



Insurance Test Practice

Maine Insurance Practice Test

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1. Which of the following individuals is EXEMPT from producer licensing requirements in Maine?

- A) A customer service representative who solicits life insurance policies over the telephone
- B) An independent contractor who negotiates health insurance benefits for individuals
- C) A producer whose license expired 6 months ago but who continues servicing active accounts
- ✓ D) A salaried corporate employee who performs administrative duties and does not receive commissions on policy sales

Explanation: Salaried officers and employees of insurers who do not solicit, negotiate, or receive commissions on policies are exempt from licensing.

2. What is a 'rider' in an annuity contract?

- A) The primary beneficiary of the annuity.
- ✓ B) An optional benefit or feature that can be added to the contract, usually for an additional cost.
- C) The person who drives the annuitant to appointments.
- D) The application form for the annuity.

Explanation: A rider is an add-on to a base annuity contract that provides supplemental benefits. Common annuity riders include Guaranteed Lifetime Withdrawal Benefits (GLWB) or enhanced death benefits.

3. What is the mandatory Free-Look period for Long-Term Care (LTC) insurance policies delivered in Maine?

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

Explanation: Maine law requires Long-Term Care insurance policies to feature a 30-day free-look provision.

4. Human Life Value (HLV) is a method used to:

- A) Determine the cash value of a whole life policy
- B) Assess the maximum loan amount available against a life policy
- C) Calculate the mortality rate used by actuaries
- ✓ D) Estimate the present value of an individual's future earnings for insurance needs analysis

Explanation: The Human Life Value (HLV) approach estimates the economic value of a person's remaining earning potential (net of taxes and personal living expenses), discounted to the present value. This amount represents the financial loss the insured's dependents would suffer upon the insured's premature death. It is used to help determine appropriate life insurance coverage amounts.

5. A group health plan where the employer pays the entire premium is called a(n):

- A) Contributory plan
- ✓ B) Noncontributory plan
- C) Voluntary plan
- D) Self-funded plan

Explanation: In a noncontributory plan, the employer pays 100% of the premiums. Because it is fully paid by the employer, 100% of eligible employees must be covered.

6. A 'monthly average' indexed crediting method in a fixed-indexed annuity:

- A) Credits interest based only on the month-end index value
- B) Credits interest monthly instead of annually
- ✓ C) Calculates the index return based on the average of the 12 monthly ending index values during the crediting period compared to the beginning value
- D) Averages the cap rate and floor rate to determine the credited interest

Explanation: The monthly average (or monthly averaging) method calculates interest by comparing the average of the 12 month-end index values during the crediting period to the beginning index value. This smooths out extreme peaks and troughs. In volatile markets, monthly averaging may produce lower credits than annual point-to-point if the index rises sharply near year-end.

7. The process of evaluating a risk to determine if it is acceptable to an insurer is called:

- A) Claims adjusting
- B) Reinsurance
- ✓ C) Underwriting
- D) Marketing

Explanation: Underwriting is the process of risk selection, classification, and pricing. Underwriters for the insurance company decide whether to accept or reject applications for insurance.

8. Under a Point-of-Service (POS) plan, the member avoids higher cost-sharing by:

- A) Using out-of-network providers covered at the in-network rate
- B) Using only specialists without referrals
- ✓ C) Staying in-network and using their PCP for referrals when seeing specialists
- D) Paying the full cost upfront and requesting reimbursement later

Explanation: In a POS plan, members pay lower cost-sharing when they use in-network providers and follow the HMO-like requirement of getting referrals from their PCP for specialist visits. If they go out-of-network or see a specialist without a referral, they pay significantly higher cost-sharing (similar to a PPO's out-of-network rate).

9. The 'legal actions' provision in a life insurance policy specifies:

- A) The arbitration requirement for all coverage disputes
- B) The jurisdiction where any disputes must be resolved
- ✓ C) The minimum time an insured must wait before filing a lawsuit (often 60 days) and the maximum time period within which to file
- D) The governing law that applies to the policy

Explanation: The legal actions provision establishes the timeframe for filing legal action against the insurer. Typically, the insured must wait a minimum period (often 60 days) after proof of loss is filed before filing suit (to allow claims adjustment), and there is a maximum period (statute of limitations) within which a suit must be filed — often 3 years from the date of loss.

10. In a contributory group health plan, what is the typical minimum participation requirement?

- A) 90% of eligible employees
- ✓ B) 75% of eligible employees
- C) 100% of eligible employees
- D) 50% of eligible employees

Explanation: In a contributory plan, where employees share the cost of the premium, insurers typically require that at least 75% of eligible employees enroll. This helps to prevent adverse selection.

11. An agent tells an applicant that a competitor's insurer is in severe financial trouble and unable to pay claims, knowing this statement is false. What unfair trade practice was committed?

- A) Twisting
- ✓ B) Defamation
- C) Rebating
- D) Coercion

Explanation: Defamation is making, publishing, or circulating maliciously false or derogatory statements regarding the financial condition of an insurer or producer.

12. An employee who does not enroll in a group life insurance plan during the initial eligibility period and later wishes to join is considered a:

- A) Preferred risk
- B) Substandard risk
- ✓ C) Late enrollee
- D) Non-eligible employee

Explanation: A late enrollee is an employee who does not sign up for group coverage during their initial eligibility period. Because late enrollment raises adverse selection concerns, the insurer typically requires the late enrollee to provide evidence of insurability (proof of good health) before coverage is granted.

13. Under the SECURE Act, a non-spouse beneficiary who inherits a qualified annuity (such as one held in an IRA) must generally distribute the entire account within:

- A) 5 years of the owner's death
- B) The beneficiary's own life expectancy
- ✓ C) 10 years of the owner's death
- D) 20 years of the owner's death

Explanation: The SECURE Act of 2019 eliminated the 'stretch' option for most non-spouse beneficiaries. They must now distribute the entire inherited account within 10 years of the original owner's death. Exceptions exist for eligible designated beneficiaries such as surviving spouses, minor children, disabled individuals, and beneficiaries not more than 10 years younger than the deceased.

14. Which type of health insurance plan renews automatically but allows the insurer to increase premiums for an entire class?

- A) Noncancellable
- B) Conditionally renewable
- C) Optionally renewable
- ✓ D) Guaranteed renewable

Explanation: A guaranteed renewable policy guarantees the insured the right to renew coverage until a specified age (usually 65). The insurer cannot cancel the policy individually but CAN increase premiums for an entire class of insureds. This is the most common type of individual health insurance renewability.

15. An HSA account holder turns 65 and enrolls in Medicare. They withdraw HSA funds to pay for a new television. Which of the following describes the tax treatment of this withdrawal?

- A) It is subject to income tax plus a 20% penalty
- B) It is tax-free because the account holder is over 65
- ✓ C) It is subject to income tax only with no additional penalty
- D) It is not permitted under HSA rules

Explanation: Once an HSA account holder reaches age 65, the 20% penalty for non-qualified withdrawals no longer applies. However, non-qualified withdrawals are still subject to regular income tax, similar to a traditional IRA distribution.

16. What is the difference between Universal Life Option A and Option B?

- A) Option A is term insurance, while Option B is permanent insurance.
- B) Option A has a flexible premium, while Option B has a fixed premium.
- ✓ C) Option A provides a level death benefit, while Option B provides an increasing death benefit.
- D) Option A's cash value is invested in the general account, while Option B's is in separate accounts.

Explanation: Under Universal Life, Option A (or Option 1) provides a level death benefit where the cash value is included within the face amount. Option B (or Option 2) provides an increasing death benefit, which is the face amount plus the accumulated cash value.

17. 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.

18. The settlement option that provides payments for the beneficiary's entire life is called:

- A) Fixed Period
- B) Interest Only
- ✓ C) Life Income
- D) Fixed Amount

Explanation: The Life Income settlement option uses the death benefit to purchase an annuity for the beneficiary, providing them with an income they cannot outlive. There are several variations, such as life with period certain or joint and survivor.

19. The '5-year look-back period' associated with Medicaid and long-term care planning means:

- A) Medicaid reviews health records from the past 5 years before approving LTC coverage
- ✓ B) Medicaid examines asset transfers made within 5 years before applying to ensure assets were not transferred to qualify for benefits
- C) Medicaid benefits begin 5 years after the application is filed
- D) LTC insurers can deny claims based on conditions diagnosed in the past 5 years

Explanation: Medicaid's 5-year look-back period allows the state to review any asset transfers made by the applicant in the 5 years prior to the Medicaid application. If assets were transferred for less than fair market value during this period, Medicaid may impose a penalty period during which the applicant is ineligible for Medicaid LTC benefits.

20. How is Medicare Part B primarily funded?

- ✓ A) Through monthly premiums paid by beneficiaries and general federal tax revenues
- B) Through employer contributions only
- C) Through payroll taxes only
- D) Through state and federal matching funds

Explanation: Medicare Part B is funded through a combination of monthly premiums deducted from Social Security benefits and paid by beneficiaries, and funds from the general revenues of the U.S. Treasury.

21. An individual health insurance policy that the insurer cannot cancel and cannot increase the premium on is classified as:

- A) Optionally renewable
- ✓ B) Non-cancellable
- C) Conditionally renewable
- D) Guaranteed renewable

Explanation: A non-cancellable policy provides the strongest protection for the insured. The insurer cannot cancel the policy, raise the premium, or reduce benefits, as long as premiums are paid on time. This is the most expensive type of renewability provision.

22. Medicare Part C (Medicare Advantage) differs from Original Medicare because:

- A) It requires no premiums or cost-sharing
- B) It provides only prescription drug coverage
- C) It only covers beneficiaries over age 75
- ✓ D) It is offered by private insurers approved by Medicare and must cover at least the same benefits as Original Medicare

Explanation: Medicare Advantage (Part C) plans are offered by private insurers approved by Medicare. They must cover all Original Medicare services (Parts A and B) and often include additional benefits (vision, dental, hearing). MA plans have their own networks, cost-sharing structures, and rules that differ from Original Medicare.

23. Under federal COBRA, what is the maximum period an employee can continue coverage after termination of employment?

- A) 36 months
- B) 29 months
- C) 12 months
- ✓ D) 18 months

Explanation: For a qualifying event such as termination of employment or a reduction in hours, a former employee and their dependents can continue their group health coverage under COBRA for up to 18 months.

24. 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.

25. Medicare Part B covers:

- ✓ A) Physician services, outpatient care, preventive services, and durable medical equipment
- B) Prescription drugs
- C) Hospital inpatient care
- D) Long-term care in nursing homes

Explanation: Medicare Part B (Medical Insurance) covers physician services, outpatient care, preventive services, mental health services, and durable medical equipment (DME). Part B requires a monthly premium (income-adjusted) and has an annual deductible with 20% coinsurance after the deductible.

26. Which agency is responsible for administering insurance laws and supervising insurance companies and producers in Maine?

- ✓ A) Maine Bureau of Insurance (within the Department of Professional and Financial Regulation)
- B) Maine Department of Revenue
- C) National Association of Insurance Commissioners (NAIC)
- D) Maine Office of the Attorney General

Explanation: The Maine Bureau of Insurance, headed by the Superintendent of Insurance, is the regulatory agency responsible for enforcing the Maine Insurance Code.

27. The Long-Term Care (LTC) rider on a life insurance policy allows the policyowner to:

- A) Double the death benefit if death occurs in a long-term care facility.
- B) Waive the policy premium if they enter a nursing home.
- C) Receive a monthly income for life after age 65.
- ✓ D) Access a portion of the policy's death benefit to pay for long-term care expenses.

Explanation: An LTC rider is a type of accelerated benefit rider. It allows the policyowner to use some or all of the policy's death benefit to cover qualifying long-term care costs if they are unable to perform activities of daily living (ADLs) or have a cognitive impairment.

28. How is the death benefit from an annuity treated for tax purposes if the owner dies during the accumulation phase?

- A) It is received entirely tax-free by the beneficiary.
- B) The entire benefit is taxed as a capital gain.
- C) The death benefit is subject to a 10% penalty regardless of the beneficiary's age.
- ✓ D) The earnings portion of the benefit is taxable as ordinary income to the beneficiary.

Explanation: If the annuity owner dies before annuitization, the beneficiary receives the death benefit. The portion of the benefit that represents earnings (the amount exceeding the owner's cost basis) is taxable as ordinary income to the beneficiary.

29. 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.

30. What is the default nonforfeiture option that the insurer will select if the policyowner does not choose one?

- ✓ A) Extended Term
- B) Reduced Paid-Up
- C) Automatic Premium Loan
- D) Cash Surrender

Explanation: If a policy with cash value lapses and the policyowner fails to select a nonforfeiture option, the insurer will automatically implement the Extended Term option. This ensures the insured maintains the maximum possible death benefit for a specific period.

31. The 'face amount' in a universal life policy under Option B (Increasing Death Benefit) refers to:

- A) The level insurance component excluding any cash value
- B) The guaranteed minimum cash value
- ✓ C) The specified amount (also called corridor amount) to which the cash value is added to determine the total death benefit
- D) The total death benefit including cash value

Explanation: Under Universal Life Option B, the death benefit = specified (face) amount + cash value. The 'specified amount' (or corridor amount) is the pure insurance component. As cash value grows, the total death benefit grows accordingly. This option provides an increasing death benefit that keeps pace with cash value growth.

32. A voidable contract is one that:

- A) Automatically expires after a set period
- B) Is illegal and cannot be enforced by any party
- C) Has no legal effect from the beginning
- ✓ D) Can be rejected by one party but is enforceable if that party chooses to keep it

Explanation: A voidable contract is valid and enforceable, but one party has the right to reject it due to a defect such as misrepresentation or lack of competency. For example, a minor who enters into an insurance contract may void it, but the insurer cannot.

33. Under the FCRA, what must an insurer do if it takes an adverse action based on a consumer report?

- A) Offer the applicant a substandard policy instead.
- B) Get the applicant's permission before taking the adverse action.
- C) Send a copy of the report to the applicant automatically.
- ✓ D) Notify the applicant in writing and provide the name of the reporting agency.

Explanation: If an insurer takes an adverse action (e.g., denying coverage or charging a higher rate) based on information in a consumer report, it must inform the applicant of the decision and provide the name, address, and phone number of the agency that supplied the report.

34. 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.

35. The 'premium mode' refers to:

- ✓ A) The frequency at which premiums are paid (annual, semi-annual, quarterly, monthly)
- B) The method used to calculate insurance premiums
- C) A premium discount available for non-smokers
- D) The maximum premium the insured can pay

Explanation: Premium mode refers to the frequency of premium payments. The most common modes are: annual (once per year), semi-annual (twice per year), quarterly (four times per year), and monthly. Annual payments typically result in the lowest total premium because no installment charges apply.

36. An insurance producer receives cash premium from an applicant, fails to remit it to the insurer, and uses the money to pay personal debts. What crime has occurred?

- ✓ A) Theft / Misappropriation of fiduciary funds
- B) Rebating
- C) Defamation
- D) Unfair discrimination

Explanation: Converting client premiums to personal use is theft and a severe criminal violation of fiduciary duties, leading to license revocation and criminal prosecution.

37. Mortality and expense (M&E) charges in a variable annuity:

- ✓ A) Compensate the insurer for mortality risk and administrative expenses associated with the variable annuity guarantees
- B) Pay for investment management of the subaccounts
- C) Are optional charges that the policyowner can choose to waive
- D) Are charged only when the policyowner receives income payments

Explanation: The mortality and expense (M&E) charge is a percentage assessed annually against the variable annuity's subaccount assets. It compensates the insurer for: (1) mortality risk (guaranteeing the death benefit regardless of investment performance) and (2) general expense and profit charges. M&E charges typically range from 0.5% to 1.5% annually and are disclosed in the prospectus.

38. 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.

39. When a variable annuity is annuitized, how are the payments taxed?

- A) Each payment is fully tax-free.
- B) Each payment is fully taxable.
- C) The tax treatment depends on the performance of the subaccounts.
- ✓ D) Each payment is partially tax-free and partially taxable, based on the exclusion ratio.

Explanation: Just like with a fixed annuity, when a variable annuity is annuitized, an exclusion ratio is calculated. A portion of each payment is considered a tax-free return of principal, and the rest is taxable as ordinary income. However, the total payment amount will fluctuate.

40. A void contract is one that:

- A) Can be enforced by one party but not the other
- B) Is valid but may be canceled at any time
- ✓ C) Was never legally enforceable from the start
- D) Becomes invalid only after a claim is filed

Explanation: A void contract has no legal effect from the beginning. It is as if the contract never existed. For example, a contract entered into for an illegal purpose is void and cannot be enforced by either party.

41. Which of the following are considered Activities of Daily Living (ADLs)?

- A) Working, exercising, and reading.
- B) Paying bills and managing medications.
- C) Driving, shopping, and cooking.
- ✓ D) Bathing, dressing, eating, transferring, toileting, and continence.

Explanation: The six standard ADLs are the basic activities of self-care. The inability to perform a certain number of these (typically two or three) is a common trigger for benefits under an LTC policy.

42. In an independent agency system, the agent:

- A) Can only sell surplus lines insurance
- B) Is a salaried employee of the insurance company
- ✓ C) Represents multiple insurers and typically owns the book of business (policy expirations)
- D) Represents only one insurer and the insurer owns the policy renewals

Explanation: Independent agents (also called American Agency system agents) represent multiple insurers. A key feature is that the independent agent generally owns the expirations and renewal rights to their book of business, giving them the ability to move policies between insurers.

43. Under the 'fixed period' settlement option, life insurance proceeds are paid:

- A) Only if the beneficiary survives for a specified period
- B) In fixed amounts until the principal is exhausted
- ✓ C) In equal installments over a specified number of years with interest
- D) For the lifetime of the beneficiary only

Explanation: The Fixed Period (or Installments for a Fixed Period) settlement option pays the death benefit in equal installments over a specified number of years. If the beneficiary dies before the end of the period, remaining installments are paid to a named successor beneficiary. Interest is earned on the remaining balance.

44. What happens to the cash value of a whole life policy if the insured dies?

- ✓ A) It is retained by the insurance company; the beneficiary receives the face amount.
- B) It is forfeited to the state.
- C) It is paid to the policyowner's estate.
- D) It is paid to the beneficiary in addition to the death benefit.

Explanation: When the insured of a traditional whole life policy dies, the insurer pays the face amount (death benefit) to the beneficiary. The cash value is considered part of the death benefit and is not paid out separately; it is effectively absorbed by the insurer.

45. An individual with a history of diabetes applies for health insurance during Open Enrollment. Under the ACA the insurer:

- A) May accept the applicant but exclude coverage for diabetes
- B) May deny coverage due to the pre-existing condition
- ✓ C) Must accept the applicant and may not exclude or limit coverage for pre-existing conditions
- D) May charge a higher premium due to the pre-existing condition

Explanation: The ACA prohibits health insurers from denying coverage, excluding benefits, or charging higher premiums based on pre-existing conditions. This applies to all individual and group health insurance plans, ensuring that individuals with conditions like diabetes receive equal access to coverage.

46. Which of the following is an example of risk avoidance?

- ✓ A) Deciding not to skydive to avoid the risk of injury
- B) Setting aside funds to cover potential losses
- C) Installing a sprinkler system to reduce fire damage
- D) Purchasing fire insurance on your home

Explanation: Risk avoidance involves eliminating the risk entirely by avoiding the activity that creates it. Deciding not to skydive eliminates the risk of skydiving-related injury. This differs from risk reduction (installing sprinklers), risk transfer (insurance), or risk retention (self-funding).

47. A 'term to 65' life insurance policy:

- ✓ A) Provides level term coverage that expires when the insured turns 65
- B) Has a decreasing premium structure that reaches \$0 at age 65
- C) Converts automatically to an annuity at age 65
- D) Provides increasing death benefit coverage until age 65

Explanation: Term to 65 (or term to retirement) is a level term policy designed to provide coverage through the insured's working years, expiring at age 65. After 65, coverage ends with no cash value or continued benefit. This type of policy coordinates with retirement planning — by 65, the need for income replacement insurance typically diminishes.

48. 'Annuity units' in the distribution phase of a variable annuity are used to:

- A) Represent the insurer's share of the annuity's investment gains
- ✓ B) Calculate the variable income payments during the annuitization phase
- C) Track the annuity owner's investment performance during accumulation
- D) Determine the surrender charge during the distribution phase

Explanation: During the annuitization (distribution) phase, accumulation units are converted to annuity units. The number of annuity units remains fixed throughout the payout phase, but the dollar value of each unit fluctuates with the performance of the underlying subaccounts — causing variable income payments.

49. What is the 'option B' death benefit in a Universal Life policy?

- A) A decreasing death benefit.
- ✓ B) An increasing death benefit equal to the face amount plus the cash value.
- C) A level death benefit equal to the policy's face amount.
- D) A death benefit linked to a stock market index.

Explanation: Universal Life Option B provides an increasing death benefit. The beneficiary receives the policy's specified face amount plus the accumulated cash value. This results in a higher death benefit but also higher monthly cost of insurance deductions.

50. A 1035 exchange from an annuity to a life insurance policy:

- A) Is permitted but triggers a 10% early withdrawal penalty
- B) Is permitted on a tax-free basis under Section 1035
- C) Is permitted if the annuity and life insurance policy are with the same insurer
- ✓ D) Is NOT a qualifying 1035 exchange — annuities cannot be exchanged tax-free for life insurance

Explanation: Under IRS Section 1035, annuities can be exchanged for other annuities on a tax-free basis. However, an annuity CANNOT be exchanged for a life insurance policy on a tax-free basis. Section 1035 permits: life insurance to life insurance, life insurance to annuity, annuity to annuity, and endowment to annuity — but NOT annuity to life insurance.