

NORTH CAROLINA

Free Practice Questions

50 Sample Questions with Explanations

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1. Which of the following is NOT a risk classification used by underwriters?
 - A. Standard
 - B. Substandard
 - C. Preferred
 - D. Reciprocal
 2. What does the term 'utmost good faith' imply?
 - A. Both parties must be of legal age and sound mind.
 - B. The contract must be for a legal purpose.
 - C. Both parties are expected to be completely honest with each other.
 - D. The contract is non-negotiable.
 3. In order to be insurable, a risk must NOT be:
 - A. Accidental
 - B. Calculable
 - C. Catastrophic
 - D. Part of a large group
 4. What is the difference between Universal Life Option A and Option B?
 - A. Option A has a flexible premium, while Option B has a fixed premium.
 - B. Option A provides a level death benefit, while Option B provides an increasing death benefit.
 - C. Option A's cash value is invested in the general account, while Option B's is in separate accounts.
 - D. Option A is term insurance, while Option B is permanent insurance.
 5. Under North Carolina law, 'churning' in the insurance industry means:
 - A. Issuing policies with excessive premiums
 - B. Replacing an existing policy with a new one primarily for the purpose of generating additional commissions
 - C. Selling policies to minors
 - D. Collecting premiums in advance
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6. The process of evaluating a risk to determine if it is acceptable to an insurer is called:
 - A. Claims adjusting
 - B. Underwriting
 - C. Reinsurance
 - D. Marketing
 7. Under North Carolina law, which of the following must be disclosed to an applicant during a life insurance transaction?
 - A. The agent's personal commission amount
 - B. The insurer's investment portfolio
 - C. All exclusions and limitations of the policy
 - D. The agent's other clients' names
 8. To prevent a life insurance policy from lapsing if the policyowner forgets to pay the premium, they should have the _____ provision.
 - A. Automatic Premium Loan
 - B. Reinstatement
 - C. Grace Period
 - D. Waiver of Premium
 9. 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. Reduced Paid-Up Insurance
 - C. Extended Term Insurance
 - D. Paid-Up Additions
 10. A worker who retires at age 62 under Social Security will receive:
 - A. 100% of their Primary Insurance Amount
 - B. A permanently reduced benefit
 - C. A temporarily reduced benefit until full retirement age
 - D. No benefit until full retirement age
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11. A quarter of coverage under Social Security is earned by:
- Working for any employer for three consecutive months
 - Earning a specified minimum amount of wages or self-employment income in a calendar quarter
 - Paying a flat quarterly fee to the Social Security Administration
 - Being employed full-time for at least one quarter of the year
12. The Law of Large Numbers helps an insurer to:
- Predict the specific individuals who will suffer a loss
 - Guarantee that no losses will occur
 - Predict the approximate number of losses that will occur in a group
 - Eliminate risk entirely
13. A void contract is one that:
- Can be enforced by one party but not the other
 - Is valid but may be canceled at any time
 - Was never legally enforceable from the start
 - Becomes invalid only after a claim is filed
14. What is the significance of the policy's effective date?
- It is the date the agent submitted the application.
 - It is the date the policy was mailed by the insurer.
 - It is the date from which the policy's coverage begins.
 - It is the date the first claim can be filed.
15. What is a self-funded or self-insured health plan?
- A plan purchased from a private insurance company.
 - A plan where the employer pays for claims out of its own funds, rather than paying premiums to an insurer.
 - A government-sponsored health plan.
 - A plan that is funded by employee contributions only.
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16. A term life policy where the death benefit decreases over the policy's term is called:
- Level Term
 - Increasing Term
 - Decreasing Term
 - Renewable Term
17. The section of an insurance policy that identifies the specific risks being covered is the:
- Declarations
 - Insuring Clause
 - Conditions
 - Exclusions
18. A group health plan where the employer pays the entire premium is called a(n):
- Contributory plan
 - Voluntary plan
 - Noncontributory plan
 - Self-funded plan
19. The intentional failure to disclose a known, material fact on an insurance application is known as:
- Misrepresentation
 - Fraud
 - Concealment
 - Breach of warranty
20. What is the primary difference between a Group Annuity and an Individual Annuity?
- Group annuities have higher fees.
 - A group annuity is established by an employer for its employees, typically as part of a retirement plan.
 - Individual annuities are always fixed, while group annuities are always variable.
 - Group annuities do not require an annuitant.
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21. In a buy-sell agreement funded by life insurance, who is the beneficiary of the policy?
- A. The insured's family
 - B. The insured's estate
 - C. The business or surviving business partners
 - D. A designated charity
22. In Texas, the incontestability clause prevents the insurer from contesting a life insurance policy after it has been in force for:
- A. 1 year
 - B. 2 years
 - C. 3 years
 - D. 5 years
23. If no beneficiary is named in a life insurance policy, or if the named beneficiary is deceased, where do the death benefit proceeds go?
- A. To the state's unclaimed property fund
 - B. To the insured's estate
 - C. To the insurance company
 - D. To the insured's next of kin as determined by the court
24. An insurer that has been approved by the North Carolina Department of Insurance (NCDOI) to transact business in the state is called a(n):
- A. Licensed insurer
 - B. Certified insurer
 - C. Authorized or admitted insurer
 - D. Domestic insurer
25. Under the North Carolina Insurance Code, 'controlled business' refers to:
- A. Business regulated by the NCDOI
 - B. Insurance sold primarily on the agent's own life, property, or that of close relatives or business associates
 - C. Policies underwritten by state-controlled insurance companies
 - D. Insurance mandated by government agencies
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26. The period of time an insured must be disabled before disability income benefits begin to be paid is the:
- A. Benefit period
 - B. Probationary period
 - C. Elimination period
 - D. Grace period
27. Which dividend option allows the policyowner to purchase additional small units of whole life insurance?
- A. Cash Payout
 - B. Reduction of Premium
 - C. Accumulate at Interest
 - D. Paid-Up Additions
28. A PPO (Preferred Provider Organization) plan allows members to:
- A. Receive care from any provider they choose, but with lower out-of-pocket costs for in-network providers.
 - B. Only receive care from providers within its network.
 - C. Receive care without deductibles or coinsurance.
 - D. Choose a primary care physician who must provide referrals.
29. The North Carolina Insurance Code prohibits boycott, coercion, and intimidation. Which of the following is an example of boycott?
- A. An insurer offering volume discounts
 - B. Two or more insurers acting together to refuse to deal with another insurer or agent
 - C. An agent recommending a specific policy
 - D. A consumer choosing not to renew a policy

30. To sell LTC insurance in Texas, a producer must complete specific training requirements. How many hours of initial LTC training are required?
- A. 4 hours
 - B. 8 hours
 - C. 16 hours
 - D. 24 hours
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31. In Texas, which line of authority allows an agent to sell life insurance and annuities?
- A. General Lines - Property & Casualty
 - B. General Lines - Life, Accident & Health
 - C. Personal Lines
 - D. Surplus Lines
32. Variable insurance products must be registered with the:
- A. State Department of Insurance only
 - B. Securities and Exchange Commission (SEC)
 - C. Federal Reserve Board
 - D. National Association of Insurance Commissioners (NAIC)
33. A life insurance policy that endows at age 100 (or 121 in modern policies) means that:
- A. The policy expires at age 100.
 - B. The cash value equals the face amount at age 100, and the amount is paid to the policyowner.
 - C. The premiums must be paid until age 100.
 - D. The death benefit doubles at age 100.
34. In an employer-paid (noncontributory) group disability plan, how are the benefits received by an employee treated for tax purposes?
- A. They are received income tax-free.
 - B. They are fully taxable as ordinary income.
 - C. They are partially taxable.
 - D. Taxation depends on the employee's age.
35. Which rider allows the policyowner to purchase additional amounts of insurance at future dates without evidence of insurability?
- A. Cost of Living Rider
 - B. Accidental Death Benefit Rider
 - C. Guaranteed Insurability Rider
 - D. Payor Benefit Rider
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36. If an insurer requests an HIV test from an applicant, who is responsible for the cost?
- A. The applicant
 - B. The agent
 - C. The insurer
 - D. The Medical Information Bureau
37. How is the death benefit from an annuity treated for tax purposes if the owner dies during the accumulation phase?
- A. It is received entirely tax-free by the beneficiary.
 - B. The earnings portion of the benefit is taxable as ordinary income to the beneficiary.
 - C. The entire benefit is taxed as a capital gain.
 - D. The death benefit is subject to a 10% penalty regardless of the beneficiary's age.
38. What is the purpose of a Statement of Good Health?
- A. To serve as the primary application for insurance
 - B. To provide a detailed medical history from a physician
 - C. To verify that the applicant's health has not changed since the application date
 - D. To act as a receipt for the first premium

39. 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. Express authority
 - B. Implied authority
 - C. Apparent authority
 - D. Subrogation
40. The maximum health insurance benefit coverage provided by the TLHIGA per individual is:
- A. \$100,000
 - B. \$300,000
 - C. \$500,000
 - D. \$1,000,000
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41. A 1035 exchange allows for the tax-free transfer of funds from:
- A. An annuity to a life insurance policy.
 - B. A life insurance policy to a qualified retirement plan.
 - C. An annuity to another annuity.
 - D. A mutual fund to an annuity.
42. The Texas Life and Health Insurance Guaranty Association covers all of the following EXCEPT:
- A. Individual life insurance policies
 - B. Group health insurance
 - C. Annuity contracts
 - D. Policies issued by HMOs
43. What is the role of the Centers for Medicare & Medicaid Services (CMS)?
- A. It is a private insurance company.
 - B. It is a federal agency that administers the Medicare and Medicaid programs.
 - C. It is a state agency that regulates HMOs.
 - D. It is a consumer advocacy group.
44. To qualify for Social Security Disability Insurance (SSDI) benefits a worker must meet which of the following conditions?
- A. Be unable to perform their current job for at least 3 months
 - B. Have a disability expected to last at least 12 months or result in death and be unable to engage in any substantial gainful activity
 - C. Be at least 50 years of age with a partial disability
 - D. Have been denied private disability insurance coverage
45. A 'per capita' beneficiary designation means that:
- A. The death benefit is distributed by bloodline.
 - B. The death benefit is divided equally among only the surviving named beneficiaries.
 - C. The death benefit is passed down to the beneficiaries' heirs.
 - D. The death benefit is paid to the insured's estate.
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46. Under North Carolina law, an insurer that fails to promptly investigate a claim may be found to have committed:
- A. A clerical error
 - B. An unfair claim settlement practice
 - C. A legitimate underwriting activity
 - D. A risk management decision
47. Which of the following is considered a qualified medical expense for HSA withdrawals?
- A. Cosmetic surgery for aesthetic purposes
 - B. Gym membership fees
 - C. Prescription medications
 - D. Health insurance premiums paid outside of COBRA or Medicare

- 48.** What is residual disability?
- A. A disability that results from an accident.
 - B. A permanent but not total disability.
 - C. A disability that provides a benefit based on the percentage of income lost due to the disability.
 - D. The final disability payment made.
- 49.** A stock insurance company is characterized by which of the following?
- A. It is owned by its policyholders
 - B. It issues assessable policies
 - C. It is owned by shareholders who may receive dividends from profits
 - D. It is managed by an attorney-in-fact
- 50.** 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. Deny any claim without a physical exam
 - D. Require an annual physical as a condition of coverage

Answer Key

1. **D** — Underwriters classify risks as Preferred (lowest risk, lowest premium), Standard (average risk), or Substandard (higher risk, higher premium). Reciprocal is a type of insurance organization, not a risk classification.
2. **C** — Insurance contracts are based on the principle of 'utmost good faith,' which means that both the insurer and the insured must disclose all material facts and act with complete honesty.
3. **C** — Insurers generally will not cover losses that are catastrophic, meaning they could impact a large portion of their policyholders at once, potentially bankrupting the insurer. Events like war or nuclear disasters are typically excluded.
4. **B** — 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.
5. **B** — Churning occurs when an agent replaces a policyholder's existing policy with a new one mainly to earn additional commissions, rather than for the benefit of the insured. This is an unfair trade practice in Texas.
6. **B** — Underwriting is the process of risk selection, classification, and pricing. Underwriters for the insurance company decide whether to accept or reject applications for insurance.
7. **C** — North Carolina law requires that all exclusions, limitations, and material terms of a policy be disclosed to the applicant. The agent's commission amount and client list are not required disclosures.
8. **A** — The Automatic Premium Loan (APL) provision authorizes the insurer to automatically borrow from the policy's cash value to pay any premium in default at the end of the grace period. This keeps the policy active and prevents an unintentional lapse.
9. **C** — 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.
10. **B** — 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.
11. **B** — A quarter of coverage (also called a credit) is earned by receiving a minimum amount of earnings subject to Social Security tax in a calendar quarter. The amount required is adjusted annually for inflation. A maximum of 4 credits can be earned per year.
12. **C** — The Law of Large Numbers states that as the size of the sample population increases, the actual loss experience will more closely approximate the true underlying probability. It allows insurers to predict losses for a group, not individuals.
13. **C** — A void contract has no legal effect from the beginning. It is as if the contract never existed. For example, a contract entered into for an illegal purpose is void and cannot be enforced by either party.
14. **C** — The effective date is the date on which insurance coverage officially begins. It is critical for establishing contestability and suicide clause periods.
15. **B** — In a self-funded plan, the employer assumes the financial risk of providing health benefits to its employees. Instead of paying a fixed premium to an insurer, the employer pays for each claim as it is incurred. These plans are often managed by a Third-Party Administrator (TPA).
16. **C** — Decreasing Term insurance is often used to cover a loan or mortgage. The death benefit decreases over time, roughly in line with the outstanding balance of the loan it is meant to protect.
17. **B** — The Insuring Clause (or Insuring Agreement) is the core of the policy. It contains the insurer's fundamental promise to pay for covered losses and specifies the perils covered.
18. **C** — In a noncontributory plan, the employer pays 100% of the premiums. Because it is fully paid by the employer, 100% of eligible employees must be covered.
19. **C** — 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.
20. **B** — 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.
21. **C** — In a life insurance-funded buy-sell agreement, the business partners or the corporation own policies on each other's lives. When one partner dies, the policy's death benefit is paid to the surviving partners or the business, who then use the money to buy the deceased partner's share of the business from their estate.
22. **B** — The incontestability clause in Texas life insurance policies prevents the insurer from denying a claim based on misstatements in the application after the policy has been in force for 2 years during the insured's lifetime.
23. **B** — If there is no living named beneficiary at the time of the insured's death, the policy proceeds are typically paid to the insured's estate. This can subject the proceeds to probate, delays, and creditors' claims.
24. **C** — An insurer that holds a Certificate of Authority from the state Department of Insurance is known as an admitted or authorized insurer. This means they have met the state's financial and regulatory requirements.
25. **B** — Controlled business occurs when an agent primarily sells insurance covering themselves, family members, or business associates. Texas may deny or revoke a license if the agent is primarily engaged in controlled business.
26. **C** — The elimination period (or waiting period) is a deductible measured in time rather than dollars. It is the length of time from the onset of a disability that the insured must wait before benefits are payable. Common elimination periods are 30, 60, or 90 days.
27. **D** — The Paid-Up Additions dividend option uses the annual dividend to purchase single premium, additional blocks of whole life insurance. These additions increase both the death benefit and the cash value of the policy.
28. **A** — The key feature of a PPO is flexibility. Members can see any doctor or specialist they want without a referral, both in-network and out-of-network. However, their cost-sharing (deductibles, copays) will be significantly lower when they use providers within the PPO's network.
29. **B** — A boycott occurs when two or more insurers conspire to refuse to do business with a particular insurer, agent, or consumer. This concerted action is prohibited under the North Carolina Insurance Code.

- 30. B** — Texas requires that producers complete an 8-hour LTC training course before they can solicit or sell long-term care insurance products. Additionally, ongoing continuing education in long-term care topics is required during each license renewal period.
- 31. B** — The General Lines - Life, Accident & Health line of authority in Texas permits an agent to sell life insurance, annuities, accident insurance, and health insurance products.
- 32. B** — Because variable products are both insurance contracts and securities, they must be registered with the SEC under the Securities Act of 1933 and the Investment Company Act of 1940. Additionally, the agent selling them must be registered with FINRA and licensed by the state Department of Insurance.
- 33. B** — A traditional whole life policy is designed to 'endow' at a mature age (like 100 or 121). This means the guaranteed cash value accumulation will equal the policy's face amount at that age. If the insured is still alive, the face amount is paid to the policyowner.
- 34. B** — If the employer pays the entire premium for a group disability plan, the employer can deduct the premium as a business expense. Consequently, any benefits received by a disabled employee are considered taxable income.
- 35. C** — The Guaranteed Insurability Rider (GIR) gives the policyowner the right to buy specified amounts of additional life insurance on the insured at stated intervals (e.g., every three years or at marriage/childbirth) without having to prove insurability.
- 36. C** — If an insurer requires an applicant to undergo medical examinations, such as an HIV test or a paramedical exam, the insurer must bear the cost of these exams.
- 37. B** — If the annuity owner dies before annuitization, the beneficiary receives the death benefit. The portion of the benefit that represents earnings (the amount exceeding the owner's cost basis) is taxable as ordinary income to the beneficiary.
- 38. C** — A Statement of Good Health is typically required when the applicant did not submit the initial premium with the application. At policy delivery, the agent must collect the premium and have the applicant sign this statement confirming their health status has remained the same.
- 39. C** — 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.
- 40. C** — The TLHIGA provides up to \$500,000 in health insurance benefit coverage per individual from an insolvent insurer. This is higher than the life insurance maximum of \$300,000.
- 41. C** — A Section 1035 exchange permits the direct transfer of a non-qualified annuity to another non-qualified annuity (or from a life policy to an annuity) without triggering immediate taxation on the accumulated gains. The cost basis and tax deferral carry over to the new contract.
- 42. D** — The TLHIGA does not cover policies issued by Health Maintenance Organizations (HMOs). HMOs are covered under a separate guaranty program. The TLHIGA covers traditional life, health, and annuity products.
- 43. B** — 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.
- 44. B** — SSDI requires that the worker has a physical or mental impairment that prevents them from engaging in any substantial gainful activity (SGA) and is expected to last at least 12 months or result in death. The definition is stricter than most private disability insurance policies.
- 45. B** — 'Per capita' (by the head) means the death benefit is shared equally among the surviving beneficiaries in a designated class. If one beneficiary in the class has died, their share is redistributed among the other survivors in that class, and their heirs receive nothing.
- 46. B** — Failing to promptly investigate a claim is considered an unfair claim settlement practice under North Carolina law. Insurers are required to investigate claims in a timely manner and respond to claimants within specified timeframes.
- 47. C** — Prescription medications are qualified medical expenses under IRS Section 213(d). Cosmetic surgery for purely aesthetic reasons, gym memberships, and most health insurance premiums (with exceptions like COBRA and Medicare) are not qualified expenses.
- 48. C** — 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.
- 49. C** — A stock insurer is a corporation owned by its stockholders (shareholders). Profits may be distributed to shareholders as taxable dividends, and policyholders have no ownership interest.
- 50. A** — 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.