Insurance Test Practice

Ohio Insurance Practice Test

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1. The period of time after a benefit trigger is met but before LTC benefits begin is called the:

A) Probationary period
B) Benefit period
C) Grace period
✔ D) Elimination period

Explanation: Similar to a disability policy, an LTC policy has an elimination period (or waiting period). This is the number of days the insured must be receiving care before the policy will start paying benefits. Common periods are 30, 60, or 90 days.

2. What is a 'Special Needs Plan' (SNP)?

A) A Medigap plan for individuals with pre-existing conditions.
B) A state program that supplements Medicaid.
C) A prescription drug plan with no donut hole.
✔ D) A type of Medicare Advantage plan designed for people with specific diseases, disabilities, or limited incomes.

Explanation: SNPs are a special type of Medicare Advantage plan that tailor their benefits, provider choices, and drug formularies to best meet the specific needs of the groups they serve, such as dual eligibles (I-SNP), those with certain chronic conditions (C-SNP), or those in institutions (I-SNP).

3. An agent's written observations of an applicant, including their financial standing and character, are recorded in the:

A) Application Part I
✔ B) Agent's Report
C) MIB Report
D) Application Part II

Explanation: The Agent's Report (or Producer's Report) is a confidential section of the application where the agent provides their personal observations and knowledge about the proposed insured. It is an important underwriting tool but is not part of the 'entire contract'.

4. A moral hazard is characterized by:

A) An individual's indifference to loss
B) An unpredictable natural event
C) A pre-existing physical condition
✔ D) A fraudulent or dishonest tendency

Explanation: A moral hazard exists when the character and conduct of an insured person increase the chance of a loss. It involves dishonesty, such as filing a fraudulent claim or intentionally causing a loss.

5. Which Medigap plans are no longer available for sale to individuals newly eligible for Medicare on or after January 1, 2020?

A) Plans K and L
B) Plans A and B
✔ C) Plans C and F
D) Plans M and N

Explanation: The Medicare Access and CHIP Reauthorization Act (MACRA) of 2015 prohibited the sale of Medigap plans that cover the Part B deductible (Plans C and F) to newly eligible Medicare beneficiaries. Those who were eligible before 2020 can still keep or buy these plans.

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

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

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

7. A 'bonus' annuity adds a percentage (such as 3-5%) to the owner's initial premium or subsequent premiums. What is a common trade-off associated with bonus annuities?

✔ A) They typically have longer surrender charge periods and higher ongoing fees to offset the bonus
B) They do not allow annuitization
C) They are only available as immediate annuities
D) They offer no death benefit

Explanation: While the upfront bonus appears attractive, insurers recover the cost through longer surrender charge periods (often 10+ years) and higher annual fees such as mortality and expense charges. Agents must ensure that a bonus annuity is suitable and that the client understands these trade-offs.

8. The Law of Large Numbers helps an insurer to:

A) Eliminate risk entirely
✔ B) Predict the approximate number of losses that will occur in a group
C) Guarantee that no losses will occur
D) Predict the specific individuals who will suffer a loss

Explanation: 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.

9. A Medicare beneficiary who wants to enroll in a Medicare Advantage (Part C) plan must have:

✔ A) Medicare Parts A and B
B) Medicare Part B only
C) Medicare Part A only
D) A Medigap policy

Explanation: To be eligible to enroll in a Medicare Advantage plan, an individual must be enrolled in both Medicare Part A and Medicare Part B. They must also live in the plan's service area.

10. A client uses funds from a non-qualified annuity to pay for long-term care insurance premiums. What is the tax implication?

A) The withdrawal is subject to a 10% penalty.
B) The withdrawal is fully taxable.
✓ C) The withdrawal may be tax-free if transferred directly from the annuity to the LTC insurer under the Pension Protection Act.
D) The withdrawal is fully tax-free.

Explanation: The Pension Protection Act of 2006 allows for tax-free withdrawals from a non-qualified annuity to pay for long-term care insurance premiums, up to certain limits. This is accomplished via a direct trustee-to-trustee transfer.

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11. The grace period provision in a life insurance policy allows:

✓ A) The policyowner 31 days after the due date to pay the premium before the policy lapses
B) The beneficiary time to claim benefits after the insured's death
C) The insurer a 31-day grace period before paying death claims
D) The insured to receive benefits while hospitalized without paying premiums

Explanation: The Grace Period (typically 31 days for life insurance) gives the policyowner additional time after a missed premium due date to pay the premium without the policy lapsing. During the grace period, the policy remains in force. If the insured dies during the grace period, the insurer pays the death benefit minus the overdue premium.

12. What is the tax status of a transfer-for-value?

A) It has no impact on the taxability of the death benefit.
B) It makes the death benefit fully taxable.
C) It makes the death benefit subject to capital gains tax.
✓ D) It makes the death benefit partially taxable as ordinary income.

Explanation: The transfer-for-value rule states that if a life insurance policy is sold or transferred for valuable consideration, a portion of the death benefit becomes subject to income tax. The taxable portion is the death benefit minus the new owner's cost basis.

13. The inflation protection benefit option in a long-term care policy:

✓ A) Automatically increases the daily or monthly benefit amount over time to keep pace with rising care costs
B) Covers the difference between actual care costs and the policy benefit if costs exceed projections
C) Guarantees premiums will never increase
D) Protects the insured against inflation in the premium market

Explanation: LTC inflation protection increases the policy's benefit amount over time — typically by 3-5% annually — to help coverage keep pace with the rising cost of long-term care. Without inflation protection, a policy purchased today may provide insufficient benefits 20-30 years later when care is needed.

14. A 'creditable coverage' letter is important because it:

- ✔ A) Proves an individual had prior health coverage, which was used to reduce pre-existing condition exclusion periods before the ACA.
- B) Guarantees eligibility for Medicare.
- C) Reduces the premium for a new health plan.
- D) Acts as a certificate of insurance.

Explanation: Before the ACA prohibited pre-existing condition exclusions, a certificate of creditable coverage was crucial. It proved that a person had continuous health coverage, which allowed them to reduce or eliminate any pre-existing condition waiting periods when they moved to a new group health plan.

15. An insurer decides to terminate the appointment of producer Michael. Within how many days must the insurer notify Ohio Department of Insurance (ODI) of the termination?

- A) 10 days
- B) 15 days
- ✔ C) 30 days
- D) 45 days

Explanation: The insurer must notify Ohio Department of Insurance (ODI) within 30 calendar days of terminating a producer's appointment.

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16. Under Medicare Part A, after the initial deductible is paid, the beneficiary pays $0 coinsurance for days 1-60 of a hospital stay. For days 61-90, the beneficiary must pay:

- ✔ A) A daily coinsurance amount
- B) 20% of all charges
- C) The full cost of care
- D) Nothing — it is fully covered

Explanation: Medicare Part A covers inpatient hospital stays with cost-sharing that increases over time. Days 1-60 are fully covered after the deductible. Days 61-90 require a daily coinsurance payment. Beyond day 90, the beneficiary must use lifetime reserve days (with an even higher daily coinsurance) or pay the full cost.

17. 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.

18. Under the ACA, the 'actuarial value' of a Silver plan is approximately:

- ✔ A) 70%
- B) 80%
- C) 60%
- D) 90%

Explanation: ACA metal tiers reflect the plan's actuarial value (the percentage of covered costs paid by the plan on average): Bronze = ~60%, Silver = ~70%, Gold = ~80%, Platinum = ~90%. Silver plans also offer cost-sharing reduction subsidies (CSRs) to qualifying lower-income enrollees, which increase the effective actuarial value.

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

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

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

20. The risk management technique of taking action to reduce the frequency or severity of a potential loss is known as:

- A) Avoidance
- ✔ B) Reduction
- C) Transfer
- D) Retention

Explanation: Risk reduction involves implementing measures to minimize the chance or impact of a loss. Examples include installing a sprinkler system to reduce fire damage or wearing a seatbelt to reduce injury in an accident.

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21. Life insurance is unique among financial products because the death benefit paid to the beneficiary is generally:

- ✔ A) Received income-tax-free by the beneficiary under IRC Section 101(a)
- B) Subject to capital gains tax on appreciation
- C) Only tax-free for surviving spouses
- D) Subject to ordinary income tax

Explanation: Under IRC Section 101(a), life insurance death benefits paid to beneficiaries are received income-tax-free. This is one of the most significant tax advantages of life insurance. The proceeds may still be included in the insured's estate for estate tax purposes if the insured owned the policy, but income tax does not apply to the beneficiary's receipt.

22. The percentage of covered medical expenses that the insured is required to pay after the deductible has been met is known as:

A) The premium
B) The out-of-pocket maximum
✔ C) Coinsurance
D) The copayment

Explanation: Coinsurance is a cost-sharing arrangement where the insured pays a percentage of the bill (e.g., 20%), and the insurer pays the remaining percentage (e.g., 80%).

23. Which of the following is NOT typically a feature of a variable annuity?

A) A death benefit guaranteeing at least the return of premiums paid
B) Subaccount investing in mutual-fund-like portfolios
✔ C) A guaranteed minimum credited interest rate for subaccount investments
D) An optional guaranteed minimum income benefit (GMIB) rider

Explanation: Variable annuities do NOT provide a guaranteed minimum interest rate for subaccount investments — that feature is exclusive to fixed annuities. VA subaccounts are subject to market risk. VAs do offer optional riders for guaranteed minimum income, death benefits, and withdrawal benefits (at extra cost), but the core subaccount value fluctuates with market performance.

24. If there is a discrepancy between the insured's age on the application and their actual age, the Misstatement of Age or Sex provision allows the insurer to:

A) Charge the beneficiary for the back premiums owed.
B) Void the policy.
C) Deny the claim entirely.
✔ D) Adjust the death benefit to what the premium would have purchased at the correct age.

Explanation: The Misstatement of Age or Sex provision states that if the insured's age or sex was misstated, the insurer will not void the policy but will adjust the benefits. The death benefit will be recalculated to the amount the premium paid would have purchased at the correct age or sex.

25. An annuity that begins paying income within one year of a single premium payment is called:

A) Flexible premium annuity
B) Variable annuity
✔ C) Immediate annuity
D) Deferred annuity

Explanation: An immediate annuity begins making income payments almost immediately — typically within one payment period — after a single lump-sum premium is paid. Retirees use immediate annuities to convert a lump sum (such as a rollover from a 401k or the proceeds from a pension buyout) into guaranteed income they cannot outlive.

26. What is a Viatical Settlement?

- ✔ A) The sale of a life insurance policy by a terminally ill person to a third party for a discounted cash amount.
- B) A loan from the insurer against the policy's death benefit.
- C) A settlement option that pays the beneficiary for life.
- D) An advance payment from the insurer to a chronically ill insured.

Explanation: A viatical settlement involves a terminally ill policyowner (the 'viator') selling their life insurance policy to a viatical settlement company. The company pays the insured a percentage of the face value in cash and becomes the new owner and beneficiary of the policy.

27. During a routine compliance check, the Insurance Superintendent requests client files from agent Sarah. Under Ohio law, what is Sarah's obligation regarding these records?

- A) She may refuse access unless a subpoena is issued.
- ✔ B) She must provide free access to all books, records, and files of her business.
- C) She must notify her appointing insurer before releasing files.
- D) She only needs to show files from the last 12 months.

Explanation: The Superintendent has free access to all books, records, and files of any licensee or insurer transacting business in Ohio.

28. Which of the following is covered as a preventive service at no cost-sharing under the ACA?

- ✔ A) Vaccines recommended by the Advisory Committee on Immunization Practices (ACIP)
- B) All prescription medications regardless of purpose
- C) Elective cosmetic procedures
- D) Dental fillings for adults

Explanation: ACA requires non-grandfathered health plans to cover ACIP-recommended vaccines at no cost-sharing. Other no-cost preventive services include USPSTF 'A' and 'B' rated screenings (mammograms, colonoscopies, blood pressure checks) and HRSA guidelines for preventive care for women. Cosmetic procedures, prescription drugs generally, and adult dental are NOT required preventive services.

29. Which of the following benefits is available to a currently insured worker's survivors but NOT exclusively to a fully insured worker's survivors?

- A) Retirement benefits
- ✔ B) A lump-sum death benefit of $255
- C) Disabled widow benefits at age 50
- D) Widow or widower benefits at age 60

Explanation: The lump-sum death benefit of $255 is payable to survivors of both currently insured and fully insured workers. Widow/widower benefits at age 60 and retirement benefits require fully insured status.

30. The 'annuitization' of a deferred annuity is the process of:

A) Transferring the annuity to a new owner
B) Rolling the annuity into a qualified retirement plan
✓ C) Irrevocably converting the accumulated value into a guaranteed income stream
D) Converting cash value to a paid-up policy

Explanation: Annuitization is the irrevocable conversion of a deferred annuity's accumulated value into a series of periodic income payments based on the selected payout option. Once annuitized, the owner typically cannot access a lump sum and the arrangement is generally irreversible. Most modern annuities also offer guaranteed withdrawal benefits that provide income without full annuitization.

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31. Which of the following risk classifications would result in the lowest premium?

✓ A) Preferred
B) Declined
C) Standard
D) Substandard

Explanation: A preferred risk classification is for individuals who meet certain criteria that qualify them for a lower-than-average risk of loss (e.g., non-smoker, healthy lifestyle). They receive the most favorable premium rates.

32. The 'subaccount' in a variable life insurance policy is managed by:

A) The insurance company's general account investment team
✓ B) A professional investment manager or fund company under contract with the insurer
C) FINRA-appointed trustees who manage the assets on behalf of all policyholders
D) The policyowner personally through a brokerage interface

Explanation: Variable life insurance subaccounts are typically managed by professional investment management companies (such as mutual fund companies) under contract with the insurance company. The insurer offers a menu of subaccounts with different investment objectives and managers. The policyowner selects their preferred allocation but does not manage the investments directly.

33. What is the minimum grace period required by Ohio law for individual life insurance policies?

A) 10 days
B) 28 days
✓ C) 30 days
D) 31 days

Explanation: In Ohio, individual life insurance policies must contain a grace period of not less than 30 days.

34. Which of the following distribution systems uses agents who represent only one insurance company?

A) Surplus lines system
B) Direct writing system
✓ C) Exclusive or captive agency system
D) Independent agency system

Explanation: In an exclusive (captive) agency system, agents have a contract with and represent only one insurer or group of affiliated insurers. The insurer typically owns the policy expirations and renewal rights.

35. 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 insured's next of kin as determined by the court
B) To the state's unclaimed property fund
✓ C) To the insured's estate
D) To the insurance company

Explanation: 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.

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36. Under the ACA employer mandate for ALEs with 100+ employees in 2015 and 50+ in 2016 and beyond:

A) All full-time employees must be enrolled in coverage whether they want it or not
B) All plans must be grandfathered to be exempt from the mandate
C) Coverage must be free to all employees with no employee contributions allowed
✓ D) The employer must offer qualifying coverage to full-time employees (30+ hours/week) and their dependents

Explanation: The ACA employer mandate requires ALEs (50+ FTEs) to offer minimum essential coverage that is affordable and meets minimum value to all full-time employees (those working 30+ hours/week) and their dependents (not spouses). Employers who fail to offer coverage (or offer unaffordable/insufficient coverage) and have at least one FT employee receive a premium tax credit may owe an employer shared responsibility payment.

37. Which managed care model involves physicians and other providers being employed directly by the HMO?

A) Point-of-Service HMO
B) Independent Practice Association (IPA) model HMO
✓ C) Staff model HMO
D) Network or group model HMO

Explanation: A Staff Model HMO employs physicians and other providers directly as salaried staff. The HMO owns the facilities and controls service delivery. This is the most tightly controlled HMO model. Members can only use HMO-employed providers. This model is less common today than network or IPA models.

38. A policy loan from a life insurance policy is:

✓ A) Not considered taxable income.
B) Treated as a dividend.
C) Taxable as income.
D) Tax-deductible.

Explanation: Policy loans are not considered taxable distributions because they are treated as debt against the policy. As long as the policy remains in force, the loan is not taxed. If the policy lapses or is surrendered with a loan outstanding, the loaned amount may become taxable.

39. Under the ACA's community rating rules which of the following factors may insurers use to vary premium rates?

- ✔ A) Age and tobacco use
- B) Claims history and occupation
- C) Disability status and medical history
- D) Health status and gender

Explanation: Under the ACA's modified community rating rules, insurers may only vary premiums based on four factors: age (limited to a 3:1 ratio), tobacco use (limited to a 1.5:1 ratio), geographic rating area, and family size. Health status, gender, claims history, and other factors are prohibited.

40. 'Incidents of ownership' in a life insurance policy include all of the following EXCEPT:

- A) The right to borrow against the policy
- B) The right to assign the policy
- C) The right to change the beneficiary
- ✔ D) The right to receive the death benefit as a named beneficiary

Explanation: Incidents of ownership refer to the economic and legal rights a person holds in a policy, such as the right to change the beneficiary, assign the policy, borrow against it, or surrender it. Simply being the named beneficiary does not constitute an incident of ownership. If the insured retains any incidents of ownership at death, the policy proceeds are included in the taxable estate.

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41. Retrospective review in utilization management refers to:

- A) Pre-approving a treatment plan before any services begin
- B) Projecting future healthcare costs based on historical data
- C) Monitoring treatment effectiveness during an inpatient stay
- ✔ D) Evaluating the medical necessity and appropriateness of care after services have been delivered

Explanation: Retrospective review occurs after care has already been provided. The managed care plan reviews claims and medical records to determine whether the services rendered were medically necessary and appropriate. This may result in claim denials or recovery of overpayments.

42. When an insurer approves an application but issues the policy with different terms than applied for (such as a higher premium or an exclusion rider), this is called a:

- A) Policy amendment
- B) Conditional receipt
- ✔ C) Counter-offer
- D) Binder

Explanation: When the insurer modifies the terms of coverage from what was originally applied for, the issued policy is considered a counter-offer. The applicant must accept or reject the new terms. The policy does not go into effect until the applicant accepts the counter-offer and pays any required premium.

43. If a corporation owns a non-qualified annuity, how is the growth taxed?

A) It is tax-free.
✔ B) It is taxed annually as ordinary income.
C) It grows tax-deferred.
D) It is taxed at corporate capital gains rates.

Explanation: The tax-deferral benefit of annuities generally does not apply when the contract is owned by a non-natural person, such as a corporation. In this case, the annual growth in the contract is treated as taxable ordinary income to the corporation each year.

44. What is the purpose of a Health Reimbursement Arrangement (HRA)?

A) It is a savings account funded by the employee.
B) It is a portable account that the employee takes with them when they leave a job.
C) It is a government program for low-income individuals.
✔ D) It is an employer-funded account that reimburses employees for qualified medical expenses.

Explanation: An HRA is funded solely by the employer; employees cannot contribute. The employer sets the terms, and the funds can be used to reimburse employees tax-free for medical expenses. Unused funds may roll over, but the account is owned by the employer and is not portable.

45. Under COBRA, a qualified beneficiary who is disabled at the time of the qualifying event may extend their coverage from 18 months to:

A) 24 months
B) 36 months
C) 48 months
✔ D) 29 months

Explanation: If an individual is determined by Social Security to have been disabled at the time of the qualifying event (or within the first 60 days of COBRA), they can extend their continuation coverage for an additional 11 months, for a total of 29 months.

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46. The National Association of Insurance Commissioners (NAIC) is best described as:

A) A trade association that lobbies for insurance companies
✔ B) A voluntary organization of state insurance regulators that develops model laws and promotes uniformity
C) A consumer protection agency funded by the federal government
D) A federal agency that regulates all insurance companies

Explanation: The NAIC is a voluntary organization composed of the chief insurance regulators from all 50 states, the District of Columbia, and U.S. territories. It develops model laws and regulations that states can adopt to promote consistency in insurance regulation across the country.

47. An agent tells an applicant that they must buy an optional cancer rider in order to be approved for a basic medical expense policy, which is not true. What is this violation?

- ✔ A) Sliding
- B) Rebating
- C) Twisting
- D) Defamation

Explanation: Sliding is the unfair practice of telling an applicant that an optional coverage is required by law or necessary for policy approval when it is not.

48. If a policyowner designates a beneficiary as 'irrevocable,' what is required to change the designation?

- ✔ A) The written consent of the irrevocable beneficiary
- B) A court order
- C) A notarized letter from the policyowner
- D) Approval from the insurance company

Explanation: An irrevocable beneficiary designation gives the named beneficiary a vested interest in the policy. The policyowner cannot change the beneficiary, take a policy loan, or surrender the policy without the written consent of the irrevocable beneficiary.

49. Which of the following is a key requirement for recommending an annuity to a senior consumer (age 65+)?

- A) The annuity must be variable
- B) The annuity must have a surrender period of less than 5 years
- C) The agent must offer a rebate
- ✔ D) The recommendation must be based on a reasonable evaluation of the consumer's financial situation and needs

Explanation: All annuity recommendations, especially for seniors, must be suitable based on the consumer's financial status, tax status, and investment objectives (Suitability & Best Interest standards).

50. A policyholder has an individual health insurance policy with a monthly premium in Ohio. What is the minimum grace period for a monthly premium health policy?

- A) 7 days
- ✔ B) 10 days
- C) 31 days
- D) 15 days

Explanation: For individual health policies, the grace period is 7 days for weekly premium policies, 10 days for monthly premium policies, and 31 days for all other policies.