Insurance Test Practice

Nevada Insurance Practice Test

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1. What is 'home health care' coverage in an LTC policy?

A) Coverage for major home renovations like installing ramps.
✔ B) Coverage for skilled nursing or therapy services provided in the insured's home.
C) Coverage for housekeeping and meal delivery services.
D) Coverage for a 24-hour live-in caregiver.

Explanation: Home health care coverage provides for services delivered at home, such as skilled nursing, physical therapy, occupational therapy, or speech therapy, typically provided by licensed professionals.

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

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

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

3. 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.

4. 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.

5. Which type of life insurance offers pure death benefit protection with no cash value?

A) Universal Life
B) Endowment
✔ C) Term Life
D) Whole Life

Explanation: Term Life insurance provides coverage for a specific period (term). It pays a death benefit only if the insured dies during that term. It is the purest form of life insurance and does not build any cash value.

6. What is the conversion privilege in a group health plan?

A) The right to change from an HMO to a PPO during open enrollment.
✔ B) The right to convert group coverage to an individual policy without evidence of insurability upon leaving the group.
C) The ability to convert a term policy to a whole life policy.
D) The ability to convert unused benefits to cash.

Explanation: The conversion privilege gives an employee who is leaving a group plan the right to convert their group coverage into an individual policy issued by the same insurer, without having to prove their insurability. The converted policy is often more expensive and may have fewer benefits.

7. Which of the following would disqualify an individual from contributing to a Health Savings Account (HSA)?

A) Having dental and vision coverage
B) Being self-employed
C) Having a High Deductible Health Plan
✔ D) Being enrolled in a general-purpose health FSA or non-HDHP coverage

Explanation: An individual who is covered by a general-purpose health FSA or any non-HDHP health plan that provides first-dollar coverage is not eligible to contribute to an HSA. However, limited-purpose FSAs for dental and vision do not affect HSA eligibility.

8. 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.

9. The 'interest only' settlement option in life insurance means:

✔ A) The beneficiary receives only the interest earned on the death benefit, which remains on deposit with the insurer until the beneficiary chooses to withdraw or select another option
B) All payments to the beneficiary are applied first to the accumulated interest
C) The death benefit is reduced to reflect only the interest component of the premium
D) The insurer retains the death benefit principal indefinitely and pays only interest

Explanation: Under the interest only settlement option, the insurer retains the death benefit proceeds and pays interest to the beneficiary at regular intervals. The principal (death benefit) remains intact and is available to the beneficiary on demand or at a specified future date. This option is useful when the beneficiary needs time to decide how to use the funds, or wants to preserve the principal for future use.

10. Which of the following represents a pure risk?

- ✔ A) The chance of a house fire
- B) The potential gain from a stock investment
- C) The outcome of a sports bet
- D) The chance of winning the lottery

Explanation: Pure risk involves only the possibility of loss or no loss, with no chance for financial gain. A house fire is an example, whereas gambling and investments are speculative risks.

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11. If an insurer allows an unlicensed individual to solicit insurance applications using the company's letterhead, business cards, and office space, the insurer may be liable under the doctrine of:

- ✔ A) Apparent authority
- B) Implied authority
- C) Express authority
- D) Subrogation

Explanation: Apparent authority is created when an insurer's actions lead the public to reasonably believe that a person is authorized to act on the insurer's behalf. Providing company materials and office space to an individual creates the appearance of an agency relationship, even if no formal authority was granted.

12. The 'guaranteed minimum income benefit' (GMIB) rider in a variable annuity:

- A) Guarantees the owner receives their original premium back in income payments
- B) Guarantees minimum monthly income payments regardless of the account value or annuitization
- ✔ C) Guarantees the owner can annuitize for at least a minimum income amount even if the account value has declined
- D) Guarantees a minimum account value at all times

Explanation: A GMIB rider guarantees that the owner can annuitize the contract for a specified minimum income amount (based on a benefit base that grows at a specified rate), regardless of the actual account value at annuitization. This provides income security even in a market where the actual account value is lower than the benefit base.

13. 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.

14. How are employer-paid premiums for group life insurance treated for tax purposes for the employee?

A) The premium for the first $100,000 of coverage is tax-free to the employee.
B) They are always taxable income to the employee.
✓ C) The premium for the first $50,000 of coverage is tax-free to the employee.
D) They are always tax-free to the employee.

Explanation: The value of employer-paid premiums for the first $50,000 of group term life insurance coverage is not considered taxable income to the employee. The value of the premium for coverage above $50,000 is considered taxable income, based on an IRS table.

15. The length of time that disability income benefits will be paid is called the:

✓ A) Benefit period
B) Coverage period
C) Payment period
D) Elimination period

Explanation: The benefit period is the maximum amount of time that benefits will be paid for a single disability. It can range from a few months (for short-term disability) to several years or even to age 65 (for long-term disability).

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16. 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.

17. 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.

18. Which of the following settings is typically covered by long-term care insurance?

A) Outpatient surgery
B) Emergency room visits
✓ C) Assisted living facility care
D) Acute care hospital stays

Explanation: Long-term care insurance covers custodial care in a variety of settings: skilled nursing facilities, assisted living facilities, adult day care, and home health care. It does NOT typically cover acute medical care in hospitals or emergency rooms, which is covered by health insurance and Medicare.

19. The Medicare 'donut hole' (coverage gap) in Part D applies to:

A) The gap in coverage when a beneficiary switches plans
B) Hospital costs not covered by Original Medicare
C) The period between Part A and Part B coverage
✔ D) Prescription drug costs between the initial coverage limit and the catastrophic threshold

Explanation: The Medicare Part D coverage gap ('donut hole') is the range between the initial coverage limit and the catastrophic coverage threshold. In this gap, beneficiaries historically paid a higher percentage of drug costs. The ACA has been phasing out the donut hole by requiring manufacturer discounts on brand-name drugs and increased federal subsidies for generics.

20. Which nonforfeiture option uses the policy's cash value to purchase a fully paid-up permanent policy with a reduced face amount?

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

Explanation: The Reduced Paid-Up nonforfeiture option allows the policyowner to use the accumulated cash value to make a one-time premium payment on a new whole life policy with the same insured. The new policy will have a smaller face amount but will be paid-up for life.

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21. The intentional failure to disclose a known, material fact on an insurance application is known as:

A) Fraud
B) Misrepresentation
C) Breach of warranty
✔ D) Concealment

Explanation: Concealment is the willful withholding of material information that would affect an underwriting decision. If discovered, it can be grounds for the insurer to void the policy.

22. What is a contingent beneficiary?

✔ A) A beneficiary who receives the death benefit if the primary beneficiary predeceases the insured.
B) A beneficiary who is under the age of 18.
C) A beneficiary who receives payments over a contingent period.
D) A beneficiary that cannot be changed.

Explanation: A contingent (or secondary) beneficiary is entitled to the policy proceeds only if the primary beneficiary dies before the insured, or if both die in a common disaster. It is a backup designation.

23. What is the primary difference between a 'stock redemption' and a 'cross-purchase' buy-sell agreement?

A) Cross-purchase is only for corporations; stock redemption is for partnerships
✓ B) Stock redemption uses the business to buy the deceased's interest; cross-purchase uses surviving co-owners
C) Both are identical — the terms are used interchangeably
D) Stock redemption uses individual life insurance; cross-purchase uses group life

Explanation: In a stock redemption (entity purchase) plan, the business owns the life insurance policies and buys the deceased owner's interest. In a cross-purchase plan, each owner buys life insurance on the other owners and personally buys the deceased's interest. Both have different tax and administrative implications.

24. Which of the following best describes an 'Independent Practice Association' (IPA) model HMO?

✓ A) An HMO that contracts with independent physicians in private practice who also see non-HMO patients
B) A network of hospitals that exclusively treats HMO members
C) HMO-employed physicians who practice only at HMO facilities
D) A health insurance cooperative owned by its physician members

Explanation: In an IPA model HMO, the HMO contracts with an association (IPA) of independent physicians who practice in their own private offices and see both HMO and non-HMO patients. The IPA negotiates with the HMO on behalf of its member physicians. This is one of the most common HMO structures because it allows the HMO to build a broad network without employing physicians directly.

25. The levels of long-term care, ranked from most intensive to least intensive, are:

A) Home health care, custodial care, intermediate care, skilled nursing care
B) Intermediate care, skilled nursing care, home health care, custodial care
C) Custodial care, intermediate care, skilled nursing care, home health care
✓ D) Skilled nursing care, intermediate care, custodial care, home health care

Explanation: Skilled nursing care is the highest level, requiring licensed medical professionals providing 24-hour care. Intermediate care is periodic skilled care (not 24-hour). Custodial care is non-medical assistance with ADLs. Home health care provides skilled or custodial services in the insured's home.

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26. An employer has 25 employees and offers a group health plan. An employee quits their job. What are their continuation rights?

A) They are only eligible for the conversion privilege.
B) They have no continuation rights.
C) They are eligible for 36 months of State continuation (mini-COBRA) coverage.
✓ D) They are eligible for 18 months of COBRA coverage.

Explanation: Since the employer has more than 20 employees (25), they are subject to federal COBRA. The employee is eligible to continue their coverage for up to 18 months by paying the premium.

27. 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.

28. A Third-Party Administrator (TPA) in the insurance industry is:

- A) A federal regulator that oversees insurance company solvency
- ✔ B) An organization that handles claims processing and administration for self-insured plans or insurers
- C) A reinsurance company that administers reinsurance treaties
- D) A neutral party that resolves insurance disputes between insurers and insureds

Explanation: A TPA (Third-Party Administrator) is an organization that handles administrative functions — including claims processing, billing, and member services — for self-insured employer health plans or other insurance arrangements. TPAs are paid a fee for services and do not bear insurance risk themselves.

29. Self-funded health plans are regulated by:

- A) The Affordable Care Act (ACA) exclusively
- B) The state Department of Insurance (DOI)
- ✔ C) The federal government under ERISA
- D) The Department of Managed Health Care (DMHC)

Explanation: Self-funded plans are generally exempt from state insurance laws and regulations (like premium taxes and benefit mandates). They are primarily regulated at the federal level by the Employee Retirement Income Security Act (ERISA).

30. An annuity is designed primarily to provide:

- A) A death benefit
- B) Coverage for medical expenses
- ✔ C) Protection against outliving one's income
- D) Short-term savings

Explanation: Annuities are financial contracts issued by life insurance companies that are designed to protect against the risk of 'superannuation' or outliving your money. They provide a stream of income, typically during retirement.

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31. Integration of private pension plans with Social Security benefits is designed to:

- ✔ A) Ensure that the combined benefit from both sources provides a targeted income replacement ratio
- B) Replace Social Security benefits entirely with private benefits
- C) Allow employers to avoid paying FICA taxes
- D) Permit employees to opt out of Social Security

Explanation: Integration (also called permitted disparity) allows employers to design pension plans that coordinate with Social Security so that the combined retirement income from both sources meets a target replacement ratio. This prevents duplication of benefits for higher-income workers.

32. A worker who retires at age 62 under Social Security will receive:

A) 100% of their Primary Insurance Amount
B) No benefit until full retirement age
✓ C) A permanently reduced benefit
D) A temporarily reduced benefit until full retirement age

Explanation: If a worker elects early retirement at age 62, their benefit is permanently reduced. The reduction is approximately 5/9 of 1% for each month before full retirement age (up to 36 months) and 5/12 of 1% for each additional month. This reduction does not go away at full retirement age.

33. Who is the party to an annuity contract that has all the rights, such as naming the beneficiary and making withdrawals?

A) The beneficiary
✓ B) The owner
C) The agent
D) The annuitant

Explanation: The contract owner is the person or entity who purchases the annuity and has all rights of ownership. They control the contract, make the investment decisions (in a variable annuity), and can change the beneficiary.

34. The process where an insurer may check information from the Department of Motor Vehicles (DMV) for an applicant is part of:

A) A paramedical exam
B) A consumer report
✓ C) An inspection report
D) Credit scoring

Explanation: An inspection report is a general report on the applicant's finances, character, work, hobbies, and lifestyle. This may include a review of their driving record from the DMV, especially if they are applying for a large amount of coverage or have a history of reckless behavior.

35. A policy that allows the policyowner to convert their term coverage to permanent coverage without evidence of insurability is called a:

A) Renewable Term policy
B) Decreasing Term policy
C) Level Term policy
✓ D) Convertible Term policy

Explanation: A convertible term policy includes a provision that allows the policyowner to convert the term policy into a whole life or other permanent policy at a later date without having to prove their insurability. Premiums for the new policy will be based on the insured's attained age at the time of conversion.

36. To sell variable annuities, a producer must hold which licenses?

A) A life insurance license only.
✔ B) Both a life insurance license and a securities license (e.g., FINRA Series 6 or 7).
C) A securities license only.
D) A property and casualty license.

Explanation: Because variable annuities involve investments in securities (the separate account), they are regulated by both state insurance departments and the SEC/FINRA. A producer must hold a state life insurance license and a federal securities registration to sell them.

37. 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.

38. The rider that provides an additional death benefit if the insured dies as a result of an accident is the:

A) Cost of Living Rider
B) Waiver of Premium Rider
C) Guaranteed Insurability Rider
✔ D) Accidental Death Benefit (ADB) Rider

Explanation: The Accidental Death Benefit (ADB) rider, sometimes called 'double indemnity, ' pays an additional amount, often equal to the face amount of the policy, if the insured's death is the result of an accident and occurs within a specified time (e.g., 90 days) of that accident.

39. Adult day care is a covered benefit under most LTC policies. It provides:

A) 24-hour residential nursing care
B) Full-time medical care in the insured's home
✔ C) Daytime supervision, social activities, and health services in a community setting for individuals who return home at night
D) Hospice services for terminally ill individuals

Explanation: Adult day care provides a structured program during daytime hours for individuals who need supervision or assistance but can still live at home. Services may include meals, social activities, health monitoring, and therapeutic activities. It also provides respite for family caregivers.

40. What is the 'parol evidence rule'?

- ✔ A) It prevents oral evidence from being used to contradict the terms of a written contract.
- B) It allows for oral agreements to modify a written policy.
- C) It requires that insurance contracts be unilateral.
- D) It requires all contract ambiguities to be interpreted against the insurer.

Explanation: The parol evidence rule states that when a contract is put in writing, the written document represents the entire agreement. Any prior oral or written statements are inadmissible in court to change or contradict the terms of the policy.

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41. What is the purpose of a Cost of Living Adjustment (COLA) rider on a disability policy?

- A) To increase the premium each year.
- ✔ B) To increase the monthly benefit amount to keep pace with inflation, once claims have begun.
- C) To provide a lump-sum payment at age 65.
- D) To decrease the elimination period.

Explanation: A COLA rider helps protect the purchasing power of the disability benefit. Once benefit payments have started, this rider will automatically increase the benefit amount each year, typically based on the Consumer Price Index (CPI).

42. In a staff model HMO, physicians are:

- A) Members of an independent practice association who contract with the HMO
- ✔ B) Salaried employees of the HMO who work exclusively for the plan
- C) Part of a multispecialty group that contracts with the HMO
- D) Independent contractors who are paid on a fee-for-service basis

Explanation: In a staff model HMO, physicians are directly employed by the HMO and receive a salary. They practice in facilities owned or operated by the HMO and typically see only HMO patients. This gives the HMO the greatest control over utilization and quality but is the most expensive model to operate.

43. An Attending Physician Statement (APS) is:

- A) A government form required for all insurance applications
- ✔ B) A report from the applicant's personal doctor providing their medical history
- C) A statement from the insurer's medical director
- D) A summary of the agent's observations about the applicant

Explanation: An APS is a detailed report obtained from the applicant's personal physician. It provides the underwriter with the applicant's medical history, diagnoses, treatments, and prognosis. It is one of the most thorough and reliable sources of medical underwriting information.

44. A fixed dollar amount that an insured pays for a specific covered service, such as a doctor's visit, is a(n):

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

Explanation: A copayment (or copay) is a set fee paid by the insured at the time of service. For example, a plan might require a $30 copay for each office visit.

45. What is the main difference between an HMO and a PPO?

- ✔ A) HMOs require a gatekeeper and have a limited network; PPOs offer more flexibility and out-of-network options.
- B) PPOs cover preventative care; HMOs do not.
- C) HMOs use a capitation fee; PPOs use a fee-for-service model.
- D) PPOs are federally regulated; HMOs are state-regulated.

Explanation: The primary distinction lies in the network and choice. HMOs are more restrictive, requiring members to use a limited network and a PCP gatekeeper. PPOs offer a broader network and the freedom to see out-of-network providers, albeit at a higher cost.

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46. The primary purpose of the Medicare Access and CHIP Reauthorization Act (MACRA) was to:

- A) Introduce Medicare Advantage plans.
- B) Expand Medicare eligibility.
- C) Create the Medicare Part D program.
- ✔ D) Change how Medicare pays doctors, shifting from fee-for-service to value-based payments.

Explanation: MACRA repealed the sustainable growth rate formula for physician payments and established a new framework called the Quality Payment Program. It is designed to reward physicians for providing higher quality and more cost-effective care.

47. Which rider allows for future increases in the disability benefit amount without evidence of insurability?

- A) Return of Premium Rider
- ✔ B) Future Increase Option (FIO) Rider
- C) Cost of Living Adjustment (COLA) Rider
- D) Social Security Rider

Explanation: The Future Increase Option (FIO) rider, also known as a Guaranteed Insurability Rider, allows the insured to purchase additional amounts of disability income coverage at specified future dates without having to prove their health status.

48. Who receives a certificate of insurance as proof of coverage in a group plan?

- ✔ A) The employee
- B) The agent
- C) The employer
- D) The insurer

Explanation: While the employer holds the master policy, each insured employee receives a certificate of insurance that outlines their benefits, coverage, and rights under the plan.

49. An Accidental Death and Dismemberment (AD&D) policy pays benefits according to a schedule. A 'capital' loss (such as loss of life or loss of both hands) typically pays what percentage of the principal sum?

A) 50%
✔ B) 100%
C) 75%
D) 25%

Explanation: A capital loss is the most severe type covered under an AD&D policy and pays the full principal sum (100%). Capital losses include loss of life, loss of both hands, loss of both feet, loss of sight in both eyes, or any combination of two. Loss of one hand, one foot, or sight in one eye typically pays 50% (the 'capital' sum).

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

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

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