



Insurance Test Practice

Hawaii Insurance Practice Test

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1. Which of the following best describes the payment model used by Health Maintenance Organizations (HMOs)?

- ✓ A) Prepaid or capitation model where providers receive a fixed amount per member per month
- B) Indemnity-based reimbursement after services are rendered
- C) Cost-plus pricing based on actual expenses incurred
- D) Fee-for-service with no discounts

Explanation: In an HMO, providers are typically paid through capitation, meaning they receive a fixed, prepaid amount per enrolled member per month regardless of whether the member uses services. This incentivizes preventive care and cost control.

2. Sarah wants to purchase a life insurance policy on her business partner, David, to protect the business. Which of the following is TRUE regarding when Sarah must have an insurable interest in David's life?

- ✓ A) Only at the time the policy application is made
- B) Only at the time of David's death
- C) Both at the time of application and at the time of David's death
- D) Throughout the entire term of the policy

Explanation: In life insurance, insurable interest must exist only at the time of application. It does not need to continue throughout the policy or exist at the time of the insured's death, unlike property insurance.

3. How long must an employee have worked in Hawaii to qualify for TDI wage benefits?

- ✓ A) At least 14 weeks of employment with at least 20 hours per week and earned at least \$400 in the prior 4 calendar quarters
- B) At least 5 years of continuous service
- C) Only 1 single day of work
- D) At least 50 weeks of full-time work

Explanation: Qualifying for TDI requires 14 weeks of employment (earning \$400+) during the preceding 52 weeks.

4. An agent recommending an annuity to a client must have a reasonable basis for believing the recommendation is:

- ✓ A) Suitable for the client's financial situation and needs
- B) Profitable for the agent
- C) Approved by the insurer's CEO
- D) The highest-yielding product available

Explanation: 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.

5. John has a dispute with his insurer over an ambiguous clause in his health insurance contract. Since the contract was written solely by the insurer with no negotiation, how will a court typically resolve the ambiguity?

- A) In favor of the insurer because they wrote it
- ✓ B) In favor of John because the contract is a contract of adhesion
- C) By declaring the contract void due to lack of mutual agreement
- D) By split decision dividing the benefit 50/50

Explanation: Because insurance contracts are contracts of adhesion (offered on a 'take-it-or-leave-it' basis by the insurer), any ambiguities are legally resolved in favor of the adhering party (the insured).

6. In a group life insurance plan, who is the policyowner and who receives the certificate of insurance?

- ✓ A) The employer is the policyowner; the employee receives the certificate.
- B) The insurer is the policyowner; the employee receives the certificate.
- C) Both the employer and employee are policyowners.
- D) The employee is the policyowner; the employer receives the certificate.

Explanation: In a group life plan, the sponsoring organization (e.g., the employer) is the master policyowner. The individual members of the group (e.g., the employees) are not parties to the contract but receive a certificate of insurance as evidence of their coverage.

7. The 'level' in level term insurance refers to:

- A) Only the premium remaining constant while the death benefit increases
- B) A level risk that never changes over the term
- C) The policy being available at multiple coverage levels
- ✓ D) Both the premium and the death benefit remaining constant throughout the entire term

Explanation: Level term insurance provides a constant (level) death benefit and a constant (level) premium for the entire specified term period. This is the most common and simplest form of term life insurance. It provides predictable, stable costs and protection.

8. The Guaranteed Insurability Rider (GIR) allows the policyowner to:

- ✓ A) Purchase additional insurance at specified future dates without evidence of insurability
- B) Guarantee the insured's premium will never increase
- C) Purchase new policies for family members without medical exams
- D) Guarantee that the insurer will renew the policy for life

Explanation: The Guaranteed Insurability (or Future Purchase Option) Rider gives the policyowner the right to purchase additional life insurance at specified option dates or life events (e.g., marriage, birth of a child) without providing evidence of insurability. This ensures the insured can maintain adequate coverage even if their health declines.

9. An investor has an Equity Indexed Annuity tied to the S&P 500. The index rises by 15% during the year. The policy has a participation rate of 80% and a cap rate of 10%. What index interest rate will be credited to the investor's annuity?

- A) 15%
- B) 12%
- ✓ C) 10%
- D) 8%

Explanation: The participation rate would yield 12% (80% of 15%). However, because the policy has a cap rate of 10%, the maximum interest that can be credited is limited to the cap of 10%.

10. The length of time that disability income benefits will be paid is called the:

- ✓ A) Benefit period
- B) Coverage period
- C) Payment period
- D) Elimination period

Explanation: The benefit period is the maximum amount of time that benefits will be paid for a single disability. It can range from a few months (for short-term disability) to several years or even to age 65 (for long-term disability).

11. Before a variable life insurance or variable annuity product can be sold, the prospective buyer must receive a:

- A) Policy summary
- B) Certificate of insurance
- C) Buyer's guide
- ✓ D) Prospectus

Explanation: Because variable products are classified as securities, federal law requires that a prospectus be provided to the prospective buyer before or at the time of solicitation. The prospectus contains detailed information about the product's investment objectives, risks, fees, and expenses.

12. A 'limited pay life' policy differs from straight whole life primarily in that:

- A) The death benefit decreases as the payment period progresses
- B) Surrender charges apply for the full life of the policy
- C) Coverage terminates when premium payments end
- ✓ D) Premiums are paid for a limited number of years but coverage continues for the insured's entire life

Explanation: In a limited pay whole life policy, premiums are paid over a shorter period (e.g., 10 years, 20 years, or to age 65) but the policy provides permanent (whole life) coverage with no further premiums required after the payment period ends. Higher premiums during the payment period build sufficient cash value to sustain the policy for life.

13. A client wants permanent life insurance with a premium that will be fully paid after 15 years. Which policy would be most suitable?

- A) Term to Age 65
- B) Straight Life
- C) 20-Pay Life
- ✓ D) 15-Pay Life

Explanation: A 'Limited-Pay' life policy is designed for this purpose. A 15-Pay Life policy is a whole life policy where the premiums are designed to be paid in full over a 15-year period, after which the policy is paid-up.

14. A morale hazard arises from:

- A) A condition of the legal environment
- B) A physical condition of the property
- ✓ C) An individual's carelessness or indifference to loss
- D) An individual's dishonest tendencies

Explanation: A morale hazard is a type of hazard that arises from an insured's indifference or carelessness about a potential loss because they know they are insured. For example, leaving car doors unlocked.

15. Long-term care insurance benefit triggers typically include:

- A) Any hospitalization lasting more than 5 days
- B) Loss of income due to disability or injury
- C) Any diagnosis of a chronic illness by a physician
- ✓ D) Inability to perform at least 2 of 6 Activities of Daily Living (ADLs) or severe cognitive impairment

Explanation: LTC insurance benefits are triggered when the insured cannot perform at least 2 of 6 Activities of Daily Living (ADLs): bathing, dressing, eating, continence, toileting, and transferring. Severe cognitive impairment (such as Alzheimer's) is also a trigger. Both triggers must be certified by a licensed healthcare practitioner.

16. 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.

17. In a fixed-indexed annuity, 'downside protection' means:

- ✓ A) The annuity will never lose value due to index declines; the floor rate (typically 0%) protects against negative crediting
- B) The insurer will never let the annuity value fall below the original premium
- C) The insurer guarantees returns will match market performance even when markets decline
- D) The annuity owner receives compensation for any year the index falls

Explanation: Downside protection in FIAs means the annuity owner's account value is protected from loss when the index performs negatively. The floor rate (typically 0%) means the credited rate is never negative — a declining index results in zero credit for that period, not a loss of principal. This principal protection distinguishes FIAs from direct index investing.

18. Which of the following settings is typically covered by long-term care insurance?

- A) Outpatient surgery
- B) Emergency room visits
- ✓ C) Assisted living facility care
- D) Acute care hospital stays

Explanation: Long-term care insurance covers custodial care in a variety of settings: skilled nursing facilities, assisted living facilities, adult day care, and home health care. It does NOT typically cover acute medical care in hospitals or emergency rooms, which is covered by health insurance and Medicare.

19. Which of the following is an advantage of term life insurance?

- A) It provides lifelong coverage.
- B) The premium never increases.
- ✓ C) It has the lowest initial premium for a given face amount.
- D) It builds cash value.

Explanation: The primary advantage of term life insurance is its affordability. It provides the largest amount of death benefit for the lowest initial premium, making it an accessible option for temporary, high-need situations like protecting a young family.

20. The Payor Benefit rider is typically added to a life insurance policy on a:

- A) Senior citizen
- B) Spouse
- ✓ C) Child
- D) Business owner

Explanation: The Payor Benefit rider is added to a juvenile policy. It provides that if the person responsible for paying the premiums (usually a parent or guardian) dies or becomes disabled before the child reaches a certain age, the insurer will waive the premiums until the child reaches that age.

21. What is a 'binder' in insurance?

- A) A summary of policy benefits
- B) The first premium payment
- ✓ C) A temporary contract of insurance, pending issuance of the policy
- D) A folder for holding policy documents

Explanation: A binder is a temporary written or oral agreement that provides immediate, temporary insurance coverage until a formal policy is issued or denied. It is common in property insurance but less so in life insurance.

22. An annuity that begins making payments to the annuitant one payment interval after it is purchased is a(n):

- A) Deferred Annuity
- B) Flexible Premium Annuity
- ✓ C) Immediate Annuity
- D) Single Premium Annuity

Explanation: An immediate annuity is funded with a single, lump-sum premium and is designed to start paying out income almost immediately (within one year, but typically within one month).

23. A client uses funds from a non-qualified annuity to pay for long-term care insurance premiums. What is the tax implication?

- A) The withdrawal is subject to a 10% penalty.
- B) The withdrawal is fully taxable.
- ✓ C) The withdrawal may be tax-free if transferred directly from the annuity to the LTC insurer under the Pension Protection Act.
- D) The withdrawal is fully tax-free.

Explanation: The Pension Protection Act of 2006 allows for tax-free withdrawals from a non-qualified annuity to pay for long-term care insurance premiums, up to certain limits. This is accomplished via a direct trustee-to-trustee transfer.

24. The 'residual disability' provision is important for:

- A) Paying benefits after the maximum benefit period ends
- B) Covering pre-existing conditions that result in partial disability
- ✓ C) Providing proportional benefits to insureds who return to work at reduced capacity and earn less than before their disability
- D) Covering total disability only

Explanation: Residual (partial) disability benefits are essential for encouraging return to work. If an insured can work but earns less due to their disability, the residual provision pays a benefit proportional to the earnings loss. Without this provision, an insured who returns to work but earns less might have an incentive to remain totally disabled to maintain full benefits.

25. The ACA requires applicable large employers (ALEs) — those with 50 or more full-time employees — to:

- A) Cover all employees including part-time employees who work at least 10 hours per week
- B) Provide health insurance to all employees within 30 days of hire
- ✓ C) Offer minimum essential coverage to full-time employees and their dependents or potentially owe an employer shared responsibility payment
- D) Reimburse employees for individual marketplace coverage purchases

Explanation: Under the ACA's employer shared responsibility provision (employer mandate), ALEs with 50+ full-time employees must offer minimum essential coverage (MEC) that is affordable and meets minimum value to full-time employees (and their dependents) or potentially owe a penalty if any full-time employee receives a premium tax credit through the marketplace.

26. A High Deductible Health Plan (HDHP) is often paired with a:

- A) Traditional IRA
- ✓ B) Health Savings Account (HSA)
- C) Health Reimbursement Arrangement (HRA)
- D) Flexible Spending Account (FSA)

Explanation: HDHPs feature lower premiums and higher deductibles. They are designed to be paired with a Health Savings Account (HSA), which is a tax-advantaged savings account that individuals can use to pay for qualified medical expenses.

27. 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.

28. What is a self-funded or self-insured health plan?

- ✓ A) A plan where the employer pays for claims out of its own funds, rather than paying premiums to an insurer.
- B) A plan purchased from a private insurance company.
- C) A government-sponsored health plan.
- D) A plan that is funded by employee contributions only.

Explanation: In a self-funded plan, the employer assumes the financial risk of providing health benefits to its employees. Instead of paying a fixed premium to an insurer, the employer pays for each claim as it is incurred. These plans are often managed by a Third-Party Administrator (TPA).

29. What is the purpose of a Cost of Living Adjustment (COLA) rider on a disability policy?

- A) To increase the premium each year.
- ✓ B) To increase the monthly benefit amount to keep pace with inflation, once claims have begun.
- C) To provide a lump-sum payment at age 65.
- D) To decrease the elimination period.

Explanation: A COLA rider helps protect the purchasing power of the disability benefit. Once benefit payments have started, this rider will automatically increase the benefit amount each year, typically based on the Consumer Price Index (CPI).

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

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

31. An irrevocable beneficiary has certain rights in the policy. Which of the following is NOT a right of the irrevocable beneficiary?

- A) To prevent the policyowner from taking a policy loan
- B) To veto a change in beneficiary
- C) To receive the death benefit
- ✓ D) To change the premium payment mode

Explanation: 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).

32. Are surplus lines (non-admitted) insurance policies covered by the Hawaii Life and Disability Insurance Guaranty Association?

- ✓ A) No; surplus lines policies are non-admitted and are not protected by the state Guaranty Association
- B) Yes; every insurance policy sold in Hawaii is protected
- C) Yes; up to \$100,000 only
- D) Only if approved by the Governor

Explanation: Guaranty protection applies solely to authorized admitted insurers, not surplus lines carriers.

33. The term 'fiduciary' refers to:

- ✓ A) A person in a position of special trust and confidence
- B) The person who receives policy benefits
- C) An insurance company's main office
- D) A legal entity

Explanation: A fiduciary is a person or organization that holds a position of financial trust and confidence when handling the affairs or funds of another. Insurance producers have a fiduciary duty to their clients and the insurer.

34. A level premium policy means that the premium:

- A) Decreases each year.
- ✓ B) Remains the same for the life of the policy.
- C) Is flexible and can be changed by the policyowner.
- D) Increases each year.

Explanation: Level premium is a characteristic of most permanent life insurance policies, like whole life. The premium is calculated based on the insured's age at issue and is guaranteed to remain fixed for the entire payment period.

35. 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.

36. If an underwriter discovers an applicant has a hazardous hobby, they are most likely to:

- A) Decline the application outright.
- B) Issue the policy as a preferred risk.
- ✓ C) Issue the policy with a flat extra premium or an exclusion rider.
- D) Require the applicant to cease the hobby.

Explanation: For applicants with hazardous occupations or hobbies (e.g., scuba diving, auto racing), insurers often manage the increased risk by charging a flat extra premium or by adding an exclusion rider that eliminates coverage for death resulting from that specific activity.

37. The 'recurrent disability' provision in a disability income policy:

- A) Allows the insured to receive partial benefits during recovery
- B) Provides an additional benefit for each recurrence of a disability
- C) Requires a new elimination period for each new episode of disability
- ✓ D) Treats a disability that recurs within a specified period as a continuation of the original disability, not a new claim

Explanation: The recurrent disability provision protects the insured from losing benefits when a disability recurs. If the same or related disability returns within a specified period (often 6 months) after the insured returned to work, it is treated as a continuation of the original claim — not a new claim requiring a new elimination period.

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

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

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.

39. What is the term for the process of determining if a medical service is covered under a patient's health plan?

- A) Appeals process
- ✓ B) Prior authorization
- C) Underwriting
- D) Claims submission

Explanation: Prior authorization (or pre-authorization/pre-certification) is a requirement from the health insurer that a provider must obtain approval from the plan before delivering a specific service, such as a non-emergency hospital admission or a complex diagnostic image, to qualify for payment.

40. A 'capitation' payment arrangement in managed care means:

- ✓ A) The provider receives a fixed per-member-per-month payment to provide covered services regardless of utilization
- B) The provider is paid per service rendered
- C) The insurer caps the maximum benefit paid for any service
- D) The patient pays a fixed co-payment for all services

Explanation: Capitation is a payment model where managed care plans pay providers a fixed per-member-per-month (PMPM) amount to provide all covered services to enrolled members, regardless of how much or how little care is actually provided. This creates incentives for providers to manage care efficiently and maintain member health.

41. What is the examination passing score threshold required on the Hawaii insurance licensing exam administered by Pearson VUE?

- ✓ A) 70% or higher on each section
- B) 50% overall average
- C) 60% on state law only
- D) 85% on both sections combined

Explanation: Pearson VUE score reports require a score of at least 70% to pass.

42. A qualified annuity is funded with:

- ✓ A) Pre-tax dollars through an employer-sponsored plan (401k, 403b) or a Traditional IRA
- B) Dividends from a participating life insurance policy
- C) After-tax dollars that have already been reported as income
- D) After-tax dollars from a personal checking account

Explanation: A qualified annuity is funded with pre-tax (before-tax) dollars, typically through an employer-sponsored retirement plan (401k, 403b, 457) or a Traditional IRA. Because contributions have not been taxed, ALL distributions — both principal and earnings — are taxable as ordinary income when received.

43. Which of the following workers is generally EXEMPT from mandatory coverage under the Hawaii Prepaid Health Care Act?

- ✓ A) An employee who works fewer than 20 hours per week or works solely on seasonal basis
- B) A full-time hotel front desk clerk
- C) A permanent restaurant line cook working 35 hours per week
- D) An office manager working 25 hours per week

Explanation: Employees working under 20 hours per week, seasonal agricultural workers, and government workers (covered under separate laws) are exempt.

44. The Long-Term Care Rider on a life insurance policy allows the policyowner to:

- A) Automatically qualify for Medicaid upon triggering the rider
- B) Purchase a separate long-term care insurance policy at a discounted rate
- ✓ C) Access the death benefit early to pay for qualifying long-term care expenses
- D) Receive long-term care benefits without reducing the death benefit

Explanation: The Long-Term Care Rider (or Accelerated Death Benefit for LTC) allows the insured to access a portion of the life insurance death benefit early (an acceleration) to pay for qualifying long-term care expenses when the insured meets specific benefit triggers (inability to perform 2 of 6 ADLs or cognitive impairment). The death benefit is reduced by amounts accessed.

45. Concealment in an insurance application refers to:

- A) Failing to read the policy after it is delivered
- B) Providing false information on an application
- C) Submitting an incomplete claim form
- ✓ D) Intentionally withholding material facts that would affect the underwriting decision

Explanation: Concealment is the intentional withholding of material facts from the insurer at the time of application. Material concealment, like material misrepresentation, can be grounds for rescission of the policy if the insurer discovers it during the contestability period.

46. A quarter of coverage under Social Security is earned by:

- A) Paying a flat quarterly fee to the Social Security Administration
- ✓ B) Earning a specified minimum amount of wages or self-employment income in a calendar quarter
- C) Working for any employer for three consecutive months
- D) Being employed full-time for at least one quarter of the year

Explanation: 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.

47. Which of the following would be LEAST suitable for a 75-year-old client with limited liquidity?

- A) An immediate annuity that provides income right away with no surrender period
- B) A 5-year fixed annuity with a 5-year surrender charge period
- C) A short-term CD equivalent fixed annuity with a 1-year surrender period
- ✓ D) A 10-year fixed annuity with a 10-year surrender charge period

Explanation: A 10-year annuity with a 10-year surrender charge period would be least suitable for a 75-year-old with limited liquidity, as the surrender charges would lock up funds for 10 years — potentially through the client's 85th birthday. Healthcare and living expenses may create unexpected liquidity needs. An immediate annuity providing income right away or a short-term annuity would be more appropriate.

48. A basic medical expense policy typically provides coverage for:

- A) Catastrophic medical events
- B) Long-term care services
- ✓ C) Hospitalization, surgical procedures, and physician visits
- D) Preventive care only

Explanation: Basic medical expense plans provide 'first-dollar' coverage with no deductible but have low coverage limits. They typically consist of three parts: Hospital Expense, Surgical Expense, and Medical Expense (for physician visits).

49. Qualified annuities held within a Traditional IRA are subject to Required Minimum Distributions (RMDs). Under current law, RMDs must generally begin by April 1 following the year the owner turns:

- A) Age 75
- ✓ B) Age 73
- C) Age 59 1/2
- D) Age 65

Explanation: Under the SECURE 2.0 Act, the required beginning date for RMDs from qualified retirement accounts (including qualified annuities in IRAs) is age 73 for individuals born between 1951 and 1959, increasing to age 75 for those born in 1960 or later. Failure to take the RMD results in a penalty tax on the amount not distributed.

50. A mutual insurance company is owned by:

- A) The state insurance department
- B) Stockholders who receive dividends
- C) Federal banking regulators
- ✓ D) Policyholders who may receive dividends from surplus

Explanation: A mutual insurance company is owned by its policyholders. Profits (surplus) may be returned to policyholders as dividends, which are considered a non-taxable return of excess premium. Mutual companies have no stockholders.