Insurance Test Practice

Georgia Insurance Practice Test

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1. The period during which an annuity makes payments to the annuitant is the:

A) Contribution period
B) Accumulation period
✔ C) Liquidation period
D) Growth period

Explanation: The liquidation period, also known as the annuitization or payout period, is the phase when the contract begins to make regular income payments to the annuitant. Once this phase begins, it generally cannot be altered.

2. A Georgia producer who engages in twisting may face which of the following consequences?

✔ A) License suspension or revocation, fines, and possible criminal prosecution
B) A civil lawsuit from the client only
C) No consequences, since replacement is legal
D) A warning letter from the OCI only

Explanation: Twisting is an illegal unfair trade practice in Georgia. A producer found guilty of twisting may face license suspension or revocation, monetary fines, and in serious cases, criminal prosecution.

3. An individual health insurance policy that the insurer cannot cancel and cannot increase the premium on is classified as:

A) Conditionally renewable
✔ B) Non-cancellable
C) Optionally renewable
D) Guaranteed renewable

Explanation: A non-cancellable policy provides the strongest protection for the insured. The insurer cannot cancel the policy, raise the premium, or reduce benefits, as long as premiums are paid on time. This is the most expensive type of renewability provision.

4. Which type of utilization review occurs before a medical service is provided, requiring approval from the managed care plan?

✔ A) Prior authorization
B) Peer review
C) Retrospective review
D) Concurrent review

Explanation: Prior authorization (also called precertification or prospective review) is a utilization review process that requires the plan to approve a proposed medical service before it is delivered. This helps control costs by ensuring that services are medically necessary.

5. The primary regulator of insurance in the United States is:

✔ A) State insurance departments
B) The NAIC (National Association of Insurance Commissioners)
C) The Federal Reserve
D) The federal government through the SEC

Explanation: Insurance is primarily regulated at the state level in the United States. Each state has its own insurance department (such as the Georgia OCI) that licenses insurers and producers, approves policy forms, and enforces insurance laws. The NAIC develops model laws but has no direct regulatory authority.

6. Which rider allows for future increases in the disability benefit amount without evidence of insurability?

- A) Cost of Living Adjustment (COLA) Rider
- ✓ B) Future Increase Option (FIO) Rider
- C) Return of Premium Rider
- D) Social Security Rider

Explanation: The Future Increase Option (FIO) rider, also known as a Guaranteed Insurability Rider, allows the insured to purchase additional amounts of disability income coverage at specified future dates without having to prove their health status.

7. Which type of whole life policy is designed to be paid up after a specific number of years, such as 20 years or at age 65?

- ✓ A) Limited-Pay Whole Life
- B) Single Premium Whole Life
- C) Straight Life
- D) Adjustable Life

Explanation: Limited-Pay Whole Life provides permanent protection, but the premiums are paid over a shorter, limited period. After the final premium is paid, the policy is 'paid-up' and remains in force for the insured's lifetime.

8. The Georgia Valued Policy Law applies to:

- A) Health insurance policies issued by HMOs
- B) Life insurance policies only
- ✓ C) Certain property insurance policies requiring total loss to be paid at the stated policy amount
- D) All insurance policies issued in Georgia

Explanation: Georgia's valued policy law (applicable to fire and certain other property policies) requires the insurer to pay the full face amount in the event of a total loss to a building, regardless of actual cash value. This prevents disputes over the value of a total loss.

9. Retrospective review in utilization management refers to:

- A) Pre-approving a treatment plan before any services begin
- B) Monitoring treatment effectiveness during an inpatient stay
- C) Projecting future healthcare costs based on historical data
- ✓ D) Evaluating the medical necessity and appropriateness of care after services have been delivered

Explanation: Retrospective review occurs after care has already been provided. The managed care plan reviews claims and medical records to determine whether the services rendered were medically necessary and appropriate. This may result in claim denials or recovery of overpayments.

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

- A) Apparent authority
- B) Express authority
- C) Fiduciary authority
- ✓ D) Implied 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.

11. The primary purpose of life insurance is to:

A) Avoid paying estate taxes
B) Replace disability income
C) Accumulate wealth for retirement
✔ D) Provide financial protection against the economic impact of premature death

Explanation: Life insurance provides a death benefit to replace lost income and cover financial obligations when the insured dies. Its primary purpose is to protect surviving dependents and other financial interests from the economic impact of premature death.

12. A Georgia producer is offered a gift by a client in appreciation of good service. Under Georgia ethics standards, which of the following is most appropriate?

A) All gifts must be reported to the OCI regardless of value
B) Gifts are always permitted as long as they do not exceed $500 in value
✔ C) Small, token gifts are generally acceptable, but significant gifts should be declined to avoid the appearance of impropriety
D) The producer should decline any gift of value to avoid conflicts of interest

Explanation: While Georgia law does not have a specific dollar gift limit for producers, ethical standards require producers to avoid situations that create or appear to create conflicts of interest. Significant gifts should be declined.

13. The life income with period certain annuity option:

A) Converts to a different payment option after 10 years
B) Guarantees a fixed number of payments regardless of the annuitant's survival
✔ C) Pays income for the annuitant's life; if the annuitant dies before the period ends, payments continue for the remaining period
D) Stops all payments if the annuitant is still alive at the end of the period

Explanation: Life income with period certain pays income for the annuitant's lifetime. If the annuitant dies before the specified period (e.g., 10 or 20 years) ends, payments continue to a designated beneficiary for the remainder of that period. This provides some death benefit protection.

14. A single premium immediate annuity (SPIA) is funded by:

A) Flexible premium payments with no minimum
✔ B) A single lump-sum payment with income starting almost immediately
C) Monthly premium payments over 20 years
D) Annual contributions over 5 years

Explanation: A SPIA is purchased with a single lump-sum premium, and income payments begin within one period (usually one month) of the purchase. SPIAs are commonly used to convert a retirement savings lump sum or pension into a guaranteed income stream.

15. The benefit period in a disability income policy refers to:

A) The policy year during which the disability occurred
✔ B) The maximum length of time benefits will be paid
C) The period during which premiums are waived
D) The waiting period before benefits begin

Explanation: The benefit period is the maximum duration for which disability income benefits will be paid once the elimination period has been satisfied. Common benefit periods are 2 years, 5 years, to age 65, or lifetime.

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16. What is partial disability?

A) A disability that is expected to last less than one year.
✔ B) The inability to perform one or more, but not all, of the essential duties of one's occupation.
C) A disability that is not covered by the policy.
D) A disability that occurs off the job.

Explanation: Partial disability benefits are paid when an illness or injury prevents an insured from performing some of their job duties, resulting in a loss of income. The benefit is typically 50% of the total disability benefit and is paid for a limited time.

17. If the cost of insurance and expenses in a universal life policy exceed the cash value:

✔ A) The policyowner must make an additional premium payment or the policy will lapse
B) The insurer pays the difference from its reserves
C) The death benefit is automatically reduced to zero
D) The policy automatically lapses without any notification

Explanation: In a universal life policy, if the cash value falls to zero (because costs exceed the value and no premiums have been paid), the policy will lapse. The insurer must notify the policyowner and provide a grace period before lapse.

18. A business uses life insurance proceeds received upon the death of a key employee to help offset lost profits and to recruit and train a replacement. This BEST illustrates which business insurance concept?

A) Executive bonus plan
B) Split-dollar insurance
✔ C) Key person insurance
D) COLI

Explanation: Key person insurance is specifically designed to protect a business from the economic impact of losing a vital employee. The business collects the death benefit to offset lost revenue, pay off debts tied to the key person's role, or cover recruitment and training costs. The policy is owned and funded entirely by the business.

19. Which element is NOT required for a risk to be considered insurable?

✔ A) The loss must pose a minimal financial hardship.
B) The loss must not be catastrophic.
C) The loss must be due to chance.
D) The loss must be definite and measurable.

Explanation: For a risk to be insurable, the potential loss must be significant enough to cause financial hardship. Trivial risks are generally not insurable.

20. Which of the following is an example of an unfair claims settlement practice under Georgia law?

A) Offering settlement equal to the proven loss
✔ B) Misrepresenting facts or policy provisions to deny a claim
C) Paying a legitimate claim within 30 days
D) Investigating a claim within 10 working days

Explanation: Georgia's Unfair Claims Settlement Practices Act prohibits practices such as misrepresenting policy provisions to deny claims, failing to acknowledge claims within required timeframes, failing to investigate claims promptly, and offering substantially less than a reasonable settlement.

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21. Inflation protection in a LTC policy:

A) Prevents the insurer from raising premiums due to inflation
B) Guarantees the insurer's solvency during inflation
✔ C) Increases the daily benefit amount over time to keep pace with rising care costs
D) Reduces the elimination period during periods of inflation

Explanation: Inflation protection increases the LTC benefit amount over time (e.g., 5% simple or compound annually) to help offset rising care costs. Without it, a policy purchased today may be insufficient when benefits are actually needed decades later.

22. Under Georgia law when must an insurer pay an approved life insurance claim?

A) Within 90 days
B) Within 60 days
C) Within 10 days
✔ D) Within 30 days of receiving proof of loss

Explanation: Georgia insurance law requires life insurers to pay approved claims within 30 days after receiving satisfactory proof of death. Delayed payment may result in interest penalties. The claim investigation period is separate from the payment timeline.

23. A Georgia insurance producer replaces a client's existing policy with a new one primarily to earn a new commission, without any benefit to the client. This is an example of which illegal practice?

A) Twisting
B) Rebating
✔ C) Churning
D) Sliding

Explanation: Churning in Georgia is the illegal practice of replacing an existing policy primarily to generate new commission income for the producer, without any meaningful benefit to the policyholder.

24. A premature distribution from a non-qualified annuity (before age 59½) is subject to:

A) A 5% federal penalty
✔ B) A 10% federal penalty tax on the earnings in addition to ordinary income tax
C) A 20% federal withholding
D) No penalty if the amount is less than $10,000

Explanation: Similar to premature distributions from IRAs, withdrawals from non-qualified annuities before age 59½ are subject to a 10% IRS penalty tax on the taxable (earnings) portion, in addition to regular income taxes. Exceptions include disability and annuitization.

25. Short-Term Disability (STD) insurance typically provides benefits for a period of:

A) To age 65
B) Up to 2 years
C) Up to 5 years
✔ D) Up to 6 months

Explanation: Short-Term Disability policies have short elimination periods (e.g., 7-14 days) and short benefit periods, usually ranging from 3 to 6 months, and never more than 2 years.

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26. Which rider would waive the premiums on a child's life insurance policy if the parent who pays the premiums dies or becomes disabled?

A) Waiver of Premium
B) Spousal Rider
✔ C) Payor Benefit
D) Guaranteed Insurability

Explanation: The Payor Benefit rider is specifically designed for juvenile policies. It ensures that the policy will not lapse if the premium payor dies or becomes disabled before the child reaches a specified age (e.g., 21 or 25).

27. A producer's apparent authority is authority that:

A) Is granted only in writing by the OCI
✔ B) A third party reasonably believes the agent has based on the principal's conduct
C) Can only be exercised after the insurer provides written permission
D) Is explicitly granted in the agent's contract

Explanation: Apparent authority is authority that a reasonable third party would believe an agent has based on the insurer's words, actions, or conduct—even if the agent does not have explicit authority for those actions. The insurer may be bound by the agent's actions within apparent authority.

28. Which type of insurer is an unincorporated group where members insure each other through an attorney-in-fact?

A) Stock company
B) Mutual company
✔ C) Reciprocal insurer
D) Fraternal benefit society

Explanation: A reciprocal insurance exchange (reciprocal insurer) is an unincorporated association where each member separately assumes a share of each risk. An attorney-in-fact manages the exchange on behalf of all members.

29. A risk retention group (RRG) is:

✔ A) A liability insurance company owned by its member-insureds with similar risks
B) A state-sponsored insurance program
C) A government reserve fund for catastrophic losses
D) A reinsurance pool for small insurers

Explanation: A Risk Retention Group is a member-owned liability insurance company formed under federal law (the Liability Risk Retention Act of 1986). All members are engaged in similar businesses and share similar risks.

30. An employer offers a Flexible Spending Account with a carryover provision. What is the maximum amount of unused funds an employee may carry over into the next plan year?

A) $1000
B) There is no limit on carryover amounts
C) $500
✓ D) $640

Explanation: Under IRS rules, an employer may allow FSA participants to carry over up to $640 of unused funds into the following plan year. Alternatively, an employer may offer a 2.5-month grace period, but not both a carryover and a grace period.

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31. How are benefits received from a Business Overhead Expense (BOE) policy taxed?

A) They are partially tax-free.
B) They are taxable to the business owner.
✓ C) They are fully taxable as income to the business.
D) They are tax-free to the business.

Explanation: Premiums for a BOE policy are tax-deductible for the business. Therefore, the benefits received by the business are considered taxable income. However, since the benefits are used to pay for deductible business expenses, the net effect is usually a tax wash.

32. COBRA allows qualified employees who lose group health coverage to:

A) Enroll in Medicaid without income limits
B) Convert to Medicare immediately
✓ C) Continue the group health plan at their own expense for a limited time
D) Receive free coverage for 6 months

Explanation: COBRA (Consolidated Omnibus Budget Reconciliation Act) allows qualified individuals who lose group health coverage to continue the same coverage for up to 18 months (or 36 months in certain qualifying events) at 100% of the premium plus a 2% administrative fee.

33. 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) A reduced paid-up whole life policy.
✓ C) The accumulated cash value, less any outstanding loans.
D) A paid-up term policy.

Explanation: 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).

34. Cash value growth in a permanent life insurance policy is:

A) Taxed at capital gains rates.
✓ B) Tax-deferred.
C) Taxed annually as it grows.
D) Tax-free.

Explanation: The accumulation of cash value within a life insurance policy grows on a tax-deferred basis. This means the policyowner does not pay taxes on the interest or earnings as they accrue.

35. During the accumulation phase of a variable annuity, the contract owner's contributions purchase:

✔ A) Accumulation units
B) Annuity units
C) Guaranteed interest credits
D) Fixed units

Explanation: During the accumulation (pay-in) phase, premiums are used to purchase accumulation units in the selected subaccounts. The value of these units fluctuates with market performance. When the contract is annuitized (begins paying out), the accumulation units are converted into annuity units, which determine the amount of each periodic payment.

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36. If a business is the owner and beneficiary of a life insurance policy on an employee, how are the premiums treated for tax purposes?

A) They are taxable income to the employee.
✔ B) They are not deductible by the business.
C) They are deductible by the business.
D) They are partially deductible by the business.

Explanation: When a business is the beneficiary of a life insurance policy (e.g., key person insurance), the premiums are not tax-deductible as a business expense. Correspondingly, the death benefit received by the business is income tax-free.

37. When is the initial enrollment period for Medicare?

A) From January 1st to March 31st each year.
✔ B) The 3 months before, the month of, and the 3 months after an individual's 65th birthday.
C) The 6 months immediately following an individual's 65th birthday.
D) Anytime after an individual turns 65.

Explanation: The Medicare Initial Enrollment Period (IEP) is a 7-month period. It begins 3 months before the month a person turns 65, includes the month they turn 65, and ends 3 months after the month they turn 65.

38. Replacements of existing annuity contracts require the producer to:

A) Notify the new insurer only
✔ B) Provide disclosure documents and notify both the client and existing insurer
C) Cancel the existing contract immediately upon application
D) Obtain OCI approval before proceeding

Explanation: Georgia's replacement regulations require that when an existing annuity is being replaced, the producer must provide required replacement forms (including a comparison of the existing and proposed contracts) to the applicant and notify the existing insurer. This ensures informed decision-making.

39. To maintain a Georgia insurance producer license in good standing the producer must:

A) Earn a minimum of $50,000 per year in commissions
✔ B) Complete 24 CE hours every 2 years and renew the license
C) Maintain a physical office in Georgia
D) File annual financial reports with the OCI

Explanation: To maintain a license in good standing, Georgia producers must: (1) complete 24 hours of approved CE every 2-year renewal period, (2) pay the license renewal fee, and (3) continue to meet all suitability and ethical standards.

40. In Georgia, how many hours of pre-licensing education must an applicant complete before sitting for the insurance licensing exam?

- A) 50 hours
- ✔ B) 40 hours
- C) 20 hours
- D) 30 hours

Explanation: Georgia requires 40 hours of pre-licensing education before an applicant may sit for the insurance licensing examination. This is a mandatory requirement under Georgia insurance regulations.

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41. What is the 'parol evidence rule'?

- A) It requires that insurance contracts be unilateral.
- ✔ B) It prevents oral evidence from being used to contradict the terms of a written contract.
- C) It requires all contract ambiguities to be interpreted against the insurer.
- D) It allows for oral agreements to modify a written policy.

Explanation: 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.

42. A split-dollar plan is an arrangement where:

- A) The death benefit is split between two beneficiaries.
- B) The cash value is split between the policyowner and the insurer.
- ✔ C) An employer and employee split the cost of a life insurance policy.
- D) The premium is split between two different payment methods.

Explanation: A split-dollar plan is a method of purchasing life insurance where an employer and an employee share the costs and benefits of the policy. It's often used as an executive benefit.

43. Under COBRA, a qualified beneficiary who is disabled at the time of the qualifying event may extend their coverage from 18 months to:

- A) 36 months
- B) 24 months
- C) 48 months
- ✔ D) 29 months

Explanation: If an individual is determined by Social Security to have been disabled at the time of the qualifying event (or within the first 60 days of COBRA), they can extend their continuation coverage for an additional 11 months, for a total of 29 months.

44. Under the endorsement method of a split-dollar plan, who owns the life insurance policy?

- A) The employee
- ✔ B) The employer
- C) An irrevocable trust
- D) Both the employer and employee co-own the policy equally

Explanation: Under the endorsement method of split-dollar, the employer owns the policy and endorses (grants) a portion of the death benefit to the employee's named beneficiary. The employer retains the cash value equal to its premium contributions. This contrasts with the collateral assignment method, where the employee owns the policy.

45. What is the primary advantage of group underwriting over individual underwriting?

A) The benefits are always better.
B) Premiums are always lower.
✔ C) The group as a whole is evaluated, and individuals are generally not subject to medical underwriting.
D) Coverage is guaranteed to be permanent.

Explanation: Group underwriting focuses on the risk of the group rather than each individual member. Evidence of insurability is typically not required, meaning individuals can get coverage without a medical exam and regardless of their health history.

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46. A policyholder receives a new life insurance policy. The policy contains a free-look provision. This means:

A) The first premium is free; coverage begins immediately
B) The insured may borrow against the policy immediately at no cost
C) The insurer must provide a free policy illustration during the first year
✔ D) The policyholder may return the policy within a specified period for a full refund of premium

Explanation: The free-look provision gives the new policyholder a period (typically 10 days for most policies; 30 days for replacement policies in many states) to review the policy. If they return it within that period for any reason, the insurer must refund all premiums paid. This provision protects consumers from high-pressure sales tactics.

47. What does a 'bed reservation' benefit in an LTC policy provide?

✔ A) It pays to hold a nursing home bed for the insured if they need to be hospitalized temporarily.
B) It allows the insured to reserve a bed in a specific facility years in advance.
C) It pays for a private room in a nursing home.
D) It guarantees a bed will be available in any nursing home.

Explanation: If an LTC patient in a nursing home needs to go to a hospital for a short stay, the nursing facility will not hold their bed for free. The bed reservation benefit pays the nursing home to keep the insured's bed available for their return for a limited number of days.

48. The assignment provision in a life insurance policy allows the policyowner to:

✔ A) Transfer some or all policy rights to another party
B) Adjust the premium amount
C) Force the insurer to pay benefits to a designated hospital
D) Change the insured on the policy

Explanation: The assignment provision allows the policyowner to transfer policy rights. An absolute assignment transfers all rights permanently. A collateral assignment temporarily transfers specific rights (typically to a lender) as security for a loan. The insurer must be notified but need not consent.

49. An insured has a health plan with a $2,000 deductible and 80/20 coinsurance. If the insured has a covered medical bill of $12,000, how much will the INSURER pay?

A) $9,600.00

B) $10,000.00

✔ C) $8,000.00

D) $12,000.00

Explanation: First, the insured pays the $2,000 deductible, leaving a balance of $10,000. Then, the coinsurance applies to this balance. The insurer pays 80% of $10,000, which is $8,000. The insured pays the remaining 20% ($2,000) plus the initial deductible, for a total of $4,000.

50. A life insurance policy that remains in force for the insured's entire life and builds cash value is known as:

A) Accident & Health

B) Term Life

✔ C) Whole Life

D) Annuity

Explanation: Whole Life insurance provides permanent, lifelong protection. It includes a savings element (cash value) that grows on a tax-deferred basis and is guaranteed to be available to the policyowner.