



Insurance Test Practice

Nebraska Insurance Practice Test

Free Life & Health Insurance Practice Questions with Answers

- ✓ 50 carefully curated practice questions across all 5 sections
- ✓ Real PSI exam format and difficulty
- ✓ Updated for 2026 Nebraska Insurance Department rules
- ✓ Print-ready professional design

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

Start Free Simulator at insurancetestpractice.com

Premium Access: Full 1,076 Question Bank • Real Mock Tests • Smart Dashboard

Practice Questions Begin on Next Page

1. Which of the following best describes the principle of indemnification?

- A) To provide a guaranteed return on investment
- B) To punish the party that caused the loss
- ✓ C) To restore the insured to the same financial position as before the loss
- D) To allow the insured to profit from a loss

Explanation: The principle of indemnification aims to make the insured 'whole' again by restoring them to their approximate financial condition prior to the loss, without allowing for financial gain.

2. Insurable interest in a life insurance policy must exist:

- A) At the time of the insured's death
- B) Throughout the entire policy period
- C) Only at the time of each premium payment
- ✓ D) At the time the policy application is made

Explanation: For life insurance, insurable interest must exist at the time the application is made. Unlike property insurance, it does not need to exist at the time of the insured's death.

3. The Law of Large Numbers in insurance means that:

- A) Larger policies are more likely to be paid
- B) Large companies are more financially stable
- C) Insurance premiums increase with policy size
- ✓ D) As the number of similar exposure units increases, actual losses become more predictable

Explanation: The Law of Large Numbers states that as more similar risks are pooled, the actual loss experience approaches the statistically expected loss rate, allowing accurate premium pricing.

4. 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.

5. Which method of handling risk involves accepting financial responsibility for potential losses without purchasing insurance?

- A) Risk sharing
- B) Risk transfer
- ✓ C) Risk retention
- D) Risk avoidance

Explanation: Risk retention (self-insurance) means accepting the financial consequences of a potential loss rather than transferring the risk to an insurer. This can be intentional or unintentional.

6. Subrogation is the right of the insurer to:

- A) Increase premiums after a claim is filed
- B) Cancel a policy after a loss occurs
- ✓ C) Recover from a negligent third party after paying a claim on behalf of the insured
- D) Deny a claim due to misrepresentation

Explanation: Subrogation allows the insurer to step into the shoes of the insured after paying a loss and pursue recovery from the third party whose negligence caused the loss. This prevents double recovery by the insured.

7. A hazard that increases the probability of loss due to a person's dishonest character is called a:

- A) Physical hazard
- B) Morale hazard
- ✓ C) Moral hazard
- D) Speculative hazard

Explanation: A moral hazard is dishonesty or character defects that increase the frequency or severity of loss. It differs from a morale hazard, which is carelessness due to indifference because insurance exists.

8. 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.

9. The immediate specific event or cause that triggers a loss is called a:

- A) Risk
- B) Exposure
- ✓ C) Peril
- D) Hazard

Explanation: A peril is the immediate cause of a loss (e.g., fire, flood, accident). A hazard is a condition that increases the chance of a peril occurring. Risk is the chance of loss itself.

10. Which of the following represents the correct description of proximate cause?

- A) The most remote cause of a loss
- B) The last event in a chain of events leading to a loss
- ✓ C) The dominant cause that sets in motion an unbroken chain of events leading to a loss
- D) Any contributing factor in a loss

Explanation: Proximate cause is the primary or dominant cause that initiates an unbroken sequence of events that results in a loss. It determines whether a loss is covered under the policy.

11. What is the primary purpose of life insurance?

- A) To fund the insured's retirement income needs
- B) To pay medical expenses for the insured's family
- C) To provide investment returns to the policyowner
- ✓ D) To replace the financial loss caused by the premature death of the insured

Explanation: The primary purpose of life insurance is to replace the income and financial support lost when the insured dies prematurely, protecting dependents and family from financial hardship. Retirement income and investment are secondary or ancillary purposes.

12. Which of the following is the CORRECT definition of the 'face amount' of a life insurance policy?

- A) The maximum loan value available against the policy
- ✓ B) The stated death benefit payable upon the insured's death
- C) The total amount of premiums paid over the policy's lifetime
- D) The cash value at the time of surrender

Explanation: The face amount (also called the death benefit or face value) is the stated amount the insurer will pay to the beneficiary upon the insured's death. It is shown on the declarations page of the policy. Riders or policy changes may increase or decrease the actual death benefit paid.

13. In life insurance, 'stock redemption' arrangements use life insurance to:

- A) Purchase stock for employees
- B) Provide a tax-advantaged retirement account for executives
- ✓ C) Fund the buyout of a deceased partner's business interest from their estate
- D) Replace key employees with trained successors

Explanation: Stock redemption (or entity purchase) arrangements use life insurance on each owner/partner, with the business as the beneficiary. Upon an owner's death, the insurance proceeds are used by the business to buy the deceased owner's interest from their estate, ensuring business continuity.

14. 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.

15. A producer who submits a life insurance application without the initial premium is issuing what type of receipt?

- A) Premium receipt
- ✓ B) An application without any receipt
- C) Conditional receipt
- D) Binding receipt

Explanation: If no initial premium is collected with the application, no receipt is issued and the insurance does not take effect until the policy is delivered AND the first premium is paid in good health. A conditional receipt provides coverage from the date of the application or exam, whichever is later, IF the applicant is found insurable.

16. The cash value in a permanent life insurance policy belongs to:

- A) The state guaranty fund until a claim is paid
- ✓ B) The policyowner
- C) The beneficiary
- D) The insurer, until the insured dies

Explanation: The cash value (also called the policy reserve) in a permanent life insurance policy belongs to the policyowner. The policyowner can access it through a policy loan, surrender the policy for the cash value, or use it to fund policy provisions such as the paid-up option.

17. Which party has the right to change the beneficiary on a revocably designated life insurance policy?

- A) Both the policyowner and the beneficiary jointly
- ✓ B) The policyowner
- C) Only the insurer
- D) Only the beneficiary

Explanation: In a revocable beneficiary designation, the policyowner retains full rights to change the beneficiary at any time without obtaining the beneficiary's consent. A revocable beneficiary has no vested rights and cannot prevent the policyowner from making changes to the policy.

18. Which of the following is a characteristic UNIQUE to term life insurance compared to permanent life insurance?

- ✓ A) It has no cash value and expires at the end of the term
- B) It requires the insured to be in good health
- C) It is issued by a licensed insurer
- D) It pays a death benefit when the insured dies

Explanation: Term life insurance provides pure death benefit protection for a specific period (the term) with no cash value accumulation. If the insured survives the term, coverage ends and no benefit is paid. Premiums are lower than permanent insurance for the same death benefit.

19. Level term life insurance means:

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

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

20. 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.

21. What is the primary purpose of health insurance?

- ✓ A) To protect against the financial consequences of illness or injury
- B) To replace income lost during retirement
- C) To provide investment returns to the policyholder
- D) To fund long-term savings goals

Explanation: The primary purpose of health insurance is to protect individuals and families from the potentially catastrophic financial costs of illness, injury, or disability. It covers medical expenses and, in some products, provides income replacement during periods of disability.

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

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

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

23. Coinsurance in health insurance means:

- A) The insured pays a fixed dollar amount per service
- B) The insurer pays 100% of all expenses after a certain date
- C) Two insurers share coverage on the same risk
- ✓ D) After the deductible, the insured pays a percentage of covered expenses while the insurer pays the remainder

Explanation: Coinsurance requires the insured to pay a percentage of covered expenses after the deductible is satisfied. A common arrangement is 80/20 (the insurer pays 80%, the insured pays 20%) until the out-of-pocket maximum is reached, after which the insurer pays 100%.

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. 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.

26. A noncancellable health insurance policy guarantees that:

- A) Premiums can increase for an entire class of policyholders
- ✓ B) The insurer cannot cancel the policy and premiums will not increase as long as premiums are paid
- C) The policy automatically renews but coverage amounts can decrease
- D) The insurer can cancel but must give 60-day notice

Explanation: A noncancellable (noncancellable and guaranteed renewable) policy provides the strongest renewability protection. The insurer cannot cancel the policy, cannot increase premiums, and cannot reduce benefits as long as the insured pays premiums. This provides maximum long-term stability for the insured.

27. Health insurance policies that include a 'preexisting condition' exclusion may deny benefits for:

- ✓ A) A medical condition for which treatment was sought within a specified lookback period before coverage began
- B) Conditions that run in the insured's family
- C) Any illness diagnosed after the policy is issued
- D) All chronic conditions indefinitely

Explanation: A preexisting condition exclusion limits coverage for conditions that existed (or for which care was received or recommended) within a specified period before the policy's effective date. Under HIPAA, the lookback period is 6 months before enrollment. The ACA eliminated preexisting condition exclusions for most health insurance plans.

28. ACA marketplace 'metal tiers' (Bronze, Silver, Gold, Platinum) reflect:

- A) The relative age of the plan in the marketplace
- B) The quality of the insurer's network and service
- C) The level of the insurer's financial strength rating
- ✓ D) The actuarial value — the percentage of covered healthcare costs the plan pays on average

Explanation: ACA marketplace plans are categorized by metal tiers that indicate their actuarial value: Bronze (~60% of costs paid by insurer), Silver (~70%), Gold (~80%), Platinum (~90%). Higher metal tiers have higher premiums but lower cost-sharing when care is received. The actuarial value reflects average cost sharing — individual experiences vary.

29. Premium tax credits under the ACA are available to individuals and families with household incomes:

- A) Only below \$50,000 per year regardless of family size
- B) At any income level
- C) Below 100% of the federal poverty level (FPL)
- ✓ D) Between 100% and 400% of the FPL (expanded to no upper limit through 2025)

Explanation: ACA premium tax credits (subsidies) are available to individuals and families with incomes between 100% and 400% of the federal poverty level who purchase coverage through an ACA marketplace. Enhanced subsidies temporarily removed the income cap through 2025. Medicaid-eligible individuals do not qualify for marketplace subsidies.

30. A 'special enrollment period' (SEP) under the ACA is triggered by qualifying life events such as:

- A) Any desire to change plans during the year
- ✓ B) Loss of other qualifying coverage, marriage, birth or adoption, or moving to a new coverage area
- C) Only changes in income that affect subsidy eligibility
- D) Having a medical emergency

Explanation: Outside of open enrollment, consumers can enroll in or change ACA marketplace plans during a Special Enrollment Period (SEP) triggered by qualifying life events including: losing other health coverage, getting married, having/adopting a child, or moving to a new area. Voluntary cancellation of prior coverage does not qualify for a SEP.

31. The primary purpose of an annuity is to:

- ✓ A) Provide a systematic income stream, particularly to protect against outliving one's assets
- B) Replace health insurance for retirees
- C) Create a death benefit for the insured's beneficiaries
- D) Fund a child's education expenses

Explanation: The primary function of an annuity is to liquidate (distribute) an accumulated sum through periodic income payments. Annuities protect against longevity risk — the risk of outliving one's savings. Life insurance protects against dying too soon; annuities protect against living too long.

32. The party who receives the income payments from an annuity is called the:

- A) Beneficiary
- B) Owner
- C) Contingent annuitant
- ✓ D) Annuitant

Explanation: The annuitant is the person whose life expectancy determines the income payments and the duration of payments. The annuitant receives the income payments. The owner of the annuity contract may or may not be the same person as the annuitant.

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

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

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

34. The mortality risk borne by the insurer in a life annuity is the risk that:

- A) The annuity will not earn enough interest to fund the payments
- B) The annuitant will require long-term care
- ✓ C) The annuitant will live longer than expected, requiring more total payments
- D) The annuitant will die before the annuity payments begin

Explanation: The insurer bears the longevity risk in a life annuity — the risk that the annuitant will live longer than actuarially expected, requiring the insurer to make more total payments than originally projected. This is the core mortality risk the insurer assumes in exchange for the annuity premium.

35. An annuity premium paid in one lump sum is called a:

- A) Level premium
- ✓ B) Single premium
- C) Flexible premium
- D) Scheduled premium

Explanation: A single premium is a one-time lump-sum payment that fully funds the annuity contract. Single Premium Deferred Annuities (SPDAs) and immediate annuities are typically funded with a single premium. Flexible premium annuities allow additional contributions at varying amounts and timing.

36. In a fixed annuity, the interest crediting rate is:

- ✓ A) Guaranteed at a fixed minimum rate with a current rate that may be higher
- B) Determined solely by the owner's investment selections
- C) Tied directly to stock market index performance
- D) Equal to U.S. Treasury bond rates

Explanation: Fixed annuities credit interest at a current rate that the insurer declares periodically, with a guaranteed minimum rate. The insurer bears all investment risk. This provides principal protection and predictable growth, making fixed annuities less risky than variable annuities.

37. Fixed annuities are NOT classified as securities because:

- A) They are only sold by banks, not insurance companies
- ✓ B) The insurance company, not the owner, bears the investment risk
- C) They are regulated only at the federal level
- D) They are backed by the FDIC

Explanation: Fixed annuities are not securities because the insurer, not the owner, bears the investment risk. The contract guarantees a minimum return and principal protection. Variable annuities are securities because the owner bears investment risk through subaccount investing. Fixed and indexed annuities require only a state insurance license to sell.

38. The 'bailout provision' in a fixed annuity allows the owner to:

- ✓ A) Surrender the annuity without a surrender charge if the credited rate falls below a specified minimum
- B) Withdraw funds for medical emergencies without penalty
- C) Bail out of paying premiums for up to one year
- D) Convert the fixed annuity to a variable annuity without tax consequences

Explanation: A bailout (or escape) provision gives the annuity owner the right to surrender the contract without a surrender charge if the insurer reduces the credited interest rate below a specified floor. This provision protects the owner from being 'locked in' to a low-interest contract indefinitely.

39. In a variable annuity, the 'separate account' refers to:

- A) A retirement account regulated by the IRS
- ✓ B) A segregated investment account that holds the owner's subaccount investments, separate from the insurer's general account
- C) A joint account shared between the owner and the beneficiary
- D) A bank account where variable annuity premiums are deposited

Explanation: The separate account in a variable annuity is a legally segregated pool of investments that holds the policy owner's subaccount allocations. It is kept separate from the insurer's general account to protect the owner's investment from the insurer's creditors. The separate account's value fluctuates with the performance of the underlying subaccounts.

40. 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.

41. An insurance company, Cornhusker Mutual, seeks authorization to transact life and health insurance in Omaha. Which state agency is responsible for administering and enforcing the insurance laws of Nebraska?

- A) The National Association of Insurance Commissioners (NAIC)
- ✓ B) The Nebraska Department of Insurance (NDOI)
- C) The Nebraska State Banking Board
- D) The Nebraska Attorney General Office exclusively

Explanation: The Nebraska Department of Insurance (NDOI) is the executive agency created under state law (Neb. Rev. Stat. § 81-101) to administer, supervise, and enforce Nebraska insurance statutes and regulations.

42. Under the Nebraska Insurers Examination Act, how frequently must the Director of Insurance examine the financial condition and affairs of every domestic insurer in Nebraska?

- A) At least once every year
- B) At least once every 3 years
- ✓ C) At least once every 5 years
- D) At least once every 10 years

Explanation: Under Neb. Rev. Stat. § 44-5905(1), the Director must conduct a financial examination of every domestic insurer licensed in Nebraska at least once every 5 years.

43. Under the Nebraska Insurance Producers Licensing Act, what is the minimum age required for an individual to be licensed as an insurance producer?

- A) 16 years old
- ✓ B) 18 years old
- C) 20 years old
- D) 21 years old

Explanation: Under Neb. Rev. Stat. § 44-4053(1)(b), an individual applying for an insurance producer license in Nebraska must be at least 18 years of age.

44. How many total hours of approved continuing education (CE) must a resident Nebraska Life and Health insurance producer complete during each two-year renewal cycle?

- A) 12 hours
- B) 16 hours
- ✓ C) 24 hours
- D) 30 hours

Explanation: Under Neb. Rev. Stat. § 44-3904, resident producers holding major lines of authority must complete 24 cumulative hours of approved continuing education every two years.

45. A producer misrepresents the terms and future dividends of a client existing whole life policy to persuade the client to surrender it and purchase a new policy. What specific unfair trade practice is this called?

- ✓ A) Twisting
- B) Sliding
- C) Churning
- D) Coercion

Explanation: Under Neb. Rev. Stat. § 44-1525(1), twisting is the unlawful practice of making misleading representations or incomplete comparisons to induce a policyholder to lapse, forfeit, surrender, or convert an existing insurance policy.

46. An insurance producer offers to refund 25% of their first-year commission to a prospect as an incentive to purchase a disability income policy. What prohibited practice is this?

- A) Twisting
- ✓ B) Rebating
- C) Churning
- D) Sliding

Explanation: Under Neb. Rev. Stat. § 44-1525(10), rebating is offering, paying, or giving any valuable consideration, commission refund, or inducement not specified in the policy contract to induce an insurance sale.

47. Upon receiving notification of a life or health claim from a policyholder, within how many working days must an insurer provide necessary claim forms and reasonable instructions?

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

Explanation: Under Title 210 NAC Chapter 61 § 005.01, an insurer must provide claim forms, instructions, and reasonable assistance within 15 working days of receiving claim notification.

48. When an application involves replacement of life insurance, within how many business days of receiving the application must the replacing insurer notify the existing insurer?

- A) Within 24 hours
- ✓ B) Within 5 business days
- C) Within 15 calendar days
- D) Within 30 business days

Explanation: Under Title 210 NAC Chapter 19 § 005.01, the replacing insurer must notify any existing insurer that may be affected by the proposed replacement within 5 business days of receiving the application.

49. Under Neb. Rev. Stat. § 44-502.04, what is the standard mandatory free-look (right to examine) period for newly delivered individual life insurance policies in Nebraska?

- ✓ A) 10 days from policy delivery
- B) 20 days from policy delivery
- C) 30 days from application
- D) 45 days from first premium payment

Explanation: Under Neb. Rev. Stat. § 44-502.04, standard individual life insurance policies must provide a 10-day free-look period during which the policyowner may return the policy for a full premium refund.

50. Under Neb. Rev. Stat. § 44-2708(1)(c)(i)(A), what is the maximum coverage limit provided by the Guaranty Association for life insurance death benefits with respect to any one individual life?

- A) \$100,000
- B) \$250,000
- ✓ C) \$300,000
- D) \$500,000

Explanation: Under Neb. Rev. Stat. § 44-2708(1)(c)(i)(A), the Association maximum liability for life insurance death benefits is \$300,000 per individual life.