatically

Explanation: Under 'own occupation,' the insured is considered totally disabled if they cannot perform the material duties of their own specific occupation, even if they could work in another field. Under 'any occupation,' the insured must be unable to perform any gainful occupation for which they are reasonably suited. 'Own occ' is broader and more favorable to the insured.

34. Short-term disability (STD) insurance typically:

A) Has a longer elimination period and benefit period than long-term disability
B) Covers only occupational disabilities
C) Replaces 100% of the insured's pre-disability income
✓ D) Begins paying benefits quickly (after a short elimination period) and pays for a limited period (up to 2 years)

Explanation: Short-term disability insurance typically has a short elimination period (0-14 days) and a benefit period of up to 1-2 years. It is designed to cover brief periods of disability such as recovery from surgery or illness. Long-term disability (LTD) has longer elimination periods but pays for many years or until retirement age.

35. If a life insurance application is approved and a policy is issued, but the applicant's health has deteriorated since the application date and no premium was paid, what is the insurer's obligation?

✓ A) The policy is not in effect until it is delivered and a statement of good health is signed.
B) The insurer must deliver the policy as issued.
C) The policy is in effect, but at a higher premium.
D) The insurer can cancel the policy immediately.

Explanation: When the premium is not paid with the application, coverage is not effective until the policy is delivered, the first premium is paid, and the applicant signs a statement of good health. The adverse change in health means a key condition for policy delivery has not been met.

36. The Medicare Part A hospital benefit period begins:

A) On the day the beneficiary pays their Part A premium
B) On January 1 of each year
✓ C) On the first day of inpatient hospitalization and ends 60 days after discharge from all inpatient care
D) On the beneficiary's 65th birthday

Explanation: A Medicare Part A benefit period begins the day a beneficiary is admitted as a hospital inpatient and ends 60 days after the beneficiary has received no inpatient care. There is a deductible for each benefit period (not per year). A beneficiary can have unlimited benefit periods if they are readmitted after 60 days of no inpatient care.

37. An insurer settles a claim but does not explain which coverage the payment is being made under. Under Connecticut regulations, is this permitted?

✓ A) No, insurers must specify the coverage under which payment is made.
B) Yes, if the check is accepted by the claimant.
C) Yes, if the amount is over $1,000.
D) Only for group policies.

Explanation: Failing to indicate to a claimant the specific coverage under which a payment is made is an unfair claims settlement practice.

38. When an insurer approves an application but issues the policy with different terms than applied for (such as a higher premium or an exclusion rider), this is called a:

A) Policy amendment
B) Conditional receipt
✓ C) Counter-offer
D) Binder

Explanation: When the insurer modifies the terms of coverage from what was originally applied for, the issued policy is considered a counter-offer. The applicant must accept or reject the new terms. The policy does not go into effect until the applicant accepts the counter-offer and pays any required premium.

39. If a policyowner names 'the children of the insured' as beneficiaries and the insured has three children, how are the proceeds distributed upon the insured's death?

A) The proceeds are paid to the insured's estate to be distributed.
✓ B) The proceeds are divided equally among the three children.
C) The oldest child receives the full amount.
D) The proceeds are held by the insurer until the youngest child is 18.

Explanation: When a class designation like 'children of the insured' is used, the proceeds are distributed equally among all members of that class who are alive at the time of the insured's death.

40. What is the primary purpose of key person life insurance?

✓ A) To protect a business from financial loss caused by the death of a vital employee
B) To cover the medical expenses of a key employee
C) To provide retirement income for a key employee
D) To fund a buy-sell agreement

Explanation: Key person insurance is owned and paid for by the business. The business is the beneficiary. The policy is designed to compensate the business for the financial consequences (e.g., lost revenue, cost of hiring a replacement) of a key employee's death.

41. The 'delayed payment' clause in a life insurance policy allows the insurer to delay paying policy loan proceeds for up to:

- ✔ A) 6 months for cash value loans
- B) 90 days
- C) 1 year
- D) 30 days

Explanation: The Delayed Payment provision allows the insurer to delay the payment of any cash surrender value or policy loan proceeds for up to 6 months. This protects the insurer during periods of extreme financial stress (such as a market crisis) that could threaten its liquidity. This clause does not apply to the payment of death benefits.

42. Can a policyowner name a charity as the beneficiary of a life insurance policy?

- A) Yes - but the death benefit is then taxable.
- ✔ B) Yes - any legally recognized charitable organization can be named.
- C) No - beneficiaries must be individuals.
- D) Yes - but only if the charity is a religious organization.

Explanation: A policyowner can name a charity as the beneficiary. This is a common way to make a significant philanthropic gift. The death benefit is paid directly to the charity upon the insured's death.

43. The ACA's minimum value standard requires employer-sponsored coverage to:

- A) Cover at least 50% of the total allowed cost of benefits under the plan
- ✔ B) Cover at least 60% of the total allowed cost of benefits under the plan
- C) Cover 80% of costs for all essential health benefits
- D) Provide coverage with no deductible

Explanation: Under the ACA, employer-sponsored coverage must provide 'minimum value' (MV) — covering at least 60% of the total allowed cost of benefits under the plan on average (equivalent to a Bronze-level plan). Plans that don't meet MV may result in employees being eligible for marketplace subsidies, triggering potential employer penalties.

44. A 'creditable coverage' letter is important because it:

- ✔ A) Proves an individual had prior health coverage, which was used to reduce pre-existing condition exclusion periods before the ACA.
- B) Guarantees eligibility for Medicare.
- C) Reduces the premium for a new health plan.
- D) Acts as a certificate of insurance.

Explanation: Before the ACA prohibited pre-existing condition exclusions, a certificate of creditable coverage was crucial. It proved that a person had continuous health coverage, which allowed them to reduce or eliminate any pre-existing condition waiting periods when they moved to a new group health plan.

45. An insurer, Star Life, wishes to use a new policy form for accident and health insurance in Connecticut. Under the law, what must the insurer do before using the form?

- ✔ A) File the form with Connecticut Insurance Department (CID) and obtain approval or wait for the expiration of the waiting period.
- B) Start using the form immediately without filing.
- C) Get approval from the Governor.
- D) Submit it to the NAIC for approval.

Explanation: Policy forms must be filed with and approved by Connecticut Insurance Department (CID) before they can be used in Connecticut.

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46. Which of the following is a key requirement for recommending an annuity to a senior consumer (age 65+)?

- A) The annuity must be variable
- B) The annuity must have a surrender period of less than 5 years
- C) The agent must offer a rebate
- ✔ D) The recommendation must be based on a reasonable evaluation of the consumer's financial situation and needs

Explanation: All annuity recommendations, especially for seniors, must be suitable based on the consumer's financial status, tax status, and investment objectives (Suitability & Best Interest standards).

47. An employee, Susan, is covered under a group life insurance policy in Connecticut. What is the minimum grace period required for group life insurance premiums?

- A) 10 days
- B) 15 days
- ✔ C) 31 days
- D) 45 days

Explanation: Group life insurance policies in Connecticut must provide a grace period of not less than 31 days (or 1 month).

48. The '5-year look-back period' associated with Medicaid and long-term care planning means:

- A) Medicaid reviews health records from the past 5 years before approving LTC coverage
- ✔ B) Medicaid examines asset transfers made within 5 years before applying to ensure assets were not transferred to qualify for benefits
- C) Medicaid benefits begin 5 years after the application is filed
- D) LTC insurers can deny claims based on conditions diagnosed in the past 5 years

Explanation: Medicaid's 5-year look-back period allows the state to review any asset transfers made by the applicant in the 5 years prior to the Medicaid application. If assets were transferred for less than fair market value during this period, Medicaid may impose a penalty period during which the applicant is ineligible for Medicaid LTC benefits.

49. The risk management technique of taking action to reduce the frequency or severity of a potential loss is known as:

A) Avoidance
✓ B) Reduction
C) Transfer
D) Retention

Explanation: Risk reduction involves implementing measures to minimize the chance or impact of a loss. Examples include installing a sprinkler system to reduce fire damage or wearing a seatbelt to reduce injury in an accident.

50. Which of the following accounts is portable and stays with the employee when they change employers?

✓ A) Health Savings Account (HSA)
B) Health Reimbursement Arrangement (HRA)
C) Dependent Care FSA
D) Flexible Spending Account (FSA)

Explanation: HSAs are owned by the individual account holder and are fully portable, meaning the funds remain with the employee regardless of employment changes. HRAs and FSAs are employer-sponsored and generally not portable.