Insurance Test Practice

# Missouri Insurance Practice Test

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**1. An LTC policy that is 'tax-qualified' means it meets certain federal standards set by:**

A) The Affordable Care Act
B) The IRS
✔ C) HIPAA
D) The Social Security Administration

*Explanation: A tax-qualified LTC policy must meet the standards established by the Health Insurance Portability and Accountability Act (HIPAA). This allows premiums to be potentially tax-deductible and benefits to be received tax-free up to a certain limit.*

**2. 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.*

**3. 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.*

**4. To prevent a universal life policy from becoming a MEC (Modified Endowment Contract):**

A) The policyowner must keep cash value below the net amount at risk
B) No single premium payment can exceed the face amount
C) The policyowner must take a policy loan each year to reduce the cash value below MEC limits
✔ D) Total premiums paid must not exceed the 7-pay limit — the amount needed to fully fund the policy in 7 level annual payments

*Explanation: The IRS 7-pay test determines MEC status. If a policy is funded faster than a hypothetical 7-year level premium payment schedule allows, it becomes a MEC. Policyowners who want to maximize cash value while maintaining life insurance tax advantages (tax-free loans and withdrawals up to basis) must be careful not to over-fund beyond 7-pay limits.*

**5. What is the primary difference between a Group Annuity and an Individual Annuity?**

A) Individual annuities are always fixed, while group annuities are always variable.
B) Group annuities have higher fees.
✔ C) A group annuity is established by an employer for its employees, typically as part of a retirement plan.
D) Group annuities do not require an annuitant.

*Explanation: A group annuity contract is between an insurer and an employer or plan sponsor. It is a funding vehicle for qualified retirement plans (like 401(k)s), holding and managing the contributions for the participating employees.*

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**6. 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.*

**7. 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 Missouri Department of Commerce and Insurance (DCI) 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.*

**8. What is a Qualified Longevity Annuity Contract (QLAC)?**

A) An annuity designed to pay for long-term care.
✔ B) An annuity that can be purchased inside a qualified retirement plan (like a 401(k) or IRA) to provide income late in life.
C) An annuity that is only available to qualified financial professionals.
D) A type of variable annuity with high growth potential.

*Explanation: A QLAC is a type of deferred income annuity purchased with funds from a qualified retirement plan. It allows a retiree to defer a portion of their required minimum distributions (RMDs) until a later age (up to 85), providing a source of guaranteed income late in retirement.*

**9. Under a typical COB 'birthday rule,' if a child is covered by both parents' health plans, which parent's plan is considered primary?**

A) The parent who has had their plan longer.
B) The parent who is older.
C) The mother's plan is always primary.
✔ D) The parent whose birthday occurs earlier in the calendar year.

*Explanation: The birthday rule is the standard guideline for determining primary coverage for dependent children. The plan of the parent whose birthday (month and day, not year) comes first in the calendar year is the primary plan.*

**10. Under Medicare Part A, after the initial deductible is paid, the beneficiary pays $0 coinsurance for days 1-60 of a hospital stay. For days 61-90, the beneficiary must pay:**

✔ A) A daily coinsurance amount
B) 20% of all charges
C) The full cost of care
D) Nothing — it is fully covered

*Explanation: Medicare Part A covers inpatient hospital stays with cost-sharing that increases over time. Days 1-60 are fully covered after the deductible. Days 61-90 require a daily coinsurance payment. Beyond day 90, the beneficiary must use lifetime reserve days (with an even higher daily coinsurance) or pay the full cost.*

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**11. The Payor Benefit rider is typically added to a life insurance policy on a:**

A) Senior citizen
B) Spouse
✔ C) Child
D) Business owner

*Explanation: The Payor Benefit rider is added to a juvenile policy. It provides that if the person responsible for paying the premiums (usually a parent or guardian) dies or becomes disabled before the child reaches a certain age, the insurer will waive the premiums until the child reaches that age.*

**12. 'Secondary guarantee' (no-lapse guarantee) UL policies are also called:**

✔ A) Guaranteed universal life (GUL) policies
B) Variable life insurance policies
C) Permanent term insurance
D) Current assumption whole life policies

*Explanation: Guaranteed Universal Life (GUL) policies use a secondary guarantee that keeps the death benefit in force as long as the minimum required premium is paid — even if the cash value is zero or negative. GUL policies function similarly to permanent term insurance, providing guaranteed death benefit at a predictable cost without significant cash value accumulation.*

**13. The annuitization of a deferred annuity contract must begin by what age to avoid penalties?**

A) Age 59 1/2
✔ B) There is no required age
C) Age 72
D) Age 85

*Explanation: Unlike qualified retirement accounts (like IRAs) which have required minimum distributions (RMDs), non-qualified annuities generally do not have a required age at which annuitization must begin. However, many contracts have a maximum annuity commencement date, often around age 95 or 100.*

**14. 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).*

**15. Which of the following best describes group term life insurance?**

A) It requires individual medical underwriting for each member
✔ B) It provides temporary protection that typically renews annually and does not accumulate cash value
C) It guarantees coverage until age 100 for all members
D) It builds cash value over the life of the policy

*Explanation: Group term life insurance provides temporary death benefit protection, usually on a yearly renewable term basis. It does not build cash value. Group permanent life insurance, by contrast, would include a savings or cash value component.*

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**16. A life insurance policy lapses due to nonpayment. The policyowner, Robert, wants to reinstate the policy. Under Missouri law, within how many years can Robert request reinstatement?**

A) Within 1 year
✔ B) Within 3 years
C) Within 5 years
D) Reinstatement is not allowed.

*Explanation: Missouri law requires that individual life insurance policies allow reinstatement within 3 years of default.*

**17. The renewability feature in term life insurance allows the policyowner to:**

A) Convert the policy to an annuity at renewal
✔ B) Renew the policy for another term period without providing evidence of insurability
C) Increase the death benefit at each renewal without a new application
D) Renew only if the insured's health has improved

*Explanation: A renewable term policy gives the policyowner the right to renew the coverage for another term period upon expiration without submitting evidence of insurability. However, premiums will increase at each renewal to reflect the insured's attained (current) age, making the coverage more expensive with each renewal.*

**18. The 'primary care physician' (PCP) in a managed care plan typically serves as:**

- ✔ A) The main point of contact and care coordinator who manages the member's overall health and provides referrals when needed
- B) The only physician allowed to treat the member in emergencies
- C) The claims adjuster who reviews the medical necessity of services
- D) A specialist designated by the insurer to review complex cases

*Explanation: In managed care, particularly HMOs, the PCP coordinates all aspects of the member's healthcare. They provide primary care services, manage preventive care, treat common conditions, and refer members to network specialists when needed. The PCP-gatekeeper model is central to HMOs and POS plans.*

**19. To be eligible for Medicare Part A without paying a premium, an individual must have:**

- A) Applied for Social Security retirement benefits
- B) Been enrolled in a Medicare Advantage plan for at least 5 years
- ✔ C) Paid Medicare taxes for at least 10 years (40 quarters of covered work)
- D) Purchased Medicare Part A coverage through an employer

*Explanation: Premium-free Medicare Part A is available to individuals age 65+ who have at least 40 quarters (10 years) of Medicare-covered employment. Those with fewer than 40 quarters may purchase Part A coverage for a monthly premium. Spouses of eligible workers may also qualify for premium-free Part A.*

**20. An 'accumulation unit' in a variable annuity is:**

- A) A unit of the insurer's stock held in trust
- B) The daily interest rate applied to fixed annuities
- ✔ C) A measure of the annuitant's investment during the accumulation phase
- D) A dollar amount guaranteed by the insurer

*Explanation: Accumulation units are the units of account used to measure the owner's investment during the accumulation phase of a variable annuity. As premiums are paid, accumulation units are purchased at their current NAV. The value of the owner's account is the number of accumulation units multiplied by the current unit value.*

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**21. An annuity that does not start making payments until some point in the future (more than one year after purchase) is a(n):**

- ✔ A) Deferred Annuity
- B) Life Annuity
- C) Immediate Annuity
- D) Lump-Sum Annuity

*Explanation: A deferred annuity is purchased with either a single premium or flexible premiums over time. The income payments are deferred until a future date chosen by the owner, allowing the funds to accumulate on a tax-deferred basis.*

**22. An insurer, Star Life, acts as a replacing insurer for a new client. Under Missouri law, how long must Star Life retain copies of all replacement notices and sales proposals?**

A) At least 1 year
✓ B) At least 3 years
C) At least 5 years
D) Permanently

*Explanation: Insurers must maintain records of all replacement transactions for at least 3 years in Missouri.*

**23. Which type of policy pays a fixed, per-day benefit for each day the insured is hospitalized, regardless of the actual costs?**

A) Surgical Expense Insurance
B) Major Medical Insurance
✓ C) Hospital Indemnity Insurance
D) Comprehensive Health Insurance

*Explanation: Hospital Indemnity (or Hospital Confinement) insurance pays a specified daily, weekly, or monthly cash benefit directly to the insured during a hospital stay. This money can be used for any purpose, not just medical bills.*

**24. The 'out-of-pocket maximum' in a health insurance plan means:**

✓ A) The total annual amount the insured must pay in deductibles, copays, and coinsurance before the insurer pays 100%
B) The maximum premium the insured can pay annually
C) The most the insurer will pay for any single claim
D) The maximum benefit the insurer will pay in one year

*Explanation: The out-of-pocket maximum (or stop-loss) caps the total annual cost-sharing (deductibles + copays + coinsurance) an insured must pay. Once reached, the insurer covers 100% of covered expenses for the rest of the plan year. This protects insureds from catastrophic out-of-pocket expenses.*

**25. If a life insurance application is approved and a policy is issued, but the applicant's health has deteriorated since the application date and no premium was paid, what is the insurer's obligation?**

✓ A) The policy is not in effect until it is delivered and a statement of good health is signed.
B) The insurer must deliver the policy as issued.
C) The policy is in effect, but at a higher premium.
D) The insurer can cancel the policy immediately.

*Explanation: When the premium is not paid with the application, coverage is not effective until the policy is delivered, the first premium is paid, and the applicant signs a statement of good health. The adverse change in health means a key condition for policy delivery has not been met.*

**26. An insurance contract is aleatory because:**

A) It can be altered by either party at any time
✔ B) The values exchanged are unequal and dependent on an uncertain event
C) Both parties exchange equal value
D) It requires personal performance by both parties

*Explanation: An aleatory contract involves the exchange of unequal values dependent on an uncertain event. The insured pays a small premium while the insurer may pay a much larger benefit — or nothing — depending on whether a loss occurs.*

**27. An employee has coverage through their employer and is also covered as a dependent under their spouse's plan. If the employee files a claim, which plan is primary?**

A) The plans split the cost 50/50
✔ B) The employee's own plan
C) The spouse's plan
D) The plan that has been in effect longer

*Explanation: Under standard COB rules, the plan in which the person is enrolled as an employee or main policyholder is always the primary plan. The plan in which they are covered as a dependent is secondary.*

**28. The optional 'Change of Occupation' provision allows the insurer to adjust benefits or premiums if the insured changes to a:**

A) Different employer in the same field
✔ B) More hazardous occupation
C) Part-time position
D) Higher-paying occupation

*Explanation: If the insured changes to a more hazardous occupation, the insurer may reduce the benefits to the amount the premium would have purchased for the new occupation. Conversely, if the insured changes to a less hazardous occupation, the insurer will reduce the premium accordingly.*

**29. A 'life income with period certain' settlement option guarantees:**

A) Interest payments for a period, followed by a lump sum.
B) Payments for a fixed number of years, and then for life.
✔ C) Payments for life, with a guarantee that a minimum number of payments will be made.
D) A fixed amount paid for a fixed period.

*Explanation: This option provides the beneficiary with a guaranteed income for life. If the beneficiary dies before a specified 'period certain' (e.g., 10 or 20 years), the payments will continue to a secondary beneficiary until the end of that period.*

**30. In a variable annuity, the Assumed Interest Rate (AIR) is used to:**

A) Calculate the surrender charge percentage
B) Set the cap rate on an indexed annuity
C) Guarantee a minimum rate of return on the separate account
✔ D) Determine the amount of the first annuity payment and serve as a benchmark for subsequent payments

*Explanation: The AIR is the benchmark rate used to calculate the initial annuity payment when a variable annuity is annuitized. If the actual performance of the separate account exceeds the AIR, the next payment will increase. If performance is below the AIR, the payment will decrease. If performance equals the AIR, the payment stays the same.*

**31. A Guaranteed Lifetime Withdrawal Benefit (GLWB) rider on a deferred annuity provides that the owner can:**

A) Annuitize the contract at a future date.
B) Receive a guaranteed minimum interest rate.
C) Withdraw the entire contract value at any time without a charge.
✔ D) Withdraw a specified percentage of the contract value each year for life, even if the actual account value drops to zero.

*Explanation: A GLWB rider is a popular feature that offers a form of lifetime income without forcing the owner to annuitize the contract. It guarantees that the owner can take systematic withdrawals for life, providing income security while maintaining access to the underlying account value.*

**32. 'Aggregation rules' for annuity taxation mean:**

✔ A) All annuities from the same insurer owned by the same person are treated as one contract for tax purposes
B) Multiple annuities can be aggregated for a tax-free 1035 exchange
C) Tax is calculated on the aggregate value of all qualified plans
D) All annuities owned by a person's family are taxed together

*Explanation: IRS aggregation rules (IRC Section 72(e)(12)) treat multiple annuity contracts issued after October 21, 1988 by the same insurer to the same owner in the same calendar year as a single contract for tax purposes. This prevents owners from using multiple contracts to avoid paying gains first on withdrawals.*

**33. A 'family term rider' on a life insurance policy provides:**

A) Separate individual policies for each family member
B) Permanent coverage for all family members at a single premium
C) Coverage only for the insured's spouse
✔ D) Term life coverage on the spouse and children of the insured under a single rider premium

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

**34. Under the ACA, employers with 50 or more full-time equivalent employees are subject to the employer mandate. This means they must:**

✔ A) Offer affordable and minimum value health coverage to full-time employees or face a penalty.
B) Offer a specific Platinum-level plan.
C) Pay 100% of the premium for their employees.
D) Enroll all employees in a government plan.

*Explanation: The ACA's 'employer shared responsibility' provision (employer mandate) requires applicable large employers (ALEs) to either offer qualifying health coverage to their full-time employees and their dependents or potentially pay a penalty if at least one employee receives a premium tax credit on the marketplace.*

**35. 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.*

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**36. An insurance policy is considered a unilateral contract because:**

A) The contract is created by only one party.
B) Both parties make legally enforceable promises.
C) The contract's terms are not negotiable.
✔ D) Only one party, the insurer, makes a legally enforceable promise.

*Explanation: In a unilateral contract, only the insurer makes a promise that can be legally enforced (the promise to pay a claim). The insured is not legally obligated to pay premiums, although they must do so to keep the contract in force.*

**37. An insurer offers a lower rate to individuals who are members of a specific religious organization, with no actuarial justification. What is this practice called?**

✔ A) Unfair discrimination
B) Redlining
C) Rebating
D) Twisting

*Explanation: Charging different rates or offering special terms based on religion, race, or creed is illegal unfair discrimination.*

**38. An individual wants to sell variable life insurance and variable annuities in Missouri. In addition to a Life license, what else must they hold?**

A) A Property & Casualty license
✔ B) A FINRA securities registration (such as Series 6 or 7)
C) A temporary license
D) A CPA certificate

*Explanation: Selling variable products requires both a state life license and registration with the Financial Industry Regulatory Authority (FINRA).*

**39. Under the doctrine of respondeat superior, when an authorized agent commits an error while acting within the scope of their authority, who is held liable?**

A) Only the agent
B) Only the insured
C) The state Department of Insurance
✔ D) The principal (insurer) is held vicariously liable

*Explanation: Under respondeat superior (let the master answer), the principal (insurer) is held vicariously liable for the acts and omissions of its agents performed within the scope of their actual or apparent authority. This is a key concept in insurance law.*

**40. Lloyd's of London is best described as:**

A) A government agency that regulates international insurance
B) A reinsurance company that backs all U.S. insurers
✔ C) A marketplace where individual underwriters and syndicates accept insurance risks
D) An insurance company that issues policies directly to insureds

*Explanation: Lloyd's of London is a marketplace (not an insurance company) where individual underwriters organized into syndicates accept insurance risks brought by Lloyd's brokers. Each syndicate member (Name) personally assumes a portion of each risk they underwrite.*

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**41. A resident applicant, Mark, wishes to obtain an insurance producer license in Missouri. Which of the following is a minimum eligibility requirement for Mark?**

A) Be at least 21 years of age
✔ B) Be at least 18 years of age
C) Complete a four-year college degree
D) Be a licensed agent in another state first

*Explanation: Missouri law requires that applicants for an insurance license must be at least 18 years of age.*

**42. An insured, Greg, commits suicide 18 months after purchasing a life insurance policy that contains a standard 2-year suicide clause. What action will the insurer take regarding the beneficiary's claim?**

A) Pay the full face amount of the policy
✔ B) Deny the claim and refund only the premiums paid
C) Deny the claim and refund nothing
D) Pay 50% of the face amount as a compromise

*Explanation: Under the suicide clause, if the insured commits suicide within the first two years of the policy, the insurer's liability is limited to a refund of the premiums paid. After two years, the full death benefit must be paid.*

**43. 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.*

**44. How are distributions (withdrawals or loans) from a Modified Endowment Contract (MEC) taxed?**

- A) As capital gains.
- ✔ B) Last-In, First-Out (LIFO) - earnings are taxed first.
- C) First-In, First-Out (FIFO) - return of premium first.
- D) Tax-free.

*Explanation: MECs are subject to less favorable tax rules. All distributions are taxed on a Last-In, First-Out (LIFO) basis, meaning the taxable earnings are withdrawn first. Additionally, a 10% penalty may apply to distributions taken before age 59 1/2.*

**45. In a variable life policy, who bears the investment risk for the separate account?**

- ✔ A) The policyowner
- B) The SEC
- C) The insurance company
- D) The state guaranty association

*Explanation: In variable life insurance, the policyowner bears the investment risk for the separate account investments. Unlike whole life where the insurer guarantees the cash value, variable life cash value fluctuates based on investment performance. If the investments perform poorly, the cash value and potentially the death benefit can decrease (though variable life typically guarantees a minimum death benefit). This is why variable life producers must hold both insurance and securities licenses.*

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**46. Under the ACA employer mandate for ALEs with 100+ employees in 2015 and 50+ in 2016 and beyond:**

- A) All full-time employees must be enrolled in coverage whether they want it or not
- B) All plans must be grandfathered to be exempt from the mandate
- C) Coverage must be free to all employees with no employee contributions allowed
- ✔ D) The employer must offer qualifying coverage to full-time employees (30+ hours/week) and their dependents

*Explanation: The ACA employer mandate requires ALEs (50+ FTEs) to offer minimum essential coverage that is affordable and meets minimum value to all full-time employees (those working 30+ hours/week) and their dependents (not spouses). Employers who fail to offer coverage (or offer unaffordable/insufficient coverage) and have at least one FT employee receive a premium tax credit may owe an employer shared responsibility payment.*

**47. A life insurance policyholder dies, and the beneficiary submits a death claim with proper proof of loss. If the insurer delays payment, what must they pay under Missouri law?**

- ✔ A) They must pay interest on the death benefit from the date of the insured's death.
- B) They must pay double the death benefit.
- C) They do not have to pay anything extra if the delay is under 90 days.
- D) They are subject to license revocation but no interest.

*Explanation: In Missouri, if a life insurance claim is not paid promptly, the insurer must pay interest on the death benefit from the date of death.*

**48. What legal principle prevents a party from re-asserting a right they have previously waived?**

- A) Subrogation
- B) Adhesion
- C) Waiver
- ✔ D) Estoppel

*Explanation: Estoppel is the legal principle that prevents someone from arguing something or asserting a right that contradicts what they previously said or did. For example, if an insurer consistently accepts late premiums, they may be estopped from canceling the policy for a late payment.*

**49. What is the primary risk associated with a fixed annuity?**

- ✔ A) Purchasing power risk
- B) Market risk
- C) Liquidity risk
- D) Investment risk

*Explanation: The primary risk for a fixed annuity owner is purchasing power risk (or inflation risk). Because the income payments are fixed and do not increase, their real value can be eroded by inflation over a long retirement period.*

**50. Under group term life insurance, if an employee converts their coverage to an individual whole life policy upon termination:**

- ✔ A) The premium is based on the insured's attained age at the time of conversion with no evidence of insurability required
- B) The converted policy will have the same premium as the group plan for 2 years
- C) The premium is based on the group rate they were paying before termination
- D) The converted policy has a 2-year contestability period beginning from the original group enrollment date

*Explanation: Upon conversion of group term to individual whole life, the insured pays the standard premium for their current age (attained age) for the type of individual policy issued. No evidence of insurability is required. The premium will be significantly higher than the group rate because individual policies are more expensive per unit of coverage than group rates.*