Insurance Test Practice

Louisiana Insurance Practice Test

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1. A 'group captive' is best described as:

A) A type of surplus lines carrier for high-risk groups
B) An insurer that was seized by a state regulator
✔ C) A captive insurer formed by a group of unrelated businesses with similar risk profiles to insure their own risks
D) An employer health plan covering a captive group of employees

Explanation: A group captive (or association captive) is a jointly owned captive insurer formed by multiple unrelated businesses that share similar risk profiles (often in the same industry). Each member contributes capital and premiums. Group captives allow smaller businesses to access the benefits of captive insurance — greater control, potential savings, and customized coverage.

2. Which Medicare supplement plan (Medigap) covers the Medicare Part A and Part B deductibles AND has been available to new beneficiaries since 2020?

A) Plan F
B) Plan D
C) Plan C
✔ D) Plan G

Explanation: Since January 1, 2020, Medicare supplement Plans C and F are no longer available to newly eligible Medicare beneficiaries (those who turned 65 on or after January 1, 2020). Plan G is the most comprehensive plan available to new beneficiaries — it covers all of Plan F's benefits EXCEPT the Part B deductible. Existing Plan C and F holders before 2020 can keep them.

3. What is a single premium deferred annuity (SPDA)?

✔ A) An annuity funded with one lump sum, with payments starting at a future date.
B) An annuity funded with one lump sum, with payments starting immediately.
C) An annuity funded with flexible premiums over time, with payments starting in the future.
D) An annuity that only pays out a single lump sum.

Explanation: An SPDA is purchased with a single, lump-sum premium. The funds are then left to accumulate on a tax-deferred basis, and income payments are deferred until a later date chosen by the owner.

4. The ownership clause in a life insurance policy grants the policyowner all of the following rights EXCEPT:

✔ A) Right to change the insurer
B) Right to change the beneficiary (if revocable)
C) Right to assign the policy
D) Right to take policy loans

Explanation: The policyowner has broad rights including: assigning the policy, borrowing against cash value, changing the revocable beneficiary, surrendering the policy, and selecting settlement options. The policyowner CANNOT change the insurer — insurance is not transferable from one insurer to another without the insurer's consent.

5. A replacing insurer in Louisiana receives an application that involves replacing a policy from another insurer. Within how many days must the replacing insurer send a copy of the policy summary to the existing insurer upon request?

- ✔ A) Within 5 working days
- B) Within 10 working days
- C) Within 15 working days
- D) Within 30 working days

Explanation: The replacing insurer must provide copies of the policy summary and illustrations to the existing insurer within 5 working days of receiving a request.

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6. A survivorship life insurance policy, also known as a 'second-to-die' policy, pays the death benefit when:

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

Explanation: A survivorship life policy insures two or more lives and pays the death benefit upon the death of the last insured. These policies are often used for estate planning purposes to pay federal estate taxes.

7. 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.

8. The 'large loss principle' suggests that insurance is most cost-effective when:

- A) The potential loss is small relative to the premium
- B) The insured has multiple policies on the same property
- ✔ C) The potential loss is large and unpredictable relative to the insured's financial resources
- D) The probability of loss is very high

Explanation: Insurance is most valuable when the potential loss is large enough to cause financial hardship — the insured cannot afford to absorb the loss. Small, predictable losses are better retained. The large loss principle explains why catastrophic coverage (home, life, health) is more important than covering small routine expenses.

9. An insurer incorporated under the laws of Germany wants to sell disability income policies in New Orleans. In Louisiana, how is this insurer classified?

A) Domestic insurer
B) Foreign insurer
✓ C) Alien insurer
D) Non-admitted insurer

Explanation: An alien insurer is one incorporated under the laws of a country outside the United States.

10. The tendency for higher-risk individuals to seek out or continue insurance coverage more than lower-risk individuals is known as:

✓ A) Adverse selection
B) The Law of Large Numbers
C) Risk pooling
D) Moral hazard

Explanation: Adverse selection occurs when individuals with a higher-than-average risk of loss are more likely to purchase insurance, potentially leading to higher-than-expected claims for the insurer.

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11. The 'any occupation' definition of total disability is more restrictive and means the insured is unable to perform the duties of:

✓ A) Any occupation for which they are suited by education, training, or experience.
B) Their previous three occupations.
C) Any job whatsoever.
D) Their own occupation.

Explanation: The 'any occupation' definition requires the insured to be unable to work in any occupation for which they are reasonably qualified. This is a much stricter definition than 'own occupation' and makes it harder to qualify for benefits.

12. The risk management technique of taking action to reduce the frequency or severity of a potential loss is known as:

A) Avoidance
✓ B) Reduction
C) Transfer
D) Retention

Explanation: Risk reduction involves implementing measures to minimize the chance or impact of a loss. Examples include installing a sprinkler system to reduce fire damage or wearing a seatbelt to reduce injury in an accident.

13. 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.

14. Which nonforfeiture option uses the policy's cash value to purchase a term insurance policy for the same face amount as the original policy?

- A) Cash Surrender
- ✔ B) Extended Term Insurance
- C) Paid-Up Additions
- D) Reduced Paid-Up Insurance

Explanation: The Extended Term nonforfeiture option uses the cash value as a single premium to purchase a term life policy with the same face amount as the original policy. The term of the new policy will be for as long a period as the cash value can purchase.

15. 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.

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16. A policyholder receives a policy by mail on October 1. They decide to return it. What is the deadline to mail it back to the insurer to qualify for a free-look refund?

- ✔ A) Postmarked by October 11 if standard 10 days, or October 16 if 15 days
- B) Postmarked by October 31
- C) Received by the insurer by October 10
- D) Postmarked by October 25

Explanation: The policyholder must return the policy within the designated free-look period (15 days) to receive a full refund.

17. 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.

18. The principle that requires both parties to an insurance contract to disclose all material facts is known as:

✔ A) Utmost Good Faith
B) Proximate Cause
C) Indemnity
D) Subrogation

Explanation: Utmost Good Faith (Uberrima Fides) requires both the insurer and insured to deal honestly and disclose all material information. It is the foundation for misrepresentation and concealment rules.

19. If a life insurance policy is included in the insured's gross estate, it may be subject to:

A) Income tax
B) Property tax
C) Gift tax
✔ D) Federal estate tax

Explanation: While the death benefit is income tax-free to the beneficiary, it may be included in the deceased's taxable estate if the deceased had any incidents of ownership in the policy at the time of death. If the total estate value exceeds the federal exemption amount, estate taxes may be due.

20. The amount an insured must pay out-of-pocket for covered health services before the insurance plan begins to pay is called the:

A) Copayment
B) Coinsurance
✔ C) Deductible
D) Premium

Explanation: The deductible is a fixed dollar amount that the insured must pay for their health care each year before the insurer starts to pay its share.

21. Annuities are unique among insurance products in that they are primarily designed to:

✔ A) Liquidate accumulated assets into a guaranteed income stream over time
B) Insure against property losses
C) Accumulate tax-deferred savings with no distribution requirement
D) Provide a death benefit to protect survivors

Explanation: The primary unique purpose of an annuity — what sets it apart from other financial and insurance products — is its function as a mechanism for systematically distributing (liquidating) accumulated savings into periodic income payments, particularly providing income that cannot be outlived in a life annuity structure.

22. A policyowner takes a withdrawal from a universal life policy. Which of the following is true regarding taxation?

A) The withdrawal is taxed on a LIFO basis.
B) The entire withdrawal is taxed.
C) The withdrawal is treated as a loan and is never taxed.
✔ D) The withdrawal is treated as a return of premium up to the policy's cost basis and is not taxed.

Explanation: For non-MEC policies, withdrawals are treated on a FIFO (First-In, First-Out) basis. This means the policyowner can withdraw up to their cost basis (total premiums paid) without incurring any taxes. Withdrawals exceeding the cost basis are taxable as ordinary income.

23. 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.

24. Under the ACA, 'grandfathered' health plans are:

A) Plans that qualify for grandfather-level premium tax credits
✔ B) Plans issued before 2010 that can maintain certain pre-ACA features if they do not make significant changes
C) Plans sponsored by grandfather-owned family businesses
D) Plans provided to grandparents and other senior citizens over age 65

Explanation: Grandfathered plans are health insurance plans that existed as of March 23, 2010 (when the ACA was signed). They are exempt from many ACA requirements as long as they do not make significant changes. However, they must cover dependents to age 26 and cannot impose lifetime dollar limits. They do not need to cover essential health benefits or provide preventive care at no cost-sharing.

25. A policyholder has a major medical health insurance plan with an insolvent insurer in Louisiana. What is the maximum coverage provided by the Louisiana Guaranty Association for health benefit plans?

A) $100,000
B) $300,000
✔ C) $500,000
D) $1,000,000

Explanation: Under Louisiana law, the Guaranty Association provides up to $500,000 in benefits for basic hospital, medical-surgical, or major medical insurance plans.

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26. A stock insurance company is characterized by which of the following?

✔ A) It is owned by shareholders who may receive dividends from profits
B) It is owned by its policyholders
C) It is managed by an attorney-in-fact
D) It issues assessable policies

Explanation: A stock insurer is a corporation owned by its stockholders (shareholders). Profits may be distributed to shareholders as taxable dividends, and policyholders have no ownership interest.

27. What is a Viatical Settlement?

✔ A) The sale of a life insurance policy by a terminally ill person to a third party for a discounted cash amount.
B) A loan from the insurer against the policy's death benefit.
C) A settlement option that pays the beneficiary for life.
D) An advance payment from the insurer to a chronically ill insured.

Explanation: A viatical settlement involves a terminally ill policyowner (the 'viator') selling their life insurance policy to a viatical settlement company. The company pays the insured a percentage of the face value in cash and becomes the new owner and beneficiary of the policy.

28. 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.

29. In a participating whole life policy, the 'premium reduction' dividend option uses dividends to:

- ✔ A) Offset the premium due, reducing the out-of-pocket premium payment
- B) Accelerate the policy to paid-up status by a specific year
- C) Purchase one-year term insurance equal to the cash value
- D) Build additional cash value without purchasing new insurance

Explanation: The premium reduction dividend option applies the declared dividend directly against the next premium payment, reducing the amount the policyowner must pay out-of-pocket. This option requires no active management — dividends automatically reduce the next bill. It is one of the most commonly selected dividend options.

30. How much can an employer charge a former employee for COBRA continuation coverage?

- ✔ A) 102% of the premium
- B) 110% of the premium
- C) 150% of the premium
- D) 100% of the premium

Explanation: The employer can charge the former employee up to 102% of the total premium (the employee's share plus the employer's share). The extra 2% is to cover administrative costs.

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31. '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.

32. What is the general enrollment period for Medicare Part B?

- A) From October 15th to December 7th each year.
- B) The 7-month period around an individual's 65th birthday.
- C) The 8-month period after employer coverage ends.
- ✔ D) From January 1st to March 31st each year.

Explanation: If an individual misses their Initial Enrollment Period and does not qualify for a Special Enrollment Period, they can sign up for Part B during the General Enrollment Period, which runs from January 1 to March 31 each year. Coverage will not start until July 1, and a late enrollment penalty may apply.

33. What distinguishes a mutual insurance company from a stock insurance company?

- A) A mutual company is owned by shareholders
- B) A mutual company must be organized as a for-profit corporation
- C) A mutual company cannot write life insurance
- ✔ D) A mutual company is owned by its policyholders who may receive policy dividends

Explanation: In a mutual insurance company, the policyholders are the owners. Surplus earnings may be returned to policyholders as non-taxable policy dividends, unlike stock company dividends which go to shareholders.

34. An annuity issued by a life insurance company is fundamentally different from a bank savings account because:

✔ A) An annuity's primary purpose is providing a guaranteed income stream over time, and insurance companies can guarantee income for life through mortality pooling

B) Annuities are backed by the federal government while bank accounts are not

C) Annuity interest rates are always higher than bank rates

D) Annuities have no cost or fees while bank accounts charge fees

Explanation: The fundamental advantage of an annuity over a bank account is the ability to pool longevity risk across many annuitants — the insurer can guarantee income for life because not everyone will live to extreme old age. Bank accounts cannot provide a lifetime income guarantee. Additionally, annuity earnings grow tax-deferred, unlike bank account interest which is taxable annually.

35. To be eligible for a tax-qualified LTC policy, the chronic illness must be expected to last at least:

✔ A) 90 days

B) 180 days

C) 30 days

D) 60 days

Explanation: For a tax-qualified plan, a physician must certify that the individual is chronically ill, meaning they are unable to perform at least 2 ADLs for a period expected to last at least 90 days or have a severe cognitive impairment.

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36. An employee has both a limited-purpose FSA and an HSA. The limited-purpose FSA may only be used for which of the following expenses, while preserving HSA eligibility?

A) Mental health expenses only

B) All medical expenses including doctor visits

✔ C) Dental and vision expenses only

D) Prescription drug expenses only

Explanation: A limited-purpose FSA (also called a post-deductible FSA) restricts reimbursement to dental and vision expenses. This structure allows an employee to maintain HSA eligibility while still using an FSA for specific non-medical health expenses.

37. An agent, Karen, is helping a client replace an existing life insurance policy. In addition to the Notice Regarding Replacement, what else must Karen leave with the applicant?

✔ A) Copies of all sales proposals and illustrations used during the presentation

B) The agent's licensing certificate

C) A copy of the existing insurer's financial statement

D) A cash refund of the old policy's value

Explanation: The producer must leave with the applicant copies of all sales proposals, illustrations, and marketing materials used in the presentation.

38. In a Medicare Part D plan, what is 'catastrophic coverage'?

A) Coverage for catastrophic illnesses like cancer.
B) Coverage that has no deductible.
✓ C) The phase of the benefit where the plan begins to pay nearly all of the drug costs for the rest of the year.
D) A special plan for those with low incomes.

Explanation: After a beneficiary's out-of-pocket spending (including costs paid in the donut hole) reaches a certain high limit, they enter the catastrophic coverage phase. In this phase, their cost-sharing for covered drugs is significantly reduced to a small coinsurance or copayment for the rest of the year.

39. A copayment in a health insurance plan is:

✓ A) A fixed dollar amount the insured pays for a specific service regardless of the total charge
B) The insured's share of the annual premium
C) A percentage of covered expenses the insured pays
D) The amount paid by both the insurer and insured equally

Explanation: A copayment (or copay) is a fixed dollar amount paid by the insured for a specific healthcare service (e.g., $25 for a doctor visit, $15 for a generic prescription). The copay is paid at the time of service, and the insurer pays the remainder of the covered charge. Copays typically do not count toward meeting the deductible.

40. 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.

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41. The 'death benefit' provision in most deferred variable annuities:

A) Is not included because variable annuities are pure investment products
B) Only pays the current account value at the time of death
✓ C) Guarantees the beneficiary will receive at least the greater of the account value or the total premiums paid if the owner dies during accumulation
D) Pays twice the original premium if death occurs before age 65

Explanation: Most variable deferred annuities include a death benefit that guarantees the beneficiary receives at least the greater of: (a) the current account value or (b) the total premiums paid (minus prior withdrawals). This 'return of premium' death benefit guarantees heirs won't receive less than was invested, even if the market has declined.

42. A resident has a disability income policy with an insolvent insurer in Louisiana. What is the maximum coverage provided by the Louisiana Guaranty Association for disability income benefits?

A) $100,000
✓ B) $300,000
C) $350,000
D) $500,000

Explanation: The Guaranty Association covers up to $300,000 (or state limit) for disability income benefits.

43. An insurer refuses to issue a health policy to a person solely because they possess the sickle-cell trait. Under Louisiana law, what is this action classified as?

✓ A) Unfair discrimination
B) Acceptable underwriting practice
C) Redlining
D) Boycott

Explanation: Refusing to issue a policy or charging higher premiums solely because an individual has genetic traits like sickle-cell is illegal unfair discrimination.

44. An insurer needs to deny a claim but does so verbally without sending any written confirmation. Under Louisiana law, what is the status of this action?

A) It is a standard industry practice.
✓ B) It is an unfair claims settlement practice; all denials must be in writing.
C) It is allowed if the claim is under $100.
D) Only for auto insurance.

Explanation: All claim denials must be provided in writing to the claimant, stating the specific reasons and policy provisions on which they are based.

45. A divorced spouse may be eligible for Social Security benefits based on their ex-spouse's work record if the marriage lasted at least:

✓ A) 10 years
B) 5 years
C) 7 years
D) 15 years

Explanation: A divorced spouse can collect benefits on an ex-spouse's record if the marriage lasted at least 10 years, the divorced spouse is at least age 62, is currently unmarried, and is not entitled to a higher benefit on their own record. The ex-spouse's benefits are not reduced by this claim.

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46. A consumer files a complaint against agent Roger for alleged fraud. Who is responsible for appointing the Louisiana Insurance Commissioner to investigate such complaints?

A) The State Senate
✓ B) The Governor of Louisiana
C) The Louisiana Department of Insurance (LDI) Board
D) The NAIC Board

Explanation: The Louisiana Insurance Commissioner is appointed by the Governor.

47. 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.

48. Which of the following represents a 'speculative risk' that is generally NOT insurable?

✓ A) The risk that a stock investment will decline in value
B) The risk that a warehouse will burn down
C) The risk that a life insured will die during the policy period
D) The risk that an employee will be injured on the job

Explanation: Speculative risks involve the possibility of gain, loss, or no change. Stock investments can result in profit or loss — this is a speculative risk. Insurance covers only pure risks where the only outcomes are loss or no loss. Warehouse fires, workplace injuries, and death are all pure risks.

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

✓ A) Whole Life
B) Term Life
C) Annuity
D) Accident & Health

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

50. The 'late entrant' provision in group health insurance:

A) Requires higher premiums for employees who join after age 50
✓ B) Allows employees who missed open enrollment to enroll later but may require evidence of insurability
C) Waives the deductible for new employees in their first year
D) Provides extra coverage to employees who join the plan late in the year

Explanation: Late entrant provisions address employees who did not enroll during the initial eligibility window. Employees who want to join the group plan outside of open enrollment (and without a qualifying life event) may be required to provide evidence of insurability. This discourages adverse selection by preventing people from waiting until they are sick to enroll.