



Insurance Test Practice

Official State Insurance Licensing Examination Preparation

Free Idaho Insurance Exam Practice Questions

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Life Insurance • Health Insurance • Annuities • General Insurance

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- Sample questions selected from our comprehensive 1,000+ question bank.
- Covers the most critical concepts tested on the state licensing examination.
- Answer explanations included directly with each question for immediate learning.
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Updated for 2026 State Licensing Requirements

1. What is the main source of information used by an underwriter to evaluate a risk?

- A) The agent's report
- ✓ B) The application
- C) A credit report
- D) The Medical Information Bureau (MIB) report

Explanation: The application is the primary source of underwriting information. It contains the applicant's statements about their health, occupation, and other factors relevant to the risk.

2. The master contract in a group life insurance plan is held by:

- A) The insurer as proof of coverage
- ✓ B) The employer or plan sponsor (the policyholder)
- C) Each individual employee in the group
- D) The state insurance department for filing purposes

Explanation: In group insurance, the employer or plan sponsor holds the master policy (the contract with the insurer). Individual employees receive certificates of insurance that summarize their coverage. The certificate is NOT the insurance contract — the master policy is.

3. A 'direct writer' or 'direct response insurer' sells insurance:

- ✓ A) Directly to consumers without using independent agents, often through mail, phone, or internet
- B) Only through independent agents with broad market access
- C) Only to businesses through wholesale distribution channels
- D) Only to other insurance companies through reinsurance arrangements

Explanation: Direct writers sell insurance directly to the public without using independent agents. Examples include major insurers who advertise directly to consumers on television and online. Their premiums may be lower because they eliminate agent commission costs, but consumers do not receive personalized agent advice.

4. A Section 125 (Cafeteria) plan allows employees to:

- A) Select from multiple insurance carriers
- B) Purchase food in the workplace cafeteria at a discount
- ✓ C) Choose between taxable and nontaxable benefits using pre-tax dollars
- D) Opt out of all employer benefits for a cash payment

Explanation: A Section 125 plan (also called a cafeteria plan or premium-only plan) allows employees to pay for certain qualified benefits, such as health insurance premiums, FSA contributions, and dependent care, on a pre-tax basis. This reduces the employee's taxable income.

5. What is the tax consequence of taking a loan from an annuity?

- A) Loans are not permitted from annuities.
- B) Loans are treated as tax-free, just like with life insurance.
- C) Loans are only permitted from qualified annuities.
- ✓ D) Loans are treated as taxable distributions under the LIFO method.

Explanation: Unlike life insurance, loans from annuity contracts are treated as taxable distributions. The loan amount is subject to LIFO taxation (earnings out first) and the 10% early withdrawal penalty if the owner is under 59 1/2.

6. What is the waiver of premium provision in a disability policy?

- A) It allows the insured to waive coverage.
- B) It waives the coinsurance requirement.
- C) It waives the elimination period.
- ✓ D) It waives the premium payments after the insured has been disabled for a specified period.

Explanation: Similar to the life insurance rider, this provision states that if the insured is disabled and receiving benefits, the insurer will waive the policy's premium payments. The waiver typically begins after the insured has been disabled for 90 days.

7. An Irrevocable Life Insurance Trust (ILIT) is used primarily to:

- A) Allow the insured to maintain full control of the policy
- ✓ B) Remove the life insurance policy from the insured's taxable estate
- C) Make the policy premiums tax-deductible
- D) Guarantee a higher rate of return on the cash value

Explanation: An ILIT is a trust that owns a life insurance policy on the grantor's life. Because the grantor has given up all incidents of ownership by transferring the policy to the irrevocable trust, the death benefit is not included in the grantor's taxable estate. This is a key estate planning tool for high-net-worth individuals.

8. Under the ACA, how long can a young adult remain on their parent's health insurance plan?

- A) Until age 18
- B) Until they are married
- C) Until age 21
- ✓ D) Until age 26

Explanation: 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.

9. Under Idaho Code § 41-4308, what is the maximum coverage limit provided by the Guaranty Association for basic hospital, medical, and surgical insurance (health benefit plans)?

- A) Up to \$100,000
- B) Up to \$300,000
- ✓ C) Up to \$500,000
- D) Up to \$1,000,000

Explanation: Under Idaho Code § 41-4308, the Guaranty Association provides up to \$500,000 for basic hospital, medical, and surgical insurance or major medical health benefit plans.

10. The mandatory 'Notice of Claim' provision requires an insured to provide written notice to the insurer within how many days after a covered loss begins?

- A) 30 days
- B) 10 days
- ✓ C) 20 days
- D) 60 days

Explanation: The insured must give written notice of a claim to the insurer within 20 days after the occurrence or commencement of any loss covered by the policy, or as soon as reasonably possible thereafter.

11. A universal life policy may lapse even when premiums are being paid if:

- A) The insured turns 65 and the insurer re-prices the policy
- B) The policyowner fails to submit annual medical updates
- ✓ C) The cost of insurance charges exceed the premium being paid plus available cash value
- D) The beneficiary changes cause administrative delays

Explanation: UL policies have internal cost of insurance (COI) charges that increase with the insured's age. If the premium being paid is insufficient to cover the increasing COI charges and the cash value is depleted, the policy will lapse — even if the policyowner is making premium payments. Annual statements should be monitored to ensure adequacy of premiums.

12. What does the 'participation rate' in an indexed annuity determine?

- ✓ A) The percentage of the index's gain that will be credited to the annuity.
- B) The guaranteed minimum interest rate.
- C) The fee for investing in the index.
- D) The maximum interest rate the annuity can earn.

Explanation: The participation rate determines how much of the index's increase is used to calculate the interest credited. For example, if the index gains 10% and the participation rate is 80%, the annuity would be credited with 8% interest (before any caps or spreads).

13. Medicare Part A covers skilled nursing facility (SNF) care under what conditions?

- ✓ A) It covers up to 100 days of SNF care per benefit period, following a qualifying hospital stay.
- B) It covers long-term custodial care indefinitely.
- C) It covers SNF care without any prior hospitalization.
- D) It pays the full cost of SNF care with no coinsurance.

Explanation: Medicare Part A covers short-term, rehabilitative care in a SNF. Coverage is limited to 100 days per benefit period and requires a prior qualifying inpatient hospital stay of at least three days. The first 20 days are fully covered, with a daily coinsurance for days 21-100.

14. An annuity is designed primarily to provide:

- A) A death benefit
- B) Coverage for medical expenses
- ✓ C) Protection against outliving one's income
- D) Short-term savings

Explanation: 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.

15. 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.

16. A 'per stirpes' beneficiary designation means that if a beneficiary predeceases the insured:

- ✓ A) Their share of the proceeds is passed down to their living children (the beneficiary's heirs).
- B) Their share is divided equally among the other surviving beneficiaries.
- C) Their share of the proceeds is forfeited.
- D) The entire death benefit goes to the contingent beneficiary.

Explanation: 'Per stirpes' (by the root) is a distribution method where the descendants of a deceased beneficiary inherit their share. For example, if a son who was a beneficiary dies, his children would split his portion of the death benefit.

17. Under Idaho Code § 41-2107, what is the grace period for an individual health insurance policy with a WEEKLY premium payment mode?

- A) 10 days
- B) 31 days
- C) 60 days
- ✓ D) 7 days

Explanation: Under Idaho Code § 41-2107, the statutory grace period for individual health policies is not less than 7 days for weekly premium modes.

18. A producer in Idaho intends to conduct business under an assumed business name (DBA) rather than their legal name. What must the producer do before using the name?

- A) Obtain approval from the federal NAIC office in Washington D.C.
- B) Register only with the local county sheriff office
- ✓ C) File the assumed business name with the Idaho Department of Insurance prior to use
- D) Assumed business names are illegal for insurance sales in Idaho

Explanation: Under Idaho Code § 41-1011, insurance producers must notify and register any assumed business name or DBA with the Idaho Department of Insurance prior to conducting business under that name.

19. Which type of insurer is organized to provide insurance benefits to members of a specific religious or social organization?

- A) Stock insurer
- B) Reciprocal exchange
- C) Mutual insurer
- ✓ D) Fraternal benefit society

Explanation: A fraternal benefit society is a nonprofit organization that provides life and health insurance exclusively to its members, who share a common bond such as religion, ethnicity, or occupation.

20. A 'cap rate' in an indexed annuity limits:

- A) The maximum surrender charge that can be assessed
- ✓ B) The maximum interest rate that will be credited regardless of how high the index performs
- C) The maximum premium that can be paid into the annuity
- D) The maximum benefit period for income payments

Explanation: The cap rate (or interest rate cap) in an indexed annuity sets the maximum amount of index-linked interest that will be credited in a given period, regardless of how well the index actually performs. For example, if the index gains 20% but the cap is 8%, only 8% is credited. Caps limit upside potential in exchange for downside protection.

21. Under Idaho Code § 41-1911, within how many years from the date of premium default may a lapsed life insurance policy be REINSTATED?

- A) Within 1 year
- ✓ B) Within 3 years
- C) Within 5 years
- D) Within 10 years

Explanation: Under Idaho Code § 41-1911, a life policy may be reinstated within three (3) years from the default date upon evidence of insurability and payment of past-due premiums with interest.

22. When money is withdrawn from a non-qualified annuity, how is the distribution taxed?

- A) First-In, First-Out (FIFO) - cost basis is withdrawn first.
- ✓ B) Last-In, First-Out (LIFO) - taxable earnings are withdrawn first.
- C) The entire withdrawal is taxed as ordinary income.
- D) The entire withdrawal is tax-free.

Explanation: Annuity withdrawals are taxed on a LIFO basis. This means the taxable earnings are considered to be taken out before the non-taxable return of principal (cost basis). This is less favorable than the FIFO treatment for life insurance cash values.

23. What is the 'exclusion ratio' used for?

- A) To calculate the agent's commission.
- ✓ B) To determine the portion of each annuity payment that is a tax-free return of principal.
- C) To determine the surrender charge on a withdrawal.
- D) To determine the annuity's participation rate.

Explanation: When an annuity is annuitized, the exclusion ratio is used to calculate how much of each income payment is taxable. It is calculated by dividing the total investment in the contract (cost basis) by the expected total return. This ratio represents the portion of each payment that is a non-taxable return of principal.

24. What is a Life Settlement?

- A) A dividend option that purchases more insurance.
- B) A settlement option that provides lifetime income.
- ✓ C) The sale of a life insurance policy by a healthy, typically elderly, individual to a third party.
- D) The cash surrender of a policy.

Explanation: A life settlement is similar to a viatical settlement, but the insured is not terminally ill. Typically, it involves senior citizens (e.g., age 65 or older) selling a policy they no longer need for more than its cash surrender value but less than its face amount.

25. The process by which an insurer evaluates a life insurance application to determine whether to accept the risk is called:

- A) Risk pooling
- ✓ B) Underwriting
- C) Loss reserving
- D) Actuarial analysis

Explanation: Underwriting is the process by which the insurer assesses the risk presented by an applicant and decides whether to issue the policy, and at what classification and premium. Underwriters evaluate factors such as age, health history, occupation, lifestyle, and financial need to classify the risk as standard, preferred, or substandard (rated).

26. Which of the following best describes an 'Independent Practice Association' (IPA) model HMO?

- ✓ A) An HMO that contracts with independent physicians in private practice who also see non-HMO patients
- B) A network of hospitals that exclusively treats HMO members
- C) HMO-employed physicians who practice only at HMO facilities
- D) A health insurance cooperative owned by its physician members

Explanation: In an IPA model HMO, the HMO contracts with an association (IPA) of independent physicians who practice in their own private offices and see both HMO and non-HMO patients. The IPA negotiates with the HMO on behalf of its member physicians. This is one of the most common HMO structures because it allows the HMO to build a broad network without employing physicians directly.

27. A licensed producer in Caldwell moves their business office and residential address. Within how many days must the producer notify the Idaho Department of Insurance in writing?

- ✓ A) Within 30 days
- B) Within 10 days
- C) Within 15 days
- D) Within 60 days

Explanation: Under Idaho Code § 41-1008, licensees must inform the Director of any change in residential, business, or email address within thirty (30) days of the change.

28. The 'interest only' settlement option in life insurance means:

- ✓ A) The beneficiary receives only the interest earned on the death benefit, which remains on deposit with the insurer until the beneficiary chooses to withdraw or select another option
- B) All payments to the beneficiary are applied first to the accumulated interest
- C) The death benefit is reduced to reflect only the interest component of the premium
- D) The insurer retains the death benefit principal indefinitely and pays only interest

Explanation: Under the interest only settlement option, the insurer retains the death benefit proceeds and pays interest to the beneficiary at regular intervals. The principal (death benefit) remains intact and is available to the beneficiary on demand or at a specified future date. This option is useful when the beneficiary needs time to decide how to use the funds, or wants to preserve the principal for future use.

29. In a Medicare Advantage PPO plan, a member can:

- ✓ A) See both in-network and out-of-network doctors, but with higher costs for out-of-network care.
- B) Not get any coverage for out-of-network services.
- C) Only see doctors in the plan's network.
- D) See any doctor without a referral, with no difference in cost.

Explanation: Similar to a standard PPO, a Medicare Advantage PPO plan offers the flexibility to see providers outside the network. However, the member's out-of-pocket costs (copays, coinsurance) will be lower if they stay within the plan's preferred provider network.

30. 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.

31. What is the main difference between an HMO and a PPO?

- ✓ A) HMOs require a gatekeeper and have a limited network; PPOs offer more flexibility and out-of-network options.
- B) PPOs cover preventative care; HMOs do not.
- C) HMOs use a capitation fee; PPOs use a fee-for-service model.
- D) PPOs are federally regulated; HMOs are state-regulated.

Explanation: The primary distinction lies in the network and choice. HMOs are more restrictive, requiring members to use a limited network and a PCP gatekeeper. PPOs offer a broader network and the freedom to see out-of-network providers, albeit at a higher cost.

32. An insurer fails to effectuate a prompt and fair settlement of a claim in which liability has become reasonably clear. What violation has occurred under Idaho Code § 41-1329?

- A) Twisting
- ✓ B) Unfair Claims Settlement Practice
- C) Churning
- D) Sliding

Explanation: Failing to attempt in good faith to effectuate prompt, fair, and equitable settlements of claims in which liability has become reasonably clear violates Idaho Code § 41-1329.

33. The cash value in a whole life policy grows on a:

- A) Taxable basis
- ✓ B) Tax-deferred basis
- C) Annual taxable distribution basis
- D) Capital gains tax basis

Explanation: Cash value accumulation inside a whole life policy grows on a tax-deferred basis — meaning no income tax is owed on the growth as long as it remains inside the policy. This tax advantage makes whole life a potentially attractive long-term financial planning tool.

34. Under federal COBRA, how long can a spouse and dependent children continue coverage if the covered employee dies or gets divorced?

- ✓ A) 36 months
- B) 29 months
- C) Coverage terminates immediately.
- D) 18 months

Explanation: For dependents, qualifying events like the death of the employee, divorce or legal separation, or the employee becoming eligible for Medicare allow for a continuation period of up to 36 months.

35. The 'uniform simultaneous death act' affects life insurance by:

- A) Splitting proceeds equally between both estates
- B) Requiring equal distribution among all beneficiaries when deaths occur simultaneously
- C) Voiding the policy when both insured and beneficiary die simultaneously
- ✓ D) Presuming the insured survived the beneficiary when both die simultaneously, causing proceeds to pass to the contingent beneficiary

Explanation: The Uniform Simultaneous Death Act provides that when an insured and beneficiary die simultaneously (or the order of death cannot be determined), the insured is presumed to have survived the beneficiary for insurance purposes. This causes proceeds to pass to the contingent beneficiary, preventing the proceeds from going through the primary beneficiary's estate.

36. The grace period provision in a life insurance policy allows:

- ✓ A) The policyowner 31 days after the due date to pay the premium before the policy lapses
- B) The beneficiary time to claim benefits after the insured's death
- C) The insurer a 31-day grace period before paying death claims
- D) The insured to receive benefits while hospitalized without paying premiums

Explanation: The Grace Period (typically 31 days for life insurance) gives the policyowner additional time after a missed premium due date to pay the premium without the policy lapsing. During the grace period, the policy remains in force. If the insured dies during the grace period, the insurer pays the death benefit minus the overdue premium.

37. The Full Retirement Age (FRA) for Social Security benefits for workers born in 1960 or later is:

- A) Age 62
- ✓ B) Age 67
- C) Age 66
- D) Age 65

Explanation: The Full Retirement Age has gradually increased from 65 for those born before 1938 to age 67 for those born in 1960 or later. FRA is the age at which a worker is entitled to receive 100% of their Primary Insurance Amount (PIA).

38. A mortality table is used by insurers to:

- A) Set the commission rate for agents
- B) Calculate the dividend paid to policyholders
- C) Determine the cash value of a policy
- ✓ D) Predict the probable number of deaths at each age per year

Explanation: A mortality table (such as the Commissioners Standard Ordinary table) shows the expected number of deaths per thousand individuals at each age. Insurers use this statistical data to calculate the mortality cost component of the premium.

39. Because the insurer writes the policy and the insured has no say in its wording, an insurance policy is considered a(n):

- A) Unilateral contract
- B) Contract of indemnity
- ✓ C) Contract of adhesion
- D) Aleatory contract

Explanation: A contract of adhesion is a contract offered on a 'take-it-or-leave-it' basis by one party (the insurer) to the other (the insured). Any ambiguities in the contract are therefore interpreted in favor of the insured.

40. Under Idaho Code § 41-2106, what is the statutory Time Limit on Certain Defenses in individual health insurance policies?

- A) 1 year from the policy issue date
- B) 3 years from the policy issue date
- C) 5 years from the policy issue date
- ✓ D) 2 years from the policy issue date

Explanation: Under Idaho Code § 41-2106, no misstatements (except fraudulent misstatements) made by the applicant in the application can be used to void the policy or deny a claim after two (2) years.

41. A producer in Twin Falls fails to complete CE credits before their license expiration date. Within what timeframe can the producer reinstate the license without taking an examination?

- A) Within 30 days
- ✓ B) Within 12 months (1 year)
- C) Within 90 days
- D) Within 24 months (2 years)

Explanation: Under Idaho Code § 41-1008, a producer who allows their license to lapse may reinstate the license within twelve (12) months of expiration by completing CE and paying double the renewal fee without retaking the exam.

42. A collateral assignment of a life insurance policy is used when the policyowner:

- A) Transfers the policy to a trust for estate planning
- B) Wants to permanently give the policy to another person
- ✓ C) Pledges the policy as security for a loan while retaining ownership
- D) Assigns the policy to a charity as a tax-deductible gift

Explanation: A collateral assignment is a temporary, partial transfer of policy rights to a lender as security for a debt. The policyowner retains all ownership rights except those assigned to the lender. When the loan is repaid, the assignment is released. If the insured dies, the lender is paid the outstanding loan balance from the death benefit, and the remainder goes to the named beneficiary.

43. 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.

44. The 'notice of claims' provision in a health insurance policy requires:

- ✓ A) The insured to give written notice of a claim to the insurer within a specified time after a covered loss
- B) All health claims to be submitted electronically to qualify for reimbursement
- C) Both the insured and the provider to submit separate claim notices
- D) The insurer to notify the insured within 30 days of any claim decision

Explanation: The notice of claims provision requires the insured to notify the insurer of a claim within a specified time period (typically within 20 days of the loss or as soon as reasonably possible). Timely notice allows the insurer to investigate the claim and provide claim forms. Failure to provide timely notice does not necessarily void coverage but may complicate the claims process.

45. If an applicant makes a material misrepresentation on an application, the insurer may:

- ✓ A) Void the policy
- B) Increase the premium
- C) Sue the applicant for fraud
- D) Add an exclusion rider

Explanation: A material misrepresentation is a false statement that, if known, would have caused the insurer to reject the application or issue a different policy. The insurer can rescind (void) the policy if a material misrepresentation is discovered within the contestability period.

46. A 'per capita' beneficiary designation means that:
- A) The death benefit is distributed by bloodline.
 - ✓ B) The death benefit is divided equally among only the surviving named beneficiaries.
 - C) The death benefit is passed down to the beneficiaries' heirs.
 - D) The death benefit is paid to the insured's estate.

Explanation: 'Per capita' (by the head) means the death benefit is shared equally among the surviving beneficiaries in a designated class. If one beneficiary in the class has died, their share is redistributed among the other survivors in that class, and their heirs receive nothing.

47. The ACA's 'essential health benefits' (EHBs) include all of the following EXCEPT:
- A) Emergency services
 - B) Maternity and newborn care
 - ✓ C) Long-term care facility services
 - D) Pediatric services including oral and vision care

Explanation: The ACA's 10 essential health benefits include: ambulatory patient services, emergency services, hospitalization, maternity and newborn care, mental health and substance use disorder, prescription drugs, rehabilitative services, laboratory services, preventive and wellness services, and pediatric services. Long-term care facility services are NOT an EHB.

48. When a lapsed individual health insurance policy is reinstated in Idaho, what coverage is immediately provided versus delayed?
- A) Sickness is covered immediately; accidents are covered after 30 days
 - B) All claims are covered immediately without waiting periods
 - C) No claims are covered for the first 6 months
 - ✓ D) Accidental injuries are covered immediately; sickness is covered after a 10-day waiting period

Explanation: Under Idaho Code § 41-2110, reinstated health policies cover accidental injuries immediately, but cover sickness only if it begins more than 10 days after the reinstatement date.

49. A 'family term rider' on a life insurance policy provides:
- A) Separate individual policies for each family member
 - B) Permanent coverage for all family members at a single premium
 - C) Coverage only for the insured's spouse
 - ✓ D) Term life coverage on the spouse and children of the insured under a single rider premium

Explanation: The Family Term Rider (also called Family Rider or Spouse and Children's Rider) provides term life coverage on the policyowner's spouse and children under a single rider. It is cost-efficient — one rider covers multiple family members for a flat premium. Children's coverage typically ends at age 25, and the spouse's coverage can often be converted to individual policies.

50. John named his two children, Amy and Ben, as his primary beneficiaries on a per stirpes basis. Ben dies before John, leaving two children of his own (John's grandchildren). When John dies, who receives the death benefit?
- A) Amy receives 50% and Ben's share goes to John's estate.
 - ✓ B) Amy receives 50% and Ben's two children split the other 50%.
 - C) The entire death benefit is paid to the contingent beneficiary.
 - D) Amy receives the entire death benefit.

Explanation: Under a 'per stirpes' (by the root or branch) distribution, the share of a deceased beneficiary passes down to their heirs. Amy receives her 50% share, and Ben's 50% share is divided equally between his two children.