Insurance Test Practice

Oklahoma Insurance Practice Test

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1. The 'high water mark' crediting strategy in an indexed annuity:

A) Marks the highest interest rate ever credited to the policy
B) Credits interest based only on the index performance on the last day of the year
✔ C) Credits interest based on the highest index value achieved on each anniversary date during the crediting period
D) Credits interest based on the average index performance

Explanation: The high water mark strategy looks at the index value at each contract anniversary during the crediting period and uses the highest value achieved as the ending point for calculating interest. This strategy can provide better results in volatile markets where the index peaks midway through the period, but it typically comes with lower caps or participation rates.

2. An agent, Jessica, suggests that a prospect drop their existing disability policy and buy a new one because the old company is 'going bankrupt,' though she has no evidence of this. What violation has she committed?

✔ A) Defamation and twisting
B) Rebating
C) Churning
D) Unfair discrimination

Explanation: Making unsubstantiated derogatory claims about a competitor's financial state to convince a client to replace a policy is defamation and twisting.

3. A producer, Thomas, represents that the cash values of an existing policy will be used to pay premiums for a new policy, but fails to explain that this will reduce the existing policy's death benefit. What is this violation?

✔ A) Misrepresentation and twisting
B) Rebating
C) Defamation
D) Sliding

Explanation: Failing to disclose that using cash values of an existing policy to buy a new one will reduce the original policy's value is misrepresentation and twisting.

4. In which type of annuity does the owner bear the investment risk?

A) Immediate Annuity
✔ B) Variable Annuity
C) Deferred Annuity
D) Fixed Annuity

Explanation: In a variable annuity, the contract owner directs their premium payments into various investment subaccounts (similar to mutual funds). The contract's value and the future income payments depend on the performance of these investments, so the owner assumes all investment risk.

5. The 'Interest Only' settlement option:

A) Requires the beneficiary to pay income taxes annually on all interest
✔ B) Pays only interest on the proceeds to the beneficiary while preserving the principal for a named successor
C) Terminates all benefits when the beneficiary dies
D) Reduces the death benefit by the amount of interest earned

Explanation: Under the Interest Only option, the insurer holds the principal (death benefit proceeds) and pays only the interest earned to the beneficiary. When the beneficiary dies, the principal is paid to a named successor beneficiary (often used to preserve principal for children while providing income to a surviving spouse).

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6. 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.

7. If a life insurance application is approved and a policy is issued, but the applicant's health has deteriorated since the application date and no premium was paid, what is the insurer's obligation?

✔ A) The policy is not in effect until it is delivered and a statement of good health is signed.
B) The insurer must deliver the policy as issued.
C) The policy is in effect, but at a higher premium.
D) The insurer can cancel the policy immediately.

Explanation: When the premium is not paid with the application, coverage is not effective until the policy is delivered, the first premium is paid, and the applicant signs a statement of good health. The adverse change in health means a key condition for policy delivery has not been met.

8. What is the Medigap Open Enrollment Period?

A) The 7-month period around the 65th birthday.
B) The period after leaving an employer health plan.
✔ C) The 6-month period beginning the first day of the month in which an individual is both 65 or older and enrolled in Medicare Part B.
D) The period from October 15 to December 7 each year.

Explanation: This is a one-time, 6-month period that is the best time to buy a Medigap policy. During this time, an insurance company cannot use medical underwriting to refuse to sell you any Medigap policy it offers, charge you more, or make you wait for coverage to start.

9. A reciprocal insurance exchange is managed by a(n):

A) Lead underwriter
✔ B) Attorney-in-fact
C) Chief Executive Officer
D) Board of Directors

Explanation: A reciprocal insurance exchange is an unincorporated group of individuals or organizations (subscribers) that agree to share each other's losses. It is managed by an attorney-in-fact.

10. '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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11. A policyholder has an industrial life insurance policy (weekly premiums) in Oklahoma. What is the minimum grace period required for this type of policy?

A) 7 days
B) 15 days
✔ C) 28 days
D) 31 days

Explanation: Industrial life insurance policies in Oklahoma require a grace period of at least 28 days (or 4 weeks).

12. A 'per stirpes' beneficiary designation means that if a beneficiary predeceases the insured:

✔ A) Their share of the proceeds is passed down to their living children (the beneficiary's heirs).
B) Their share is divided equally among the other surviving beneficiaries.
C) Their share of the proceeds is forfeited.
D) The entire death benefit goes to the contingent beneficiary.

Explanation: 'Per stirpes' (by the root) is a distribution method where the descendants of a deceased beneficiary inherit their share. For example, if a son who was a beneficiary dies, his children would split his portion of the death benefit.

13. Reinsurance is a transaction between:

✔ A) Two insurance companies where one transfers risk to the other for a share of premium
B) An insurer and its policyholders to manage large claims
C) A producer and a surplus lines carrier
D) An insurer and the state guaranty association

Explanation: Reinsurance allows a primary insurer (the ceding company) to transfer a portion of its risk to a reinsurer in exchange for a share of the premium. This stabilizes the primary insurer's loss experience and allows it to write more business.

14. A withdrawal from a non-qualified annuity before age 59 1/2 is typically subject to what penalty, in addition to ordinary income tax on the earnings?

A) A 15% IRS penalty
B) No penalty
✓ C) A 10% IRS penalty
D) A 5% IRS penalty

Explanation: The IRS imposes a 10% penalty tax on the taxable portion (the earnings) of any withdrawal, surrender, or loan taken from an annuity before the owner reaches age 59 1/2. There are some exceptions, such as death or disability.

15. An annuity certain payout option provides payments for:

A) The life of the annuitant, with a certain number of guaranteed payments.
✓ B) A specified, fixed number of years, regardless of whether the annuitant lives or dies.
C) The lives of two annuitants.
D) As long as the principal and interest last.

Explanation: An 'annuity certain' (or period certain) option makes payments for a fixed period of time (e.g., 10 or 20 years). If the annuitant dies during this period, the payments continue to the beneficiary until the end of the specified term.

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16. The mortality risk borne by the insurer in a life annuity is the risk that:

A) The annuity will not earn enough interest to fund the payments
B) The annuitant will require long-term care
✓ C) The annuitant will live longer than expected, requiring more total payments
D) The annuitant will die before the annuity payments begin

Explanation: The insurer bears the longevity risk in a life annuity — the risk that the annuitant will live longer than actuarially expected, requiring the insurer to make more total payments than originally projected. This is the core mortality risk the insurer assumes in exchange for the annuity premium.

17. What document does an individual member of a group life insurance plan receive as proof of coverage?

A) A master policy
✓ B) A certificate of insurance
C) A declaration page
D) A binder of coverage

Explanation: Individual group members do not receive the actual policy. Instead, they receive a certificate of insurance that summarizes their coverage, benefits, and conversion rights.

18. What is 'utilization review' in a managed care plan?

A) A review of the plan's premium rates.
✓ B) An evaluation of the medical necessity, appropriateness, and efficiency of health care services.
C) A survey of member satisfaction.
D) A process for enrolling new members.

Explanation: Utilization review (or utilization management) is a process used by insurers and managed care plans to evaluate the appropriateness of health care services under the provisions of the insurance policy. This can include pre-authorization for a hospital stay or a review of ongoing treatment.

19. If an annuity is used to fund a qualified retirement plan (like an IRA), how are the distributions taxed at retirement?

A) Only the earnings are taxed.
B) Distributions are taxed as capital gains.
✔ C) The entire distribution is taxable as ordinary income.
D) Distributions are tax-free.

Explanation: When an annuity is 'qualified' (used to fund a plan like a Traditional IRA or 401(k)), the contributions are made with pre-tax dollars. Since no taxes have been paid on either the principal or the earnings, the entire amount of any distribution is taxable as ordinary income.

20. 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.

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21. Which of the following statements about paid-up additions (PUAs) is CORRECT?

A) PUAs reduce the policy's total death benefit to offset new cash value growth
B) PUAs require additional premium payments to remain in force
✔ C) PUAs are small single-premium whole life policies that earn dividends and increase the total death benefit and cash value
D) PUAs are temporary coverage that expires if dividends are insufficient

Explanation: Paid-Up Additions (PUAs) are small amounts of fully paid-up whole life insurance purchased with policy dividends. Each PUA itself earns future dividends, creating a compounding effect. PUAs increase both the death benefit and cash value of the base policy and are fully paid-up — no additional premium is required.

22. Which of the following represents the correct description of proximate cause?

A) The most remote cause of a loss
B) The last event in a chain of events leading to a loss
✔ C) The dominant cause that sets in motion an unbroken chain of events leading to a loss
D) Any contributing factor in a loss

Explanation: Proximate cause is the primary or dominant cause that initiates an unbroken sequence of events that results in a loss. It determines whether a loss is covered under the policy.

23. Under Oklahoma law, which of the following is considered an unfair claims settlement practice?

A) Refusing to pay a claim that is clearly excluded by the policy
B) Requiring a claimant to submit a signed proof of loss
✓ C) Failing to settle a claim promptly where liability has become reasonably clear
D) Denying a claim after a proper investigation

Explanation: Failing to attempt in good faith to effectuate prompt, fair, and equitable settlements of claims in which liability has become reasonably clear is an unfair claims settlement practice.

24. In a group life insurance plan, who is the policyowner and who receives the certificate of insurance?

✓ A) The employer is the policyowner; the employee receives the certificate.
B) The insurer is the policyowner; the employee receives the certificate.
C) Both the employer and employee are policyowners.
D) The employee is the policyowner; the employer receives the certificate.

Explanation: In a group life plan, the sponsoring organization (e.g., the employer) is the master policyowner. The individual members of the group (e.g., the employees) are not parties to the contract but receive a certificate of insurance as evidence of their coverage.

25. A policyholder has an individual health insurance policy with an annual premium in Oklahoma. What is the minimum grace period required for this policy?

A) 10 days
B) 15 days
C) 30 days
✓ D) 31 days

Explanation: For health policies paid on an annual basis, the minimum grace period is 31 days.

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26. Fixed annuities are NOT classified as securities because:

A) They are only sold by banks, not insurance companies
✓ B) The insurance company, not the owner, bears the investment risk
C) They are regulated only at the federal level
D) They are backed by the FDIC

Explanation: Fixed annuities are not securities because the insurer, not the owner, bears the investment risk. The contract guarantees a minimum return and principal protection. Variable annuities are securities because the owner bears investment risk through subaccount investing. Fixed and indexed annuities require only a state insurance license to sell.

27. 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.

28. Which type of care is NOT typically covered by a Long-Term Care policy?

A) Skilled nursing care
B) Custodial care
C) Hospice care
✔ D) Acute care in a hospital

Explanation: LTC policies cover a range of services from skilled care to intermediate care and custodial care, which can be provided in various settings (nursing home, assisted living, at home). Acute care for a medical condition in a hospital is covered by standard health insurance or Medicare, not an LTC policy.

29. The mandatory 'Legal Actions' provision states that the insured cannot bring a lawsuit against the insurer:

✔ A) Until at least 60 days after proof of loss and no later than 3 years
B) At any time after the claim is denied
C) Until at least 30 days after proof of loss and no later than 5 years
D) Until at least 90 days after proof of loss and no later than 2 years

Explanation: This provision sets a window for legal action. The insured must wait at least 60 days after submitting proof of loss before suing (to give the insurer time to process), and cannot sue more than 3 years after the time proof of loss is required.

30. The period of time an insured must be disabled before disability income benefits begin to be paid is the:

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

Explanation: 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.

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31. An insurer offers a special discount on life insurance premiums to individuals who buy a new car from a preferred dealership. What violation is this?

✔ A) Rebating and coercion
B) Twisting
C) Churning
D) Unfair discrimination

Explanation: Tying an insurance discount to another purchase is an illegal inducement and form of rebating/coercion.

32. The separate account of a variable life insurance policy is similar to a:

A) Savings account
✔ B) Mutual fund
C) Certificate of deposit
D) Money market account

Explanation: The separate account functions similarly to a mutual fund. It pools the premiums of multiple policyowners and invests them in a diversified portfolio of stocks, bonds, or other securities. Like mutual funds, the value of the account fluctuates with the performance of the underlying investments.

33. Which type of annuity guarantees a fixed interest rate and provides a fixed, level income payment?

A) Immediate Annuity
B) Indexed Annuity
C) Variable Annuity
✔ D) Fixed Annuity

Explanation: A fixed annuity credits interest at a rate guaranteed by the insurer. During the payout phase, it provides a predictable and guaranteed stream of income that does not fluctuate.

34. The 'conversion period' for a convertible term policy typically expires:

✔ A) Before the end of the term, often by a specific age (e.g., 65) or number of years
B) When the insured exercises the conversion for the first time
C) After the incontestability period
D) At the end of the full policy term

Explanation: The conversion period is the window during which the term policyowner can convert to permanent insurance. It typically has an expiration date — either a specific age (e.g., the insured must be under 65) or a specified number of years into the term. After the conversion period expires, the right to convert without evidence of insurability is lost.

35. Group life insurance premiums paid by the employer for the first $50,000 of each employee's coverage are:

A) Taxable to both the employer and the employee
✔ B) Tax-deductible to the employer as a business expense and excluded from the employee's income
C) Taxable to the employee
D) Deductible only if the employer provides the same coverage to all employees

Explanation: Under IRC Section 79, employer-paid premiums for group term life insurance up to $50,000 per employee are: tax-deductible to the employer as a business expense AND excluded from the employee's gross income. Coverage exceeding $50,000 creates imputed income for the employee, which is taxable.

36. An insurer denies a health insurance claim because the claimant did not use a preferred provider. The policyholder claims they were never given a list of preferred providers. What is the insurer's duty?

- ✔ A) The insurer must pay the claim if they failed to make the provider directory available.
- B) The insurer is not responsible for provider lists.
- C) The claimant must sue the provider.
- D) Oklahoma Insurance Department (OID) will pay the claim.

Explanation: Insurers must make directories of preferred providers readily available; failing to do so may make a denial unfair.

37. An individual has multiple life insurance policies with the same insolvent insurer in Oklahoma, totaling $500,000 in death benefits. What is the absolute maximum aggregate protection the Oklahoma Guaranty Association will provide for this individual?

- ✔ A) $300,000
- B) $350,000
- C) $500,000
- D) $1,000,000

Explanation: The maximum aggregate benefit provided by the Association for any one individual across all policies is $300,000 (except for health benefit plans in some states).

38. Which type of insurance organization is characterized by members mutually insuring each other and being managed by an Attorney-in-Fact?

- A) Mutual company
- ✔ B) Reciprocal insurer
- C) Stock company
- D) Risk retention group

Explanation: A reciprocal insurer (or reciprocal exchange) is an unincorporated organization where subscribers (policyholders) mutually insure each other. Each subscriber assumes a portion of the other subscribers' risk. The exchange is managed by an Attorney-in-Fact on behalf of all subscribers.

39. An agent is assisting a client with a claim. Oklahoma Insurance Department (OID) requests information from the agent about the transaction. What is the agent's primary obligation?

- A) Respond within 15 working days.
- ✔ B) Cooperate fully and provide all requested documentation.
- C) Keep files confidential from Oklahoma Insurance Department (OID).
- D) Referral to the insurer.

Explanation: All licensees must cooperate fully with investigations by Oklahoma Insurance Department (OID) and provide requested books and records.

40. Group life insurance typically has a 'certificate of coverage' for each employee. This certificate:

A) Must be signed by both the insurer and the employee to be valid
✔ B) Is evidence of coverage summarizing the employee's benefits under the master group policy held by the employer
C) Replaces the need for a beneficiary designation form
D) Is the actual insurance contract that the employee can enforce against the insurer

Explanation: The certificate of coverage (certificate of insurance) is given to each employee and summarizes their benefits, eligibility, and coverage details under the group plan. The certificate is NOT the insurance contract — the master policy held by the employer is the actual contract. However, employees can enforce their rights through the certificate.

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41. Which of the following represents a pure risk?

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

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

42. 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.

43. An annuity is designed primarily to provide:

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

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

44. The doctrine of 'reasonable expectations' most commonly applies to:

A) Set reasonable premium standards for actuarial pricing
✔ B) Resolve coverage ambiguities in favor of the insured when policy language is unclear
C) Require insurers to pay benefits beyond the stated policy limits
D) Hold agents personally liable for misrepresentations

Explanation: The reasonable expectations doctrine is applied by courts when insurance policy language is ambiguous. Courts look at what a reasonable insured would expect the coverage to be, and resolve ambiguities in favor of the insured's reasonable interpretation rather than the insurer's narrower reading.

45. What is the primary purpose of coordination of benefits (COB)?

- ✔ A) To prevent duplication of payments when an insured is covered by more than one group plan.
- B) To coordinate care between primary and specialty physicians.
- C) To determine eligibility for group coverage.
- D) To determine which provider a patient must see.

Explanation: The COB provision is used when a person is covered by two or more health plans to determine the order of payment. It ensures that the total payment from all plans does not exceed the total medical expenses, thus preventing overinsurance.

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46. A policyowner, Mark, decides to surrender his Whole Life policy after 15 years. He wants to stop paying premiums but wants to maintain a lifetime of coverage, albeit with a reduced face amount. Which nonforfeiture option should he select?

- A) Extended Term
- B) Cash Surrender
- ✔ C) Reduced Paid-Up
- D) Paid-Up Additions

Explanation: The Reduced Paid-Up nonforfeiture option uses the policy's accumulated cash value as a single premium to purchase a paid-up policy of the same type (whole life) for a reduced face amount, maintaining coverage for life.

47. In a Medicare Advantage PPO plan, a member can:

- ✔ A) See both in-network and out-of-network doctors, but with higher costs for out-of-network care.
- B) Not get any coverage for out-of-network services.
- C) Only see doctors in the plan's network.
- D) See any doctor without a referral, with no difference in cost.

Explanation: Similar to a standard PPO, a Medicare Advantage PPO plan offers the flexibility to see providers outside the network. However, the member's out-of-pocket costs (copays, coinsurance) will be lower if they stay within the plan's preferred provider network.

48. For a contract to be valid, all parties must be of legal age, mentally capable, and not under the influence of drugs or alcohol. This is the requirement of:

- A) Consideration
- B) Offer and Acceptance
- C) Legal Purpose
- ✔ D) Competent Parties

Explanation: Competent Parties is an essential element of a valid contract. It ensures that all parties involved have the legal capacity to enter into an agreement.

49. The Payor Benefit rider is typically added to a life insurance policy on a:

A) Senior citizen
B) Spouse
✔ C) Child
D) Business owner

Explanation: The Payor Benefit rider is added to a juvenile policy. It provides that if the person responsible for paying the premiums (usually a parent or guardian) dies or becomes disabled before the child reaches a certain age, the insurer will waive the premiums until the child reaches that age.

50. If a business is the owner and beneficiary of a life insurance policy on an employee, how are the premiums treated for tax purposes?

✔ A) They are not deductible by the business.
B) They are taxable income to the employee.
C) They are partially deductible by the business.
D) They are deductible by the business.

Explanation: When a business is the beneficiary of a life insurance policy (e.g., key person insurance), the premiums are not tax-deductible as a business expense. Correspondingly, the death benefit received by the business is income tax-free.