Insurance Test Practice

Indiana Insurance Practice Test

Free Life & Health Insurance Practice Questions with Answers

- 50 carefully curated practice questions
- Real exam format and difficulty
- Updated for 2026 regulations
- Print-ready professional design

Ready to pass your exam? Practice with our interactive exam simulator:

Start Free Simulator at insurancetestpractice.com

Premium Access: Full Question Bank • Real Mock Tests • Smart Dashboard

Practice Questions Begin on Next Page

1. 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.

2. In an Interest-Sensitive Whole Life policy, the cash value can grow at a rate that is:

A) Fixed and guaranteed for the life of the policy.
B) Determined by the policyowner's choice of subaccounts.
C) Tied directly to the stock market.
✔ D) Greater than the guaranteed minimum rate if the insurer's investments perform well.

Explanation: Interest-Sensitive Whole Life (also called Current Assumption Whole Life) offers a guaranteed minimum interest rate on cash value, but may credit a higher, current interest rate based on the performance of the insurer's general account investments.

3. The levels of long-term care, ranked from most intensive to least intensive, are:

A) Home health care, custodial care, intermediate care, skilled nursing care
B) Intermediate care, skilled nursing care, home health care, custodial care
C) Custodial care, intermediate care, skilled nursing care, home health care
✔ D) Skilled nursing care, intermediate care, custodial care, home health care

Explanation: Skilled nursing care is the highest level, requiring licensed medical professionals providing 24-hour care. Intermediate care is periodic skilled care (not 24-hour). Custodial care is non-medical assistance with ADLs. Home health care provides skilled or custodial services in the insured's home.

4. What is residual disability?

A) A disability that results from an accident.
✔ B) A disability that provides a benefit based on the percentage of income lost due to the disability.
C) A permanent but not total disability.
D) The final disability payment made.

Explanation: A residual disability rider provides benefits when the insured is able to return to work but at a reduced capacity, resulting in a loss of income. The benefit paid is proportional to the percentage of income lost. For example, a 30% loss of income might result in a 30% disability benefit.

5. Which of the following statements about the interest rate guaranteed in a fixed annuity is CORRECT?

A) The guaranteed rate is the only rate ever credited
✓ B) The insurer may credit a higher current rate but guarantees a minimum rate for the life of the contract
C) Guaranteed rates only apply during the surrender charge period
D) The guaranteed rate resets each year based on Treasury yields

Explanation: Fixed annuities guarantee a minimum interest rate for the life of the contract. The insurer may credit a higher current (declared) rate, but the minimum is the floor. Historically, minimum guarantees have ranged from 1% to 3.5% depending on when the contract was issued. The current credited rate can be reset periodically but cannot fall below the contractual minimum.

---

6. Investment subaccounts in a variable life insurance policy may include all of the following EXCEPT:

A) Stock fund subaccounts
B) Money market subaccounts
C) Bond fund subaccounts
✓ D) Real estate directly owned by the insurance company

Explanation: Variable life subaccounts can include a variety of investment options similar to mutual funds: equity (stock) funds, bond funds, balanced funds, money market funds, and index funds. The subaccounts do NOT include direct real estate ownership or other illiquid investments — they must be publicly traded or liquid investment options registered with the SEC.

7. What is the purpose of the Relation of Earnings to Insurance provision?

✓ A) To prevent over-insurance and limit the total disability benefit to a percentage of the insured's income.
B) To tie the benefit period to the elimination period.
C) To ensure the benefit keeps up with inflation.
D) To relate the premium to the insured's age.

Explanation: This provision allows the insurer to limit the benefit payable to the insured's average income over the last 24 months. If the total disability benefit from all policies exceeds the insured's earnings, the insurer will only pay a proportionate share, preventing the insured from profiting from being disabled.

8. An insurance company, Hoosier Mutual, is declared insolvent by a Indiana court. Which entity is responsible for protecting policyholders and paying covered claims?

A) The Indiana State Treasury
✓ B) The Indiana Life and Health Insurance Guaranty Association
C) The Federal Deposit Insurance Corporation (FDIC)
D) The NAIC Insolvency Fund

Explanation: The state's Life and Health Insurance Guaranty Association protects policyowners and beneficiaries against financial loss caused by insurer insolvency.

9. In a fixed-indexed annuity, the 'participation rate' means:

A) The percentage of premiums used to purchase the index
B) The surrender charge as a percentage of the premium
✓ C) The percentage of the index gain that is credited to the policy
D) The minimum rate of return guaranteed by the insurer

Explanation: The participation rate in an indexed annuity determines what percentage of the index's gain will be credited to the annuity. For example, if the S&P 500 gains 10% and the participation rate is 80%, the annuity would be credited 8%. Participation rates, caps, and floors together determine the actual crediting rate.

10. A domestic insurance company is one that is:

A) Incorporated in a country other than the United States
B) Incorporated in a different U.S. state than where it is doing business
C) Licensed in all 50 states simultaneously
✓ D) Incorporated in the same state where it is transacting business

Explanation: A domestic insurer is incorporated and organized in the state where it is currently transacting business. A foreign insurer is incorporated in another U.S. state, and an alien insurer is incorporated in another country.

---

11. In an employer-paid (noncontributory) group disability plan, how are the benefits received by an employee treated for tax purposes?

A) Taxation depends on the employee's age.
✓ B) They are fully taxable as ordinary income.
C) They are received income tax-free.
D) They are partially taxable.

Explanation: If the employer pays the entire premium for a group disability plan, the employer can deduct the premium as a business expense. Consequently, any benefits received by a disabled employee are considered taxable income.

12. The difference between 'copayment' and 'coinsurance' in health insurance is:

✓ A) A copay is a fixed dollar amount per service; coinsurance is a percentage of costs after the deductible
B) Copays apply only to HMOs; coinsurance applies only to PPOs
C) Coinsurance applies only to hospital care; copays apply to outpatient care
D) Both terms mean the same thing — a percentage of covered costs

Explanation: A copayment (copay) is a fixed dollar amount paid per service (e.g., $30 per doctor visit). Coinsurance is a percentage the insured pays after the deductible is met (e.g., 20% of all covered expenses). Both are forms of cost-sharing designed to reduce premium costs and encourage appropriate utilization of healthcare services.

13. Which party to an annuity contract is the person whose life expectancy is used to calculate the income payments?

A) The insurer
✓ B) The annuitant
C) The beneficiary
D) The owner

Explanation: The annuitant is the individual upon whose life the annuity payments are based. The owner and the annuitant are often the same person, but not always.

14. The 'spread' in a fixed-indexed annuity is:

- ✔ A) A percentage that is deducted from the index return before crediting interest to the annuity
- B) The difference between the cap rate and the floor rate
- C) The difference between the credited rate and the guaranteed minimum rate
- D) The insurer's profit margin disclosed in the prospectus

Explanation: A spread (or 'asset fee') is a type of index crediting method in which the insurer deducts a fixed percentage from the index return before crediting the annuity. For example, if the index gains 8% and the spread is 2%, the annuity is credited 6%. Spreads, caps, and participation rates all limit the annuity owner's upside in exchange for downside protection.

15. A deferred annuity's accumulation phase ends when:

- A) The contract is transferred to a beneficiary
- B) The surrender charge period expires
- C) The annuitant reaches age 59½
- ✔ D) The contract is annuitized and income payments begin

Explanation: The accumulation phase of a deferred annuity ends when the contract is annuitized — converted from the savings phase to the income-paying phase. At annuitization, the accumulated value is used to calculate regular income payments based on the chosen payout option and the annuitant's life expectancy.

---

16. A client, age 65, receives her first monthly payment of $500 from a non-qualified immediate annuity. She paid a $90,000 premium, and her life expectancy gives her an expected return of $120,000. How much of the $500 payment is taxable?

- A) $375.00
- ✔ B) $125.00
- C) $0.00
- D) $500.00

Explanation: The exclusion ratio is cost basis / expected return = $90,000 / $120,000 = 0.75 or 75%. This means 75% of each payment is a tax-free return of principal (75% of $500 = $375). The remaining 25% is taxable income (25% of $500 = $125).

17. A policyowner can borrow from their whole life policy's cash value. What is the effect on the death benefit if the loan is not repaid?

- ✔ A) The death benefit is reduced by the outstanding loan amount plus interest.
- B) The death benefit remains unchanged.
- C) The beneficiary becomes responsible for repaying the loan.
- D) The policy is automatically terminated.

Explanation: If a policy loan is outstanding at the time of the insured's death, the insurer will deduct the loan balance plus any accrued interest from the death benefit before paying the remainder to the beneficiary.

18. The 'gift tax annual exclusion' and life insurance gifting strategies are relevant because:

A) Life insurance death benefits are always subject to gift taxes
B) Death benefits paid to non-family beneficiaries are treated as taxable gifts
C) Annuity premium payments are subject to gift tax in all cases
✔ D) Transferring ownership of an existing life insurance policy may trigger gift tax if the policy's value exceeds the annual exclusion amount

Explanation: When a policyowner transfers ownership of an existing life insurance policy to another person (e.g., an irrevocable life insurance trust), the transfer may be subject to gift tax based on the policy's value (interpolated terminal reserve plus any unearned premium). This is a key estate planning consideration for using life insurance to reduce taxable estates.

19. The 'current assumption whole life' (CAWL) policy is:

A) A whole life policy with premiums that increase to match current market rates
B) A universal life policy designed for current (short-term) financial planning needs
✔ C) A whole life-like policy with premiums and cash values that vary based on current (not guaranteed) interest rate and mortality assumptions
D) A traditional whole life policy with fixed premiums and guaranteed cash values

Explanation: Current Assumption Whole Life (CAWL) — also called interest-sensitive whole life — resembles traditional whole life but uses current (non-guaranteed) interest and mortality assumptions to determine premiums and cash values. If current assumptions are favorable, premiums may decrease or cash value may grow faster than guaranteed. If assumptions worsen, premiums may increase.

20. 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.

---

21. The mandatory 'Physical Examination and Autopsy' provision gives the insurer the right to:

✔ A) Require a physical exam of the insured at any time during a claim, at the insurer's expense
B) Require the insured to pay for a medical exam before benefits are paid
C) Require an annual physical as a condition of coverage
D) Deny any claim without a physical exam

Explanation: The insurer has the right to have the insured examined by a physician of its choice, as often as reasonably required during the pendency of a claim. The insurer also has the right to request an autopsy in the event of death, where not prohibited by law. All costs are borne by the insurer.

22. What is a 'dread disease' or 'limited risk' policy?

A) A comprehensive policy covering all illnesses.
B) A policy designed for individuals with pre-existing conditions.
✔ C) A policy that covers only specific illnesses, such as cancer or heart disease.
D) A short-term medical policy.

Explanation: A limited risk policy, such as a cancer policy, provides benefits only for the diagnosis and treatment of a specific disease named in the policy. It is not a substitute for comprehensive health coverage.

23. 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.

24. A 'deductible' in a health insurance policy is:

A) The amount the insurer pays before the insured contributes anything
✔ B) The fixed amount the insured must pay out-of-pocket before insurance benefits begin
C) The maximum benefit the insurer will pay
D) The insured's monthly premium payment

Explanation: The deductible is a specified dollar amount that the insured must pay out-of-pocket for covered services before the insurance company begins paying benefits. Higher deductibles result in lower premiums and vice versa. Most health plans have calendar-year deductibles that reset on January 1.

25. A client, age 55, takes a $10,000 withdrawal from his non-qualified annuity. His cost basis is $50,000 and the current value is $70,000. How much of the withdrawal is taxable, and what is the penalty?

✔ A) $10,000 is taxable, plus a $1,000 penalty.
B) The taxable amount is zero, but there is a $1,000 penalty.
C) The taxable amount is $2,857, plus a $285 penalty.
D) The entire $10,000 is a tax-free return of basis.

Explanation: Under LIFO rules, the withdrawal comes from the $20,000 of earnings first. So, the entire $10,000 withdrawal is taxable as ordinary income. Because the client is under age 59 1/2, a 10% penalty applies to the taxable amount, which is 10% of $10,000 = $1,000.

26. The 'life income with refund annuity' settlement option ensures that:

A) The beneficiary receives a refund of all premiums paid by the insured
✔ B) The total of all payments made will equal at least the original death benefit principal
C) Income payments are guaranteed for the insured's lifetime plus 20 years
D) If the beneficiary dies, any remaining balance is paid to the insurer

Explanation: The Life Income with Refund (cash or installment refund) settlement option guarantees that if the beneficiary dies before receiving total payments equal to the original death benefit (principal), the remaining balance is paid to the beneficiary's estate or a successor payee. This provides a minimum recovery guarantee while still offering lifetime income.

27. What is the purpose of stop-loss insurance for a self-funded employer?

A) To provide health insurance to employees.
B) To insure against employee lawsuits.
C) To cover administrative costs.
✔ D) To limit the employer's liability for large or catastrophic claims.

Explanation: An employer with a self-funded plan will purchase stop-loss insurance from a commercial insurer. This policy protects the employer from unexpectedly high claims by reimbursing the employer for claims that exceed a certain dollar amount (either on an individual or aggregate basis).

28. Level term life insurance means:

✔ A) Both the premium and death benefit remain level (unchanged) throughout the term
B) The death benefit decreases each year as the mortgage balance declines
C) The coverage is guaranteed renewable for life
D) The premium increases annually with the insured's age

Explanation: Level term insurance maintains a constant death benefit and level premiums throughout the entire term period. This is the most common type of term insurance sold today. It provides predictable costs and consistent protection.

29. 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.

30. A 'participating' whole life policy allows the policyowner to use dividends to purchase a 'one-year term' option. This option:

A) Provides an additional year of double the death benefit
B) Purchases a one-year extension of the policy at no cost
C) Converts the policy to term insurance for one year using the dividend
✔ D) Uses the dividend to purchase one year of additional term life insurance equal to the policy's cash value

Explanation: The 'fifth dividend option' (term purchase) uses the dividend to purchase one year of additional term life insurance. The amount of term purchased typically equals the policy's cash value. This option temporarily increases the total death benefit (base policy plus the term amount) without increasing the permanent premium. It is commonly used in high-cash-value policies.

---

31. Who would be the most appropriate beneficiary for a Key Person life insurance policy?

✔ A) The business that employs the insured
B) The insured's spouse
C) The insured's children
D) A charitable organization

Explanation: In a key person insurance arrangement, the business is the applicant, owner, premium payor, and beneficiary. The policy is designed to protect the business from the financial loss resulting from the death of a key employee.

32. 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.

33. An insurer, Star Mutual, fails to pay a claim within 15 working days after receiving complete proof of loss. What must the insurer do if they need more time?

✔ A) Send a written notice of delay to the claimant within the 15 working days, explaining the reasons.
B) Do nothing; they have 90 days.
C) Call the agent to explain.
D) Reject the claim and ask the client to reapply.

Explanation: If an insurer cannot complete its investigation and make a decision within 15 working days of proof of loss, they must notify the claimant in writing of the delay.

34. An agent, Emily, offers to refund a portion of a client's first-year premium as an incentive to close a sale on a life insurance policy. What unfair trade practice has Emily committed?

A) Twisting
✓ B) Rebating
C) Churning
D) Coercion

Explanation: Rebating is offering any inducement or value (such as commission sharing, gifts, or premium discounts) not specified in the contract to encourage a sale.

35. Health insurance policies can be classified as either 'indemnity' plans or 'service plans.' The key difference is:

A) Service plans are only available through employers; indemnity plans are individual only
✓ B) Indemnity plans reimburse the insured for expenses incurred; service plans provide services directly through participating providers
C) Indemnity plans cover only hospitalization; service plans cover outpatient care
D) Indemnity plans have no deductibles; service plans always have deductibles

Explanation: Indemnity (fee-for-service) plans reimburse the insured for covered medical expenses after the fact. The insured can typically use any provider. Service plans (managed care, including HMOs) provide benefits in the form of healthcare services delivered through contracted provider networks, rather than cash reimbursement.

---

36. An agent, David, is replacing a life insurance policy. He fails to submit the Notice Regarding Replacement to the replacing insurer. What is the consequence for David?

✓ A) It is a violation of Indiana Department of Insurance (IDOI) regulations and can lead to license suspension or fines.
B) There is no penalty if the client is satisfied.
C) The existing insurer will pay David a commission.
D) The client must pay a penalty.

Explanation: Failing to follow replacement regulations is a violation of Indiana law and can result in administrative penalties.

37. 'Presumptive disability' in a disability income policy means:

A) The insurer presumes the insured is disabled without medical evidence
✓ B) Certain specified severe conditions (e.g., loss of limbs, sight, or speech) automatically qualify the insured for total disability benefits without a waiting period
C) The insured is presumed to be disabled based on their job duties
D) Benefits are paid based on the physician's presumptive diagnosis

Explanation: Presumptive disability provisions automatically waive the elimination period and provide immediate total disability benefits when the insured suffers certain catastrophic losses — such as complete and permanent loss of sight, hearing, speech, or the use of two limbs. The insured is presumed permanently and totally disabled from the specified loss.

38. The separate account of a variable life insurance policy is similar to a:

A) Savings account
✔ B) Mutual fund
C) Certificate of deposit
D) Money market account

Explanation: The separate account functions similarly to a mutual fund. It pools the premiums of multiple policyowners and invests them in a diversified portfolio of stocks, bonds, or other securities. Like mutual funds, the value of the account fluctuates with the performance of the underlying investments.

39. 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.

40. The parol evidence rule in insurance means:

A) The insured can testify in court about what the agent said
B) All verbal agreements are equally binding as written policies
C) Policies can be amended verbally during the policy term
✔ D) Oral statements cannot be used to modify the terms of a written insurance contract

Explanation: The Parol Evidence Rule holds that once an insurance contract is in writing, oral statements made before or at the time of the contract cannot be introduced to contradict, vary, or add to its written terms. This protects the integrity of the written contract.

---

41. Credit Life Insurance is typically issued as:

A) Individual whole life
B) Group universal life
✔ C) Group decreasing term
D) Individual level term

Explanation: Credit life insurance is designed to pay off a specific loan or debt if the borrower dies. It is usually sold as group decreasing term insurance, where the financial institution is the master policyholder and beneficiary, and the death benefit decreases along with the loan balance.

42. Modified Whole Life and Graded Premium Whole Life are similar in that:

A) Both have a flexible premium.
B) Both offer a flexible death benefit.
C) Both are types of term insurance.
✔ D) Both have a lower premium in the early years that increases in later years.

Explanation: Both Modified and Graded Premium Whole Life are designed for individuals who need permanent insurance but cannot afford the level premiums of a traditional whole life policy at the outset. Both have lower initial premiums that increase over time before leveling off for the remainder of the policy.

43. What is the tax treatment of premiums paid for a non-qualified annuity?

✔ A) They are not tax-deductible.
B) They are fully tax-deductible.
C) They are partially tax-deductible.
D) They are a tax credit.

Explanation: Premiums for a non-qualified annuity are paid with after-tax dollars and are not tax-deductible. This is what establishes the owner's cost basis in the contract.

44. In group insurance, who is responsible for paying the policy premiums to the insurer?

A) The Third-Party Administrator
✔ B) The employer
C) The agent of record
D) The employee

Explanation: The employer, as the master policyholder, is responsible for collecting the employee's share of the premium (if any) and remitting the total premium to the insurance company on a regular basis.

45. 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.

---

46. 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.

47. 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.

48. 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.

49. The process where an insurer may check information from the Department of Motor Vehicles (DMV) for an applicant is part of:

A) A paramedical exam
B) A consumer report
✔ C) An inspection report
D) Credit scoring

Explanation: An inspection report is a general report on the applicant's finances, character, work, hobbies, and lifestyle. This may include a review of their driving record from the DMV, especially if they are applying for a large amount of coverage or have a history of reckless behavior.

50. James is laid off from his job at a firm with 25 employees. He wants to continue his group health insurance under federal COBRA. How long can he continue this coverage, and what is the maximum premium he can be charged?

✔ A) 18 months at 102% of the premium
B) 36 months at 100% of the premium
C) 12 months at 150% of the premium
D) 6 months at 102% of the premium

Explanation: Under federal COBRA, terminated employees of firms with 20 or more employees can continue their group health coverage for up to 18 months. The employer can charge them up to 102% of the total premium (including the employer's share) to cover administrative costs.