



Insurance Test Practice

North Dakota Insurance Practice Test

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1. 'Partial disability' benefits in a disability income policy are:

- ✓ A) Paid when the insured can perform some but not all occupational duties and earns reduced income
- B) Always equal to 50% of the total disability benefit
- C) Only available for physical injuries, not illnesses
- D) Paid only if the insured cannot work at all

Explanation: Partial (residual) disability benefits compensate the insured for a reduction in earning capacity when they can work but earn less than before due to disability. The benefit is proportional to the income loss. Many modern DI policies include partial disability benefits to encourage gradual return to work.

2. When is the initial enrollment period for Medicare?

- ✓ A) The 3 months before, the month of, and the 3 months after an individual's 65th birthday.
- B) From January 1st to March 31st each year.
- C) Anytime after an individual turns 65.
- D) The 6 months immediately following an individual's 65th birthday.

Explanation: The Medicare Initial Enrollment Period (IEP) is a 7-month period. It begins 3 months before the month a person turns 65, includes the month they turn 65, and ends 3 months after the month they turn 65.

3. A beneficiary in a Medicare Advantage HMO plan generally must receive their care from:

- A) Any doctor who accepts Medicare.
- ✓ B) Providers within the plan's network, except in an emergency.
- C) Specialists only.
- D) Hospitals only.

Explanation: Like a traditional HMO, a Medicare Advantage HMO plan requires members to use doctors, hospitals, and other providers that are part of the plan's network. Care from out-of-network providers is typically not covered unless it is an emergency.

4. What is the Comprehensive Health Association of North Dakota (CHAND)?

- A) A private HMO network operating exclusively in rural Fargo
- B) A charitable foundation providing free prescription drugs to retired state workers
- ✓ C) The state-mandated residual market high-risk pool designed to provide health insurance to North Dakota residents unable to obtain private coverage
- D) The federal agency that enforces Medicare Part D drug benefits in North Dakota

Explanation: CHAND (N.D.C.C. Chapter 26.1-08) is the Comprehensive Health Association of North Dakota, created to provide comprehensive health coverage to high-risk residents unable to get coverage in the voluntary market.

5. A traditional fee-for-service health plan is also known as a(n):

- ✓ A) Indemnity Plan
- B) Capitation Plan
- C) HMO Plan
- D) Managed Care Plan

Explanation: An indemnity plan is a traditional plan that pays a set percentage of charges for services, allowing the insured to see any medical provider they choose. The insurer reimburses the insured or pays the provider directly after a claim is filed.

6. To be eligible for a tax-qualified LTC policy, the chronic illness must be expected to last at least:

- ✓ A) 90 days
- B) 180 days
- C) 30 days
- D) 60 days

Explanation: For a tax-qualified plan, a physician must certify that the individual is chronically ill, meaning they are unable to perform at least 2 ADLs for a period expected to last at least 90 days or have a severe cognitive impairment.

7. Short-Term Disability (STD) insurance typically provides benefits for a period of:

- A) Up to 5 years
- B) To age 65
- C) Up to 2 years
- ✓ D) Up to 6 months

Explanation: Short-Term Disability policies have short elimination periods (e.g., 7-14 days) and short benefit periods, usually ranging from 3 to 6 months, and never more than 2 years.

8. A basic medical expense policy typically provides coverage for:

- A) Catastrophic medical events
- B) Long-term care services
- ✓ C) Hospitalization, surgical procedures, and physician visits
- D) Preventive care only

Explanation: Basic medical expense plans provide 'first-dollar' coverage with no deductible but have low coverage limits. They typically consist of three parts: Hospital Expense, Surgical Expense, and Medical Expense (for physician visits).

9. In a Lloyd's association, the risk is assumed by:

- A) The state Department of Insurance
- B) The association as a corporate entity
- ✓ C) Individual underwriting members or syndicates
- D) A single reinsurer

Explanation: In a Lloyd's association (such as Lloyd's of London), individual underwriters or syndicates assume risk individually rather than as a single corporate entity. Each member is personally liable for their share of the risk.

10. Which of the following describes 'reentry term' life insurance?

- A) Term insurance that can be reentered after a lapse with no waiting period
- B) Term insurance that requires a new medical exam at each renewal
- ✓ C) Term insurance that allows the insured to reenter at lower rates if they pass a medical exam at certain intervals
- D) Term insurance where coverage reenters after the contestability period

Explanation: Reentry Term allows the insured to qualify for lower ('select') rates at specified reentry dates by providing evidence of continued good health. If the insured cannot meet health requirements at reentry, they continue at higher 'ultimate' rates. This structure rewards healthy insureds with significant premium savings.

11. Under IRS rules, Required Minimum Distributions (RMDs) apply to:

- A) Only variable annuities because they are classified as securities
- ✓ B) Qualified annuities held in IRAs or employer-sponsored plans starting at age 73
- C) Annuities held in trust accounts only
- D) All annuities whether qualified or non-qualified

Explanation: RMDs apply to qualified retirement accounts including qualified annuities (those in IRAs, 401(k)s, etc.) starting at age 73 under the SECURE 2.0 Act. Non-qualified annuities are NOT subject to RMDs (except for annuities held in inherited accounts). RMDs ensure that pre-tax retirement savings are eventually distributed and taxed.

12. What is the statutory minimum Time Limit on Certain Defenses (incontestability) for individual health insurance policies in North Dakota?

- A) 1 year from policy delivery
- B) 3 years from the date of the first claim
- ✓ C) 2 years from the date of policy issue
- D) Health policies are contestable for non-fraudulent misstatements indefinitely

Explanation: Under N.D.C.C. § 26.1-36-05, after 2 years from the date of issue, no misstatements (except fraudulent misstatements) made by the applicant in the application may be used to void the policy or deny a claim.

13. A health insurance plan that provides coverage for dental care is known as:

- A) An indemnity plan
- ✓ B) A dental plan
- C) A dread disease policy
- D) A vision plan

Explanation: Dental insurance is a specific type of health plan designed to pay for a portion of the costs associated with dental care, from preventive services like cleanings to major procedures like crowns and root canals.

14. Under North Dakota law, what training is required before a producer may solicit or sell Long-Term Care (LTC) insurance partnership policies?

- ✓ A) A one-time 8-hour initial training course, followed by 4 hours of ongoing LTC training every 24 months
- B) A 40-hour nursing assistant clinical internship
- C) A 2-hour online survey with no exam
- D) No special training is required for LTC insurance in North Dakota

Explanation: Producers selling Long-Term Care insurance in North Dakota must complete an initial 8-hour training course and a 4-hour follow-up course every 2 years thereafter.

15. Risk sharing is best described as:

- A) Setting aside personal funds to cover potential losses
- B) Avoiding all activities that could lead to a loss
- C) Transferring all risk to an insurer
- ✓ D) Spreading the chance of loss among a group of individuals

Explanation: Risk sharing (also called risk pooling or distribution) involves spreading the financial consequences of a potential loss across a large group. Insurance itself is fundamentally based on this concept — many policyholders pay premiums into a pool from which claims are paid.

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

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

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

17. ERISA (Employee Retirement Income Security Act) governs employer-sponsored benefit plans including group life insurance by:

- A) Requiring all group plans to be underwritten individually
- B) Requiring all group life insurance to be issued as permanent coverage
- ✓ C) Setting minimum funding, vesting, and fiduciary standards for benefit plans and preempting most state insurance laws for self-funded plans
- D) Prohibiting employers from contributing to group life premiums

Explanation: ERISA governs employer-sponsored benefit plans and sets requirements for fiduciary standards, reporting, disclosure, and plan administration. For insured group plans, ERISA coexists with state insurance regulation. For self-funded plans, ERISA preempts state insurance laws. Employers must adhere to ERISA's fiduciary standards in managing benefit plans.

18. The 'death benefit' provision in most deferred variable annuities:

- A) Is not included because variable annuities are pure investment products
- B) Only pays the current account value at the time of death
- ✓ C) Guarantees the beneficiary will receive at least the greater of the account value or the total premiums paid if the owner dies during accumulation
- D) Pays twice the original premium if death occurs before age 65

Explanation: Most variable deferred annuities include a death benefit that guarantees the beneficiary receives at least the greater of: (a) the current account value or (b) the total premiums paid (minus prior withdrawals). This 'return of premium' death benefit guarantees heirs won't receive less than was invested, even if the market has declined.

19. What is the eligibility period for group health insurance?

- ✓ A) The period during which a new employee can enroll in the plan without evidence of insurability.
- B) The length of time coverage is in effect.
- C) The period during which claims can be submitted.
- D) The period during which an employee must work before becoming eligible for coverage.

Explanation: The eligibility period (or open enrollment period for new hires) is the window of time, typically 30 or 31 days, after the probationary period, during which a new employee can sign up for the group health plan. If they enroll during this time, they cannot be asked for evidence of insurability.

20. Which of the following is considered an illegal act of 'boycott, coercion, or intimidation' under North Dakota insurance law?

- A) Refusing to sell term life insurance to an individual who admits to active tobacco use
- B) Requiring an applicant to pay the initial premium before delivering a permanent policy
- C) Declining to issue health insurance to an applicant who refuses to sign an HIPAA disclosure
- ✓ D) Entering into an agreement that results in an unreasonable restraint of, or monopoly in, the business of insurance

Explanation: N.D.C.C. § 26.1-04-03 prohibits agreements to boycott, coerce, or intimidate that tend to create a monopoly or unreasonably restrain the transaction of insurance.

21. Authority that is not explicitly stated in an agent's contract but is necessary to conduct business is called:

- A) Fiduciary authority
- ✓ B) Implied authority
- C) Apparent authority
- D) Express authority

Explanation: Implied authority is not written in the contract but is assumed to be granted to an agent in order to perform their duties. For example, the authority to collect the initial premium.

22. A false statement of a material fact on an application is known as:

- ✓ A) Misrepresentation
- B) Concealment
- C) Waiver
- D) Estoppel

Explanation: A misrepresentation is an untrue statement made by the applicant on the application. If it is material to the risk, meaning the insurer would have made a different decision had it known the truth, it can be used to void the policy.

23. An Applicable Large Employer fails to offer affordable, minimum value coverage to its full-time employees. Under the ACA employer mandate, what is the potential consequence?

- A) Loss of business license
- ✓ B) An assessable payment (penalty) under IRC Section 4980H
- C) Criminal prosecution
- D) Automatic enrollment of employees in Medicaid

Explanation: If an Applicable Large Employer (50+ full-time equivalent employees) fails to offer affordable, minimum value health coverage and at least one full-time employee receives a premium tax credit through the marketplace, the employer may be subject to an Employer Shared Responsibility Payment (penalty) under Internal Revenue Code Section 4980H.

24. What is a common benefit trigger for a Long-Term Care policy besides being unable to perform ADLs?

- A) Reaching age 65
- B) Being unemployed for over a year
- ✓ C) Having a severe cognitive impairment
- D) A physician's diagnosis of a chronic illness

Explanation: LTC benefits are typically triggered if the insured is either (1) unable to perform a specified number of ADLs, or (2) requires substantial supervision to protect their health and safety due to a severe cognitive impairment, such as Alzheimer's or dementia.

25. During the accumulation phase of a variable annuity, the contract owner's contributions purchase:

- A) Annuity units
- B) Fixed units
- ✓ C) Accumulation units
- D) Guaranteed interest credits

Explanation: During the accumulation (pay-in) phase, premiums are used to purchase accumulation units in the selected subaccounts. The value of these units fluctuates with market performance. When the contract is annuitized (begins paying out), the accumulation units are converted into annuity units, which determine the amount of each periodic payment.

26. Which of the following is the most restrictive beneficiary designation for a life insurance policy?

- A) Contingent beneficiary
- B) Class beneficiary
- ✓ C) Irrevocable beneficiary
- D) Revocable beneficiary

Explanation: An irrevocable beneficiary designation is the most restrictive because it gives the beneficiary vested rights in the policy. The policyowner cannot change the beneficiary, take policy loans, assign the policy, or surrender it without the irrevocable beneficiary's written consent. This is often used as a form of financial security for creditors or ex-spouses in divorce agreements.

27. In group health insurance, the employer's role is generally to:

- A) Underwrite each employee individually
- B) Pay all medical claims directly to providers
- ✓ C) Select the plan, contribute to premiums, and serve as the policyholder
- D) Provide insurance without any employee contribution

Explanation: In group health insurance, the employer serves as the policyholder and typically selects the plan(s), negotiates with the insurer, and contributes a portion (or all) of the premium. Employees receive certificates of coverage and may contribute to premiums through payroll deductions. The employer does not personally pay claims.

28. Under the mandatory 'Proof of Loss' provision, the insured must submit written proof of loss to the insurer within how many days after the loss?

- ✓ A) 90 days
- B) 120 days
- C) 60 days
- D) 30 days

Explanation: Written proof of loss must be furnished to the insurer within 90 days after the date of the loss. If it is not reasonably possible to give proof within 90 days, the claim is not invalidated if proof is given as soon as reasonably possible, but no later than one year (unless the insured is legally incapacitated).

29. Under N.D.C.C. § 26.1-26-42.1, within how many days must a licensed producer report to the Insurance Commissioner any administrative action taken against them in another jurisdiction?

- ✓ A) Within 30 days of the final disposition of the matter
- B) Within 10 days of the initial filing of the complaint
- C) Within 60 days following the end of the calendar year
- D) Only if the fine in the other jurisdiction exceeds \$50,000

Explanation: A producer must report any administrative action taken against them in another jurisdiction or by another governmental agency to the Commissioner within 30 days of final disposition (N.D.C.C. § 26.1-26-42.1).

30. How many hours of approved continuing education (CE) must a resident North Dakota insurance producer complete every two years?

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

Explanation: Under N.D.C.C. § 26.1-26-31.1, resident producers must complete at least 24 approved continuing education credit hours during each two-year licensing cycle.

31. When advertising life insurance in North Dakota, what must clearly be disclosed in all marketing materials?

- A) The personal annual salary of the insurance company president
- B) The exact net worth of every insurance producer affiliated with the agency
- ✓ C) The true name of the insurer and the fact that the product being advertised is life insurance
- D) A statutory notice stating that life insurance is an investment security

Explanation: Advertising regulations require that advertisements clearly identify the insurer and explicitly identify the product as life insurance, preventing consumer confusion with savings or investment accounts.

32. 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.

33. In group life insurance, the concept of a 'flow of insureds' is important because it helps to ensure which of the following?

- A) That only healthy individuals remain in the plan
- ✓ B) That the group maintains a stable and predictable risk pool through regular entry and exit of members
- C) That the insurance company can deny claims from long-term members
- D) That premiums increase each year to cover older members

Explanation: The flow of insureds refers to the continual entry of new, typically younger members and the exit of older members from a group. This natural turnover helps maintain a stable average age and predictable risk level for the insurer, which is a key principle of group underwriting.

34. What does a 'bed reservation' benefit in an LTC policy provide?

- A) It allows the insured to reserve a bed in a specific facility years in advance.
- B) It pays for a private room in a nursing home.
- ✓ C) It pays to hold a nursing home bed for the insured if they need to be hospitalized temporarily.
- D) It guarantees a bed will be available in any nursing home.

Explanation: If an LTC patient in a nursing home needs to go to a hospital for a short stay, the nursing facility will not hold their bed for free. The bed reservation benefit pays the nursing home to keep the insured's bed available for their return for a limited number of days.

35. What is a Life Settlement?

- A) A dividend option that purchases more insurance.
- B) A settlement option that provides lifetime income.
- ✓ C) The sale of a life insurance policy by a healthy, typically elderly, individual to a third party.
- D) The cash surrender of a policy.

Explanation: A life settlement is similar to a viatical settlement, but the insured is not terminally ill. Typically, it involves senior citizens (e.g., age 65 or older) selling a policy they no longer need for more than its cash surrender value but less than its face amount.

36. A 'benefit period' in a major medical health plan is:

- A) The time period during which disability benefits are paid
- ✓ B) The time period within which all covered expenses must be incurred to apply to the same deductible
- C) The waiting period before coverage begins
- D) The maximum years of coverage under the plan

Explanation: In a major medical health plan, the benefit period (usually a calendar year) is the period within which all covered expenses must be incurred to apply toward the same deductible and out-of-pocket maximum. At the end of the benefit period, these amounts reset. Most plans use January 1 to December 31 as the benefit period.

37. 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%.

38. When money is withdrawn from a non-qualified annuity, how is the distribution taxed?

- A) First-In, First-Out (FIFO) - cost basis is withdrawn first.
- ✓ B) Last-In, First-Out (LIFO) - taxable earnings are withdrawn first.
- C) The entire withdrawal is taxed as ordinary income.
- D) The entire withdrawal is tax-free.

Explanation: Annuity withdrawals are taxed on a LIFO basis. This means the taxable earnings are considered to be taken out before the non-taxable return of principal (cost basis). This is less favorable than the FIFO treatment for life insurance cash values.

39. 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.

40. What examination fee is charged by PSI for each North Dakota insurance producer exam attempt?

- A) \$125 per examination attempt
- B) \$35 per examination attempt
- C) \$95 per examination attempt
- ✓ D) \$64 per examination attempt

Explanation: The examination fee for each insurance exam line administered by PSI in North Dakota is \$64.

41. In an Independent Practice Association (IPA) model HMO, physicians:

- A) Are employed by a single multispecialty medical group
- B) Practice only in HMO-owned clinics
- ✓ C) Maintain their own private practices and contract with the HMO to see its members
- D) Are salaried employees of the HMO

Explanation: In an IPA model, independent physicians maintain their own offices and private practices. They contract with the HMO to provide services to its members, typically on a capitated or negotiated fee basis. The physicians also see non-HMO patients, giving them more independence than staff model physicians.

42. What is the tax treatment of premiums paid for a non-qualified annuity?

- ✓ A) They are not tax-deductible.
- B) They are fully tax-deductible.
- C) They are partially tax-deductible.
- D) They are a tax credit.

Explanation: Premiums for a non-qualified annuity are paid with after-tax dollars and are not tax-deductible. This is what establishes the owner's cost basis in the contract.

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

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

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

44. 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.

45. The 'participation rate' in an equity-indexed annuity determines:

- A) The interest rate credited in years when the index shows a loss
- B) The percentage of annuity assets invested in equities
- C) The proportion of the annuity subject to surrender charges
- ✓ D) The percentage of the index gain credited to the annuity contract

Explanation: In an equity-indexed (or fixed indexed) annuity, the participation rate determines what percentage of the underlying index's gain is credited to the annuity. For example, if the index gains 10% and the participation rate is 80%, the annuity is credited with 8% (before any cap applies). Participation rates can be changed by the insurer after the initial guarantee period. A higher participation rate means the annuity owner benefits more from index gains.

46. Under North Dakota law, what are the fiduciary responsibilities of an insurance producer regarding premium funds collected from clients?

- A) Premiums may be comingled with the producer's personal operating bank account for up to 90 days
- B) Producers may invest client premiums in personal stock options before remitting them to the insurer
- C) Premiums become the personal legal property of the producer upon receipt
- ✓ D) All premiums collected are held in a fiduciary trust capacity and must be promptly forwarded to the insurer or maintained in a separate fiduciary account

Explanation: Under N.D.C.C. § 26.1-26-38, an insurance producer holds all insurance premiums in a fiduciary capacity and must not comingle them with personal funds.

47. An irrevocable beneficiary has certain rights in the policy. Which of the following is NOT a right of the irrevocable beneficiary?

- A) To prevent the policyowner from taking a policy loan
- B) To veto a change in beneficiary
- C) To receive the death benefit
- ✓ D) To change the premium payment mode

Explanation: An irrevocable beneficiary can prevent changes to the policy that affect its value, such as changing the beneficiary, assigning the policy, or taking a loan. However, they do not have the right to manage administrative aspects of the policy, such as changing the premium mode (e.g., from annual to monthly).

48. A policyowner named his wife as the primary beneficiary and his son as the contingent beneficiary. The wife dies several years before the insured. When the insured dies, who receives the death benefit?

- A) The wife's estate
- B) The insured's estate
- ✓ C) The son
- D) The proceeds are split between the son and the insured's estate.

Explanation: The contingent beneficiary's role is to receive the proceeds if the primary beneficiary is no longer living when the insured dies. Since the wife predeceased the insured, the son, as the contingent beneficiary, receives the full death benefit.

49. Who is responsible for verifying that continuing education courses are completed and reported prior to the license renewal deadline in North Dakota?

- A) The North Dakota Insurance Department testing proctor
- ✓ B) The individual insurance producer
- C) The policyholders who purchased policies from the producer
- D) The National Association of Insurance Commissioners central office

Explanation: Although approved CE course providers report course completions, the individual producer is legally responsible for ensuring that all 24 required hours are finished and posted on time.

50. A universal life policy's 'planned periodic premium' is best described as:

- A) The premium that guarantees the death benefit will remain level throughout the policy
- B) The premium set by the state insurance commissioner
- ✓ C) The premium amount the policyowner intends to pay — but UL allows flexibility to pay more or less (within limits)
- D) The minimum premium required by law to keep the policy in force

Explanation: In a universal life policy, the planned periodic premium is the premium amount the policyowner designs to pay, but UL's flexible premium feature allows the policyowner to pay more or less. As long as the policy's cash value covers monthly deductions, the policy remains in force even if no premium is paid. Paying less than planned can risk lapse if the cash value is depleted.