



INSURANCE TEST PRACTICE

FREE PRACTICE TEST 2026

New Mexico

Life & Health Insurance

50 High-Yield Practice Questions with Explanations

Essential practice questions covering General Insurance, Life, Health, Annuities, and State Insurance Law & Ethics.

Each question includes answer explanations with official citations.

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1. Which of the following is NOT a common exclusion in a disability income policy?

- a) Losses from committing a felony
- b) Losses from war or acts of war
- c) Intentionally self-inflicted injuries
- ✓ d) Disabilities arising from a covered accident

Explanation: Disability policies are designed to cover disabilities from accidents and sicknesses. Common exclusions include losses due to war, self-inflicted injuries, participation in a felony, aviation (other than as a commercial passenger), and sometimes pre-existing conditions.

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

- a) Cash Surrender
- ✓ b) Extended Term Insurance
- c) Paid-Up Additions
- d) Reduced Paid-Up Insurance

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

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

- ✓ a) An annuity's primary purpose is providing a guaranteed income stream over time, and insurance companies can guarantee income for life through mortality pooling
- b) Annuities are backed by the federal government while bank accounts are not
- c) Annuity interest rates are always higher than bank rates
- d) Annuities have no cost or fees while bank accounts charge fees

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

4. Under COBRA, the employer must notify the group health plan administrator of a qualifying event (such as termination or reduction in hours) within how many days?

- a) 45 days
- ✓ b) 30 days
- c) 14 days
- d) 60 days

Explanation: The employer has 30 days to notify the plan administrator of a qualifying event. The plan administrator then has 14 days to send the COBRA election notice to the qualified beneficiary. The beneficiary then has 60 days to elect continuation coverage.

5. Once a variable annuity is annuitized, the number of annuity units:

- a) Increases each year.
- ✓ b) Remains fixed.
- c) Fluctuates daily.
- d) Decreases each year.

Explanation: At the time of annuitization, the accumulation units are converted into a fixed number of annuity units. This number does not change for the rest of the payout period. However, the value of each annuity unit changes, causing the income payment amount to fluctuate.

6. Group carve-out plans allow employers to:

- a) Carve out the life insurance component from a group health plan
- b) Exclude certain employees from group coverage to lower premiums
- c) Carve out high-earning executives from ERISA requirements
- ✓ d) Provide selected executives with individual permanent life insurance as an alternative to or in addition to group term life

Explanation: A group carve-out plan replaces an executive's group term life insurance (above \$50,000 face amount) with an individual permanent policy. This avoids the imputed income taxation on group term above \$50,000 and provides the executive with portable, permanent coverage. The employer typically funds the premium through a bonus arrangement.

7. Which of the following describes a 'third-party ownership' arrangement in life insurance?

- a) A trust is named as both policyowner and beneficiary
- ✓ b) The policyowner and the insured are different people (e.g., a parent owns a policy on a child)
- c) A bank or creditor holds the policy as collateral
- d) Three people co-own a life insurance policy on one insured

Explanation: Third-party ownership occurs when someone other than the insured is the policyowner. Common examples: a parent owning a policy on a child, a business owning a policy on an employee, or a spouse owning a policy on their partner. The policyowner and insured must have an insurable interest relationship.

8. A client surrenders an annuity with a cash value of \$100,000 and a cost basis of \$70,000. What is the taxable amount?

- a) \$0.00
- b) \$100,000.00
- ✓ c) \$30,000.00
- d) \$70,000.00

Explanation: When an annuity is surrendered, the taxable amount is the gain in the contract. The gain is the cash value minus the cost basis (\$100,000 - \$70,000 = \$30,000). This \$30,000 is taxable as ordinary income.

9. The facility of payment clause, often found in industrial or group life policies, allows the insurer to:

- a) Pay the benefit directly to a hospital or nursing home.
- ✓ b) Pay a portion of the death benefit to a person or entity that has incurred funeral or medical expenses on behalf of the insured.
- c) Facilitate an immediate loan from the policy's cash value.
- d) Pay the claim to the state if no beneficiary can be found.

Explanation: The facility of payment clause permits the insurer to pay benefits (usually a limited amount) to a person who appears equitably entitled to it, even if they are not the named beneficiary. This is typically done to cover final expenses and avoids delays when the named beneficiary is a minor, deceased, or cannot be located.

10. The process by which an insurer evaluates a life insurance application to determine whether to accept the risk is called:

- a) Risk pooling
- ✓ b) Underwriting
- c) Loss reserving
- d) Actuarial analysis

Explanation: Underwriting is the process by which the insurer assesses the risk presented by an applicant and decides whether to issue the policy, and at what classification and premium. Underwriters evaluate factors such as age, health history, occupation, lifestyle, and financial need to classify the risk as standard, preferred, or substandard (rated).

11. Under the Uniform Individual Health Policy Provisions in New Mexico, within how many days after an accident or illness occurs must a claimant provide written notice of claim to the insurer?

- a) Within 10 days
- ✓ b) Within 20 days (or as soon as reasonably possible)
- c) Within 60 days
- d) Within 90 days

Explanation: Under NMSA 1978 § 59A-22-6, written notice of claim must be given to the insurer within 20 days after the occurrence or commencement of any loss, or as soon thereafter as reasonably possible.

12. 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.

13. Within what timeframe may a lapsed individual life insurance policy be reinstated in New Mexico, provided cash value was not surrendered?

- a) Within 1 year
- b) Within 2 years
- ✓ c) Within 3 years from the date of default
- d) Within 10 years

Explanation: Under NMSA 1978 § 59A-20-12, life insurance policies may be reinstated within 3 years from the date of default upon evidence of insurability and payment of overdue premiums and loans with interest.

14. A Modified Endowment Contract (MEC) occurs when:

- a) An annuity's interest rate is modified by the insurer
- b) A variable annuity includes a guaranteed minimum death benefit rider
- c) An annuity's cash value exceeds its death benefit
- ✓ d) A life insurance policy is over-funded beyond IRS limits based on a 7-pay test

Explanation: A Modified Endowment Contract (MEC) is a life insurance policy that has been funded with cumulative premiums exceeding the IRS 7-pay test limit. MECs lose certain tax advantages of life insurance — withdrawals and loans are taxed on LIFO basis (gains first), and pre-59½ withdrawals face a 10% penalty. MECs are not annuities but share similar tax treatment.

15. Annuity suitability regulations require the producer to make a record of:

- a) The client's family medical history.
- b) The producer's commission rate.
- c) The client's political views.
- ✓ d) The recommendation made to the client and the basis for it.

Explanation: Producers must document their recommendations and the reasons why a particular product was deemed suitable. This record-keeping is a key part of complying with suitability rules and protects both the consumer and the producer.

16. A limited-pay whole life policy (such as 20-Pay Life) differs from straight whole life because:

- a) The death benefit decreases each year premiums are paid
- b) Cash value does not accumulate in limited-pay policies
- c) Coverage terminates after 20 years
- ✓ d) Premiums are paid for a limited number of years but coverage lasts for the insured's entire life

Explanation: In a limited-pay whole life policy, premiums are concentrated into a shorter payment period (e.g., 20 years), but the coverage remains in force for the insured's entire life. Because premiums are paid over a shorter period, they are higher than straight whole life premiums but the policy becomes fully paid-up after the payment period.

17. An ambiguous term in an insurance contract will be interpreted in favor of the insured. This is because an insurance policy is a:

- a) Unilateral contract
- b) Aleatory contract
- c) Personal contract
- ✓ d) Contract of adhesion

Explanation: Because the insurer drafts the contract and the insured must accept it as written (a contract of adhesion), courts have held that any ambiguity in the language should be resolved in favor of the party that did not write it—the insured.

18. The settlement option that pays a specified amount to the beneficiary each month until the funds are exhausted is called:

- a) Fixed Period
- b) Interest Only
- c) Life Income
- ✓ d) Fixed Amount

Explanation: The Fixed Amount settlement option provides the beneficiary with regular, fixed-income payments of a chosen amount. The payments continue until both the principal and interest have been completely paid out.

19. The concept of 'fortuitous loss' in insurance means:

- a) Losses that are certain to occur within the policy period
- b) Losses caused exclusively by natural disasters
- ✓ c) Losses that occur by chance or accident and are unforeseen by the insured
- d) Losses that occur due to the insured's intentional acts

Explanation: Insurance requires that losses be fortuitous — meaning they occur by chance and are not certain or intentionally caused. If a loss is certain to occur or is intentionally caused by the insured, it is not insurable. Fortuitous losses are fundamental to the insurance concept because the uncertainty of occurrence is what creates the need for risk transfer.

20. Credit life insurance is designed to do which of the following?

- a) Insure the lender against investment losses
- ✓ b) Pay off the remaining balance of a debtor's loan if the debtor dies
- c) Replace the borrower's income for their family
- d) Provide retirement income to the borrower

Explanation: Credit life insurance is a type of group life insurance that pays off the remaining balance of a borrower's debt if the borrower dies before the loan is fully repaid. The creditor is the policyholder and beneficiary, and the amount of coverage decreases as the loan balance decreases.

21. The 'common disaster' clause in a life insurance policy is designed to address the situation where:

- ✓ a) The insured and the primary beneficiary die in the same accident.
- b) The policyowner and the insured are different people.
- c) The insured dies in a natural disaster.
- d) The beneficiary dies before the insured.

Explanation: The Uniform Simultaneous Death Act (or a common disaster clause) addresses the issue of determining who died first when the insured and primary beneficiary die in the same accident. It typically stipulates that the primary beneficiary is presumed to have died first, allowing the death benefit to pass to the contingent beneficiary.

22. What is residual disability?

- a) A disability that results from an accident.
- ✓ b) A disability that provides a benefit based on the percentage of income lost due to the disability.
- c) A permanent but not total disability.
- d) The final disability payment made.

Explanation: A residual disability rider provides benefits when the insured is able to return to work but at a reduced capacity, resulting in a loss of income. The benefit paid is proportional to the percentage of income lost. For example, a 30% loss of income might result in a 30% disability benefit.

23. 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.

24. After completing the initial 8-hour Long-Term Care training course, what ongoing training must a producer complete to continue selling Long-Term Care policies in New Mexico?

- a) 2 hours every year
- ✓ b) 4 hours of approved LTC training in each subsequent 24-month renewal cycle
- c) 8 hours every calendar year
- d) No further training is required

Explanation: Under NMAC 13.4.7.10, producers selling LTC policies must complete 4 hours of approved ongoing LTC training during each subsequent two-year license compliance cycle.

25. What is the role of the Centers for Medicare & Medicaid Services (CMS)?

- ✓ a) It is a federal agency that administers the Medicare and Medicaid programs.
- b) It is a private insurance company.
- c) It is a consumer advocacy group.
- d) It is a state agency that regulates HMOs.

Explanation: CMS is the federal agency within the U.S. Department of Health and Human Services that oversees the Medicare program, and works in partnership with state governments to administer Medicaid, CHIP, and health insurance portability standards.

26. The person who receives any remaining benefits from an annuity if the owner or annuitant dies is the:

- a) Annuitant
- b) Owner
- c) Trustee
- ✓ d) Beneficiary

Explanation: The beneficiary is named by the owner to receive any death benefit or remaining payments from the annuity if the annuitant dies before all guaranteed payments have been made or during the accumulation phase.

27. The Fair Credit Reporting Act (FCRA) gives consumers the right to:

- a) Correct any errors in their MIB report.
- b) Prevent insurers from accessing their credit history.
- ✓ c) Receive a copy of any consumer report an insurer uses.
- d) Demand insurance coverage regardless of their credit score.

Explanation: The FCRA protects consumers' privacy regarding information collected by credit reporting agencies. It requires that consumers be notified if a negative decision is made based on a credit report and gives them the right to review and dispute the information.

28. Can a policyowner name a charity as the beneficiary of a life insurance policy?

- a) Yes - but the death benefit is then taxable.
- ✓ b) Yes - any legally recognized charitable organization can be named.
- c) No - beneficiaries must be individuals.
- d) Yes - but only if the charity is a religious organization.

Explanation: A policyowner can name a charity as the beneficiary. This is a common way to make a significant philanthropic gift. The death benefit is paid directly to the charity upon the insured's death.

29. The 'cash value accumulation test' (CVAT) is one method used to determine if a life insurance policy qualifies as:

- a) A variable annuity product
- b) A modified endowment contract
- c) A qualified retirement plan
- ✓ d) A life insurance contract under IRC Section 7702

Explanation: IRC Section 7702 establishes two tests to determine whether a contract qualifies as life insurance for tax purposes: the Cash Value Accumulation Test (CVAT) and the Guideline Premium and Corridor Test (GPT). Under the CVAT, the policy's cash value cannot exceed the net single premium needed to fund the death benefit. Policies must satisfy one of these tests to receive favorable life insurance tax treatment (tax-deferred growth, income-tax-free death benefit).

30. The 'consideration' provided by the insured in a life insurance contract consists of:

- a) The insured's agreement to provide evidence of insurability upon request
- b) The agent's promise to provide good service
- ✓ c) The premium payment and truthful completion of the application
- d) The insured's good health at the time of application

Explanation: Consideration is something of value exchanged by each party. For the insured, consideration consists of the initial premium payment AND the representations made in the application. The insurer's consideration is the promise to pay the death benefit upon the insured's death.

31. 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.

32. 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).

33. To sell Variable Universal Life insurance, an agent must hold which of the following licenses?

- a) Accident and Health agent license
- ✓ b) Both a Life-Only agent license and a FINRA Series 6 or 7 securities license
- c) FINRA Series 6 or 7 license
- d) Life-Only agent license

Explanation: Variable products are considered both insurance and securities. Therefore, the agent needs both a state life insurance license and a federal securities license (Series 6 or 7).

34. Which life insurance product requires a securities license (FINRA Series 6 or 7) in addition to a life insurance license to sell?

- a) Term Life
- ✓ b) Variable Universal Life
- c) Universal Life
- d) Whole Life

Explanation: Any 'variable' life insurance or annuity product involves investments in separate accounts (securities). Therefore, a producer must have both a state life insurance license and a federal securities registration (like Series 6 or 7) to sell them.

35. What is the payment model where an HMO pays a physician a set amount per member per month, regardless of the services provided?

- a) Fee-for-service
- b) Per-diem
- ✓ c) Capitation
- d) Cost-plus

Explanation: Capitation is the primary way HMOs pay their network physicians. The provider receives a fixed monthly payment for each enrolled member assigned to them, creating an incentive to focus on preventative care and cost containment.

36. A mortality table is used by insurers to:

- a) Set the commission rate for agents
- b) Calculate the dividend paid to policyholders
- c) Determine the cash value of a policy
- ✓ d) Predict the probable number of deaths at each age per year

Explanation: A mortality table (such as the Commissioners Standard Ordinary table) shows the expected number of deaths per thousand individuals at each age. Insurers use this statistical data to calculate the mortality cost component of the premium.

37. A variable annuity and variable life insurance are alike in that both:

- a) Provide a guaranteed minimum cash value regardless of investment performance
- b) Must be sold with a prospectus that is updated every year
- ✓ c) Require a state insurance license and FINRA registration to sell
- d) Are suitable for all clients regardless of risk tolerance

Explanation: Both variable life insurance and variable annuities are classified as both insurance products and securities. Producers must hold a state insurance license AND be FINRA-registered (typically with Series 6 or Series 7 plus Series 63) to sell either type of product. Both also require the distribution of a prospectus to prospective purchasers.

38. The 'net single premium' for a life insurance policy represents:

- ✓ a) The lump-sum amount needed today to fund the present value of all future death benefit payments
- b) The minimum premium required to keep the policy in force
- c) The premium after removing agent commissions
- d) The monthly premium after deducting dividends

Explanation: The net single premium is a theoretical calculation representing the lump sum needed at policy inception to fund all projected death benefit payments, using assumed interest rates and mortality tables (without expense loading). It forms the actuarial basis for pricing life insurance. In practice, policyowners typically pay premiums in periodic installments rather than a single lump sum.

39. Under the ACA employer mandate, coverage is considered 'affordable' if the employee's required contribution for self-only coverage does not exceed approximately what percentage of their household income?

- ✓ a) 9.5% (adjusted annually for inflation)
- b) 8%
- c) 15%
- d) 5%

Explanation: The ACA's affordability threshold is approximately 9.5% of household income (adjusted annually). If an applicable large employer offers coverage that costs the employee more than this threshold for self-only coverage, the coverage is not considered affordable, and the employee may qualify for marketplace subsidies.

40. A Managing General Agent (MGA) differs from a regular agent primarily because the MGA:

- a) Can only sell surplus lines insurance
- b) Represents the insured rather than the insurer
- c) Is not required to hold a state license
- ✓ d) Has broader underwriting and claims authority delegated by the insurer

Explanation: A Managing General Agent is granted broad authority by an insurer, which may include underwriting, binding coverage, appointing other agents, and settling claims. This authority goes well beyond that of a typical appointed agent.

41. Group underwriting differs from individual underwriting primarily because the underwriter evaluates which of the following?

- a) Each individual member's health history in detail
- b) The financial status of each member's beneficiary
- ✓ c) The characteristics of the group as a whole rather than individual members
- d) Only the youngest members of the group

Explanation: Group underwriting focuses on the characteristics of the group itself, such as size, type of industry, turnover rate, and age distribution, rather than the health of each individual member. This is a fundamental principle of group insurance.

42. A family policy typically provides what kind of insurance on the children?

- a) Universal life insurance
- b) Whole life insurance
- c) Variable life insurance
- ✓ d) Term life insurance

Explanation: A family policy is a package policy that usually provides whole life coverage for the primary breadwinner and a smaller amount of convertible term life insurance for the spouse and children.

43. 'Presumptive disability' in a disability income policy means:

- a) The insurer presumes the insured is disabled without medical evidence
- ✓ b) Certain specified severe conditions (e.g., loss of limbs, sight, or speech) automatically qualify the insured for total disability benefits without a waiting period
- c) The insured is presumed to be disabled based on their job duties
- d) Benefits are paid based on the physician's presumptive diagnosis

Explanation: Presumptive disability provisions automatically waive the elimination period and provide immediate total disability benefits when the insured suffers certain catastrophic losses — such as complete and permanent loss of sight, hearing, speech, or the use of two limbs. The insured is presumed permanently and totally disabled from the specified loss.

44. What is a primary consideration for an agent when recommending a variable annuity?

- ✓ a) All of the above.
- b) The client's risk tolerance.
- c) The client's understanding of market risk and separate accounts.
- d) The client's age and retirement timeline.

Explanation: When recommending a variable annuity, an agent must consider the client's entire financial picture, including their age, time horizon, financial goals, and especially their tolerance for and understanding of investment risk, since the principal is not guaranteed.

45. Variable annuity 'mortality and expense risk charges' (M&E fees) compensate the insurer for:

- a) State premium taxes on annuity premiums
- b) The cost of crediting interest to the fixed account option
- c) Investment management expenses for the separate account funds
- ✓ d) The risk of paying guaranteed death benefits and income guarantees, and for general administrative expenses

Explanation: M&E (mortality and expense risk) charges in a variable annuity compensate the insurer for: (1) the mortality risk — guaranteeing the minimum death benefit even if the account value has declined; (2) the expense risk — guaranteeing not to raise administrative charges; and (3) general administrative expenses. M&E charges are deducted daily from the separate account as a percentage of assets (typically 1.0–1.5% annually). They are separate from fund management fees.

46. Which payout option would be suitable for a married couple who want income to continue as long as either of them is alive?

- a) Life with Period Certain
- b) Straight Life
- c) Life with Refund
- ✓ d) Joint and Survivor

Explanation: The Joint and Survivor option makes payments for the lives of two or more annuitants (typically a married couple). When the first annuitant dies, payments either continue at the same level or are reduced (e.g., to 2/3 or 1/2) for the surviving annuitant.

47. 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.

48. The 'own occupation' definition of total disability is MORE favorable to the insured than the 'any occupation' definition because:

- a) It has no elimination period
- ✓ b) It considers the insured totally disabled if they cannot perform the duties of their specific occupation
- c) It pays a higher benefit amount
- d) It covers partial disability automatically

Explanation: Under 'own occupation,' the insured is considered totally disabled if they cannot perform the material duties of their own specific occupation, even if they could work in another field. Under 'any occupation,' the insured must be unable to perform any gainful occupation for which they are reasonably suited. 'Own occ' is broader and more favorable to the insured.

49. 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.

50. Under New Mexico statutes, what happens to dependent child health coverage when an unmarried child reaches the limiting age (age 26) but is incapable of self-support due to intellectual or physical disability?

- a) Coverage terminates automatically at midnight on the 26th birthday
- ✓ b) Coverage continues indefinitely if proof of incapacity is submitted within 31 days of reaching the limiting age
- c) The child must purchase an individual high-risk pool policy
- d) Coverage continues for exactly 60 days only

Explanation: Under NMSA 1978 § 59A-22-30, coverage continues beyond age 26 for incapacitated dependent children if proof of disability is submitted within 31 days of reaching the limiting age.