Insurance Test Practice

Kentucky Insurance Practice Test

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1. Under Medicare Part A, the inpatient hospital deductible applies:

A) Once per calendar year
B) Each time the beneficiary is admitted
C) Once per lifetime
✔ D) Once per benefit period

Explanation: The Part A deductible is charged per benefit period, not per year. A benefit period begins the day the beneficiary is admitted to a hospital and ends when they have been out of the hospital or skilled nursing facility for 60 consecutive days. If readmitted after 60 days, a new benefit period (and a new deductible) starts.

2. How is the Kentucky Life and Health Insurance Guaranty Association funded?

A) Through state tax revenues
✔ B) Through assessments levied against member insurance companies
C) Through federal grants
D) Through fees charged to policyholders

Explanation: The Association is funded by assessing member insurance companies based on the proportion of premiums they write in the state.

3. The party who funds the annuity contract by making premium payments is the:

A) Annuitant
✔ B) Owner
C) Contingent annuitant
D) Beneficiary

Explanation: The owner is the person who purchases and funds the annuity by making premium payments. The owner has all contract rights including: changing the beneficiary, taking withdrawals, surrendering the contract, and naming the annuitant and beneficiary. The annuitant is the person whose life expectancy determines income payments; these roles may be held by the same person or different people.

4. A 'calendar-year deductible' in health insurance means:

✔ A) The deductible amount resets to zero each calendar year on January 1
B) The deductible is paid in a specific calendar month only
C) The insured pays a deductible for each separate calendar-year claim
D) The deductible is the same each year for 5 years and then resets

Explanation: Most individual and group health insurance plans use a calendar-year deductible that resets to zero on January 1 of each year. Once the deductible is met in a given year, coinsurance or copayments apply for the rest of that year. Starting January 1, the insured must meet the deductible again before the insurer begins sharing costs.

5. What is the main advantage of tax deferral in an annuity?

A) It makes all withdrawals tax-free.
B) It guarantees a minimum rate of return.
C) It lowers the overall tax rate paid on earnings.
✔ D) It allows the contract's earnings to grow faster by earning interest on money that would otherwise have been paid in taxes.

Explanation: Tax deferral allows for 'triple compounding' - earning interest on principal, interest on interest, and interest on the funds that would have been used to pay taxes. This can lead to significantly faster accumulation of wealth over time compared to a taxable account.

6. Under a preferred provider organization (PPO), a member who uses an out-of-network provider:

- ✔ A) Can still receive benefits but pays higher cost-sharing than for in-network services
- B) Receives the same level of benefits as for in-network care
- C) Receives no coverage for the services
- D) Must obtain a referral from their primary care physician first

Explanation: A key feature of PPOs is the flexibility to use out-of-network providers, though members pay significantly more (higher deductible, lower coinsurance) for doing so. This contrasts with HMOs, which typically provide no coverage for out-of-network services except emergencies, and EPOs, which also generally exclude out-of-network care.

7. The Waiver of Premium rider in life insurance provides that:

- A) Premiums are waived during a grace period
- B) The insurer waives the death benefit if the cause of death is excluded
- ✔ C) If the insured becomes totally and permanently disabled, premium payments are waived while the policy remains in force
- D) The policyowner can skip up to three premium payments per year

Explanation: The Waiver of Premium rider waives all future premium obligations if the insured becomes totally and permanently disabled (typically before age 60 or 65). The disability must last at least 6 months before the waiver takes effect. Premiums paid during the waiting period are usually refunded retroactively.

8. The 'birthday rule' applies to:

- A) Determining when a policy renews
- B) Establishing when Medicare eligibility begins
- C) Setting premium rates based on the insured's age at each birthday
- ✔ D) Determining which parent's plan is primary for a dependent child covered by both parents

Explanation: The birthday rule is used in coordination of benefits when a dependent child is covered by both parents' health plans. The parent whose birthday (month and day) falls earlier in the calendar year has the primary plan. If both parents have the same birthday, the plan that has been in force longer is primary.

9. Under the ACA dependent coverage provision up to what age must health plans allow adult children to remain on a parent's plan?

- ✔ A) Age 26
- B) Age 25
- C) Age 21
- D) Age 23

Explanation: The ACA requires all health plans that offer dependent coverage to allow children to remain on their parent's plan until they turn 26, regardless of the child's marital status, financial dependency, student status, or availability of employer-sponsored coverage.

10. Which statement about term life insurance is INCORRECT?

- ✔ A) Term insurance builds cash value over the term period
- B) Term insurance may be convertible to a permanent policy
- C) Term insurance is generally less expensive than permanent insurance for the same death benefit
- D) Term insurance provides coverage for a specified period only

Explanation: Term life insurance does NOT build cash value. It is pure death benefit protection that expires at the end of the term. The lower cost of term compared to permanent insurance reflects the absence of a savings component and the temporary nature of the coverage.

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11. What is custodial care?

- A) Rehabilitative therapy.
- ✔ B) Care to help an individual with personal needs like bathing, dressing, and eating.
- C) 24-hour skilled nursing care.
- D) Care provided by a licensed medical professional.

Explanation: Custodial care is non-medical assistance with activities of daily living (ADLs). It can be provided by non-licensed individuals and is the most common type of care needed for long-term support.

12. A 'first-to-die' or joint life policy pays the death benefit when:

- A) Both insureds die simultaneously.
- B) The policyowner dies.
- ✔ C) The first insured dies.
- D) The second insured dies.

Explanation: A joint life policy insures two or more lives and pays the death benefit when the first of the insureds dies. The policy then terminates. It is less common than survivorship life.

13. Under the 'reasonable expectations' doctrine:

- A) Agents are expected to reasonably explain all policy provisions
- B) Premiums must be reasonable and actuarially justified
- ✔ C) An insured is entitled to coverage they would reasonably expect based on the contract language, even if ambiguous
- D) Insurers are expected to pay all claims reasonably filed

Explanation: The reasonable expectations doctrine holds that an insured is entitled to coverage they would reasonably expect, based on the policy's plain language and representations made at sale — especially where the policy language is ambiguous. Courts often apply this doctrine in favor of the insured when there is a coverage dispute.

14. 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.

15. A decreasing term life policy is often used to cover:

A) Group employee benefit plans
B) Income replacement for working-age adults
C) Estate taxes for high-net-worth individuals
✔ D) A mortgage balance that decreases over time as payments are made

Explanation: Decreasing term insurance provides a death benefit that decreases over time, typically in proportion to a declining financial obligation such as a mortgage balance. The premium stays level while the coverage amount decreases. It is also used for business loans or other declining debts.

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16. Medicare Part D (prescription drug coverage):

A) Is automatically included with all Medicare plans at no extra cost
B) Is administered directly by Medicare without private insurer involvement
C) Only covers generic drugs and excludes brand-name medications
✔ D) Is a voluntary benefit available through private plan sponsors and requires enrollment and payment of a separate premium

Explanation: Medicare Part D is the voluntary outpatient prescription drug benefit. It is available through private insurers approved by Medicare (either stand-alone PDPs or Medicare Advantage plans with drug coverage). Beneficiaries must actively enroll and pay a monthly premium. Failing to enroll when first eligible can result in a late enrollment penalty.

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

A) Pay the benefit directly to a hospital or nursing home.
✔ B) Pay a portion of the death benefit to a person or entity that has incurred funeral or medical expenses on behalf of the insured.
C) Facilitate an immediate loan from the policy's cash value.
D) Pay the claim to the state if no beneficiary can be found.

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

18. Under what condition may a producer share a commission with another person in Kentucky?

A) The other person is an unlicensed referral source.
✔ B) Both persons are licensed producers for the same line of insurance.
C) The other person is the client.
D) Under no condition; sharing commissions is illegal.

Explanation: A producer may only share commissions with another producer who is licensed and appointed in the same line of authority.

19. To qualify for Social Security Disability Insurance (SSDI) benefits a worker must meet which of the following conditions?

A) Have been denied private disability insurance coverage
B) Be unable to perform their current job for at least 3 months
C) Be at least 50 years of age with a partial disability
✔ D) Have a disability expected to last at least 12 months or result in death and be unable to engage in any substantial gainful activity

Explanation: SSDI requires that the worker has a physical or mental impairment that prevents them from engaging in any substantial gainful activity (SGA) and is expected to last at least 12 months or result in death. The definition is stricter than most private disability insurance policies.

20. Which of the following persons is EXEMPT from the licensing requirements in Kentucky?

✔ A) An officer of an insurer who does not receive any commission on policies sold and whose duties are purely administrative
B) A part-time producer who sells life insurance to relatives
C) An independent contractor who solicits insurance over the phone
D) A customer service representative who quotes rates and completes applications

Explanation: Administrative officers and employees who do not directly sell or receive commissions on insurance are exempt from licensing requirements.

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21. A Social Security Rider (or Social Insurance Supplement) on a private disability policy will:

A) Pay a benefit in addition to Social Security benefits.
✔ B) Pay a benefit during the Social Security waiting period and if Social Security denies the claim.
C) Pay a benefit only if the insured is not eligible for Social Security.
D) Replace Social Security benefits entirely.

Explanation: This rider pays an additional monthly benefit to the insured during the 5-month Social Security waiting period or if their claim for Social Security benefits is denied. If Social Security benefits are approved, the rider benefit usually stops or is reduced.

22. Which type of annuity guarantees a fixed interest rate and provides a fixed, level income payment?

A) Immediate Annuity
B) Indexed Annuity
C) Variable Annuity
✔ D) Fixed Annuity

Explanation: A fixed annuity credits interest at a rate guaranteed by the insurer. During the payout phase, it provides a predictable and guaranteed stream of income that does not fluctuate.

23. Which type of managed care plan allows members to see any provider within the network without a referral and reimburses providers on a discounted fee-for-service basis?

A) HMO
B) EPO
✔ C) PPO
D) POS

Explanation: A Preferred Provider Organization (PPO) uses a discounted fee-for-service model and does not require referrals to see specialists. Members have the freedom to see any in-network provider and may also see out-of-network providers at a higher cost. PPOs operate as open panels.

24. An agent, Brian, convinces a client to replace a life insurance policy they bought last year with a new policy from the same insurer, solely to generate a new first-year commission for himself. What is this practice called?

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

Explanation: Churning is the practice of replacing existing policies within the same company repeatedly for the primary purpose of generating commissions for the agent.

25. Which of the following describes the 'cost basis' of a life insurance policy?

A) The face amount of the policy.
B) The current cash value.
C) The total death benefit.
✔ D) The total premiums paid into the policy.

Explanation: The cost basis is a key figure for tax purposes. It is the aggregate amount of premiums paid into the policy, minus any dividends or withdrawals taken.

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26. The 'subaccount' in a variable life insurance policy is managed by:

A) The insurance company's general account investment team
✔ B) A professional investment manager or fund company under contract with the insurer
C) FINRA-appointed trustees who manage the assets on behalf of all policyholders
D) The policyowner personally through a brokerage interface

Explanation: Variable life insurance subaccounts are typically managed by professional investment management companies (such as mutual fund companies) under contract with the insurance company. The insurer offers a menu of subaccounts with different investment objectives and managers. The policyowner selects their preferred allocation but does not manage the investments directly.

27. Which of the following transactions is EXEMPT from Kentucky's life insurance replacement regulations?

A) Replacing an individual whole life policy with another whole life policy
✔ B) Group life insurance policies or group annuities
C) Replacing a term life policy with a universal life policy
D) Replacing a non-qualified annuity with another annuity

Explanation: Replacement regulations do not apply to group life insurance policies, credit life insurance, or policies issued in connection with employee benefit plans.

28. 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).

29. Medicare Part B primarily provides coverage for:

A) Prescription drugs
B) Dental and vision
C) Inpatient hospital care
✔ D) Physician services and outpatient care

Explanation: Medicare Part B is 'medical insurance.' It helps cover medically necessary doctors' services, outpatient hospital care, durable medical equipment, and many other medical services and supplies that are not covered by Part A.

30. If a corporation owns a non-qualified annuity, how is the growth taxed?

A) It is tax-free.
✔ B) It is taxed annually as ordinary income.
C) It grows tax-deferred.
D) It is taxed at corporate capital gains rates.

Explanation: The tax-deferral benefit of annuities generally does not apply when the contract is owned by a non-natural person, such as a corporation. In this case, the annual growth in the contract is treated as taxable ordinary income to the corporation each year.

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31. An agent, Timothy, is renewing his Life and Accident & Health license in Kentucky. Under Kentucky Department of Insurance (KYDOI) rules, how many hours of continuing education (CE) must he complete every two years?

✔ A) 16 hours
B) 24 hours
C) 32 hours
D) 48 hours

Explanation: Kentucky resident producers must complete 24 hours of approved CE every two years.

32. An insurer denies a medical claim submitted by a policyholder. What is the insurer's primary obligation regarding the denial?

- ✔ A) Provide a written explanation of the specific reasons for the denial, referencing policy provisions.
- B) Notify Kentucky Department of Insurance (KYDOI) first.
- C) Call the policyholder within 30 days.
- D) Denials do not require an explanation.

Explanation: Insurers must provide a prompt, written explanation of the specific policy provisions or laws on which a claim denial is based.

33. An annuity certain payout option provides payments for:

- A) The life of the annuitant, with a certain number of guaranteed payments.
- ✔ B) A specified, fixed number of years, regardless of whether the annuitant lives or dies.
- C) The lives of two annuitants.
- D) As long as the principal and interest last.

Explanation: An 'annuity certain' (or period certain) option makes payments for a fixed period of time (e.g., 10 or 20 years). If the annuitant dies during this period, the payments continue to the beneficiary until the end of the specified term.

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

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

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

35. Which of the following is typically considered a 'major' service under a dental plan?

- A) Routine cleanings
- B) X-rays
- ✔ C) Crowns and bridges
- D) Fillings

Explanation: Dental plans often categorize services. Preventive (cleanings), Basic (fillings), and Major (crowns, bridges, dentures, orthodontia). Major services usually have the highest level of cost-sharing (e.g., 50% coinsurance) and may have a waiting period.

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36. Medicare beneficiaries are generally eligible at age:

- A) 67
- B) 62
- C) 60
- ✔ D) 65

Explanation: Medicare eligibility generally begins at age 65 for U.S. citizens or permanent residents. Younger individuals under 65 may also qualify if they have received Social Security disability benefits for 24 months or have end-stage renal disease (ESRD) or ALS (Lou Gehrig's disease).

37. If an individual pays the premiums for their own disability income policy, how are the benefits received treated for tax purposes?

A) They are partially taxable.
B) They are fully taxable.
C) They are taxed as capital gains.
✔ D) They are received income tax-free.

Explanation: Because the premiums were paid with after-tax dollars, any disability benefits received by the individual are not subject to income tax.

38. 'Separate account' assets in variable life insurance are:

✔ A) Legally segregated from the insurer's general account and protected from the insurer's creditors
B) Blended with the insurer's general account for unified investment management
C) Accessible only after the insurer's general account obligations are satisfied
D) Managed by a federally regulated bank on behalf of the insurer

Explanation: The separate account in a variable life or variable annuity product is legally segregated from the insurer's general account assets. This segregation protects policyholders' subaccount investments from the insurer's creditors in the event of insolvency. Separate account assets are NOT available to the insurer's general creditors.

39. Modified premium whole life insurance is characterized by:

A) A death benefit that decreases over time
B) Premiums that decrease after the first year
✔ C) Lower premiums in the early years that increase after a specified period
D) A policy that becomes paid-up after 10 years automatically

Explanation: Modified premium whole life (or Modified Whole Life) charges lower premiums during an initial period (usually the first 3-5 years) that then increase to a higher level premium for the remainder of the policy. This appeals to buyers who expect their income to increase over time but want permanent coverage now.

40. The 'actively-at-work' requirement in group life insurance means that:

A) An employee must work full-time to be eligible
✔ B) An employee must be physically present at work on the day coverage is scheduled to begin for it to take effect
C) An employee must pass a physical exam before coverage begins
D) An employee must have been employed for at least one year

Explanation: The actively-at-work provision requires that an employee be actively performing their job duties on the date their coverage is scheduled to start. If the employee is absent due to illness, injury, or leave on that date, coverage is deferred until they return to active work. This protects the insurer against covering individuals who are already unhealthy.

41. The 'Disability Income Rider' (DIR) in a life insurance policy:

A) Provides disability benefits only for occupational injuries
✔ B) Provides a monthly income benefit while the insured is totally disabled
C) Waives future premiums only during periods of total disability
D) Replaces the life insurance with disability income coverage upon disability

Explanation: The Disability Income Rider (DIR) provides a monthly income benefit directly from the life insurance policy while the insured is totally disabled. It functions like a separate disability income policy attached as a rider. This differs from the Waiver of Premium rider, which only waives premiums but does not provide income.

42. Which of the following is a PURE risk?

A) Buying stocks on margin
B) Purchasing lottery tickets
✔ C) The possibility that a home will be destroyed by fire
D) Investing in a new business venture

Explanation: A pure risk involves only the possibility of loss or no loss — there is no opportunity for gain. Property damage from fire is a pure risk and therefore insurable.

43. The 'common disaster' clause in a life insurance policy is designed to address the situation where:

✔ A) The insured and the primary beneficiary die in the same accident.
B) The policyowner and the insured are different people.
C) The insured dies in a natural disaster.
D) The beneficiary dies before the insured.

Explanation: The Uniform Simultaneous Death Act (or a common disaster clause) addresses the issue of determining who died first when the insured and primary beneficiary die in the same accident. It typically stipulates that the primary beneficiary is presumed to have died first, allowing the death benefit to pass to the contingent beneficiary.

44. What distinguishes a closed panel provider network from an open panel provider network?

A) There is no meaningful difference between a closed panel and an open panel
B) A closed panel is used only for dental plans; an open panel is used for medical plans
✔ C) A closed panel restricts care to a specific group of contracted providers; an open panel allows any willing provider to participate
D) A closed panel allows any licensed provider to participate; an open panel restricts membership

Explanation: In a closed panel arrangement (typical of HMOs), members must receive care from a select group of contracted providers, often employed by or exclusively contracted with the plan. In an open panel (typical of PPOs), any provider willing to accept the plan's terms may participate.

45. Life insurance proceeds paid directly to a named beneficiary (not the insured's estate):

✔ A) Generally bypass probate and are paid directly to the beneficiary
B) Are always subject to income tax for the beneficiary
C) Are subject to federal estate tax in all cases
D) Must be held in trust for minor beneficiaries by law

Explanation: Life insurance proceeds paid to a named beneficiary generally bypass the probate process entirely and are paid directly to the beneficiary. This is a significant advantage of naming specific beneficiaries rather than using the estate as beneficiary. Estate taxes may still apply depending on who owns the policy.

46. Constructive delivery of a life insurance policy occurs when:

A) The policy is approved by the underwriter
✔ B) The insurer relinquishes control of the policy, such as mailing it to the agent with unconditional instructions to deliver it
C) The insured signs a delivery receipt
D) The agent physically hands the policy to the insured

Explanation: Constructive delivery means the insurer has given up control of the policy, even if the insured has not physically received it. For example, if the insurer mails the policy to the agent with instructions to deliver it unconditionally, delivery is considered to have occurred.

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

A) It allows the insured to reserve a bed in a specific facility years in advance.
B) It pays for a private room in a nursing home.
✔ C) It pays to hold a nursing home bed for the insured if they need to be hospitalized temporarily.
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 term 'representation' in an insurance application means:

A) A misstatement that voids the contract
B) A written endorsement added to the policy
✔ C) A statement the applicant believes to be true but does not guarantee
D) A guarantee that a statement is true in all respects

Explanation: A representation is a statement that the applicant believes to be true to the best of their knowledge but does not warrant or guarantee as absolutely true. A warranty, by contrast, is a statement guaranteed to be true — breach of warranty can void the contract.

49. A term life policy where the death benefit decreases over the policy's term is called:

A) Increasing Term
B) Level Term
✔ C) Decreasing Term
D) Renewable Term

Explanation: Decreasing Term insurance is often used to cover a loan or mortgage. The death benefit decreases over time, roughly in line with the outstanding balance of the loan it is meant to protect.

50. A Medicare SELECT plan is a type of:

✔ A) Medigap policy that requires the use of a network of providers
B) Special Needs Plan
C) Prescription drug plan
D) Medicare Advantage HMO

Explanation: Medicare SELECT is a type of Medigap policy that functions like a PPO. In exchange for a lower premium, the policyholder must use specific network hospitals and, in some cases, doctors to get full benefits. Out-of-network care may be more expensive or not covered (except in emergencies).