Insurance Test Practice

Tennessee Insurance Practice Test

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1. The cash value of a variable life insurance policy is held in the insurer's:

A) Surplus account
B) General account
C) Reserve account
✔ D) Separate account

Explanation: Variable life insurance cash values are invested in separate accounts, which are segregated from the insurer's general account. This is a critical distinction — the separate account holds the policyholder's invested funds in subaccounts (similar to mutual funds), and the investment risk is borne by the policyowner, not the insurer.

2. Which legal doctrine is most relevant to a situation where an agent consistently accepts late premium payments from a client?

A) Subrogation
B) Waiver
C) Adhesion
✔ D) Estoppel

Explanation: By repeatedly accepting late payments, the insurer creates a reasonable expectation for the client that late payments are acceptable. The insurer is then 'estopped' from suddenly enforcing the policy's cancellation provision for a late payment without prior warning.

3. An Irrevocable Life Insurance Trust (ILIT) is used primarily to:

A) Allow the insured to maintain full control of the policy
✔ B) Remove the life insurance policy from the insured's taxable estate
C) Make the policy premiums tax-deductible
D) Guarantee a higher rate of return on the cash value

Explanation: An ILIT is a trust that owns a life insurance policy on the grantor's life. Because the grantor has given up all incidents of ownership by transferring the policy to the irrevocable trust, the death benefit is not included in the grantor's taxable estate. This is a key estate planning tool for high-net-worth individuals.

4. 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.

5. A 'class designation' for a beneficiary would be:

A) 'The trustee of my family trust'
✔ B) 'My children'
C) 'My wife, Jane Doe'
D) 'My business partner, John Smith'

Explanation: A class designation names a group of beneficiaries without identifying them individually (e.g., 'my children,' 'my siblings'). This allows for flexibility, as any children born or adopted after the policy is issued are automatically included in the class.

6. Variable Universal Life (VUL) insurance combines features of:

A) Annuities and term life insurance
B) Group life and individual life insurance
✔ C) Universal life (flexible premiums) and variable life (subaccount investing)
D) Whole life and term life insurance

Explanation: Variable Universal Life (VUL) combines the flexible premiums and adjustable death benefit of universal life with the investment component (separate account subaccounts) of variable life. The policyowner can vary premiums and allocate cash values among investment subaccounts, bearing all investment risk.

7. What legal principle prevents a party from re-asserting a right they have previously waived?

A) Subrogation
B) Adhesion
C) Waiver
✔ D) Estoppel

Explanation: Estoppel is the legal principle that prevents someone from arguing something or asserting a right that contradicts what they previously said or did. For example, if an insurer consistently accepts late premiums, they may be estopped from canceling the policy for a late payment.

8. 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.

9. 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.

10. What is a primary characteristic of a Straight Life (or Continuous Premium) whole life policy?

A) Premiums are paid for a limited number of years.
✔ B) Premiums are paid for the entire duration of the insured's life.
C) A single, large premium is paid at inception.
D) The death benefit is flexible.

Explanation: Straight Life is the most common type of whole life. The policyowner pays a level premium from the time of issue until the insured's death or age 100/121, whichever comes first.

11. The 'current assumption whole life' (CAWL) policy is:

A) A whole life policy with premiums that increase to match current market rates
B) A universal life policy designed for current (short-term) financial planning needs
✓ C) A whole life-like policy with premiums and cash values that vary based on current (not guaranteed) interest rate and mortality assumptions
D) A traditional whole life policy with fixed premiums and guaranteed cash values

Explanation: Current Assumption Whole Life (CAWL) — also called interest-sensitive whole life — resembles traditional whole life but uses current (non-guaranteed) interest and mortality assumptions to determine premiums and cash values. If current assumptions are favorable, premiums may decrease or cash value may grow faster than guaranteed. If assumptions worsen, premiums may increase.

12. In an annuity, the 'accumulation value' represents:

✓ A) The total amount accumulated inside the annuity before surrender charges or market value adjustments
B) The account's value if the owner annuitizes immediately
C) The surrender value net of all charges
D) The future value of annuity income payments

Explanation: The accumulation value (also called account value or policy value) is the total amount accumulated in the annuity contract, including contributions and credited interest or investment returns. The surrender value is the accumulation value minus any applicable surrender charges or market value adjustments (MVA).

13. The voluntary relinquishment of a known legal right is called a:

A) Concealment
✓ B) Waiver
C) Consideration
D) Estoppel

Explanation: A waiver is the intentional and voluntary giving up of a known right. For instance, if an insurer accepts an incomplete application, it may have waived its right to require the missing information later.

14. An agent, James, misrepresents the terms of an existing policy to convince a policyholder to drop it and purchase a new policy with James's company, resulting in a financial disadvantage to the client. What is this practice called?

A) Churning
✓ B) Twisting
C) Rebating
D) Boycott

Explanation: Twisting is the act of using misrepresentations or incomplete comparisons to induce a policyholder to lapse, forfeit, or surrender an existing policy to buy a new one.

15. How does interest earned on premiums affect the overall premium amount?

A) It increases the premium.
✔ B) It decreases the premium.
C) It has no effect on the premium.
D) It is returned to the policyowner as a dividend.

Explanation: Insurers invest the premiums they collect. The interest they expect to earn on these investments is factored into the premium calculation and helps to lower the premium amount that policyowners must pay.

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16. To be considered fully insured under Social Security (OASDI) a worker generally needs how many quarters of coverage?

A) 6 quarters
✔ B) 40 quarters
C) 30 quarters
D) 20 quarters

Explanation: A worker is considered fully insured under Social Security after earning 40 quarters of coverage (equivalent to 10 years of work). Fully insured status qualifies the worker for retirement benefits and provides survivor benefits to dependents.

17. Individual accident and health insurance policies must contain certain mandatory (required) uniform provisions. How many mandatory provisions are there?

A) 8
B) 14
C) 10
✔ D) 12

Explanation: There are 12 mandatory (required) uniform policy provisions that must be included in every individual accident and health insurance policy. These provisions are designed primarily to protect the insured and ensure fair treatment.

18. Which type of whole life policy is designed to be paid up after a specific number of years, such as 20 years or at age 65?

✔ A) Limited-Pay Whole Life
B) Straight Life
C) Single Premium Whole Life
D) Adjustable Life

Explanation: Limited-Pay Whole Life provides permanent protection, but the premiums are paid over a shorter, limited period. After the final premium is paid, the policy is 'paid-up' and remains in force for the insured's lifetime.

19. ACA marketplace 'metal tiers' (Bronze, Silver, Gold, Platinum) reflect:

A) The relative age of the plan in the marketplace
B) The quality of the insurer's network and service
C) The level of the insurer's financial strength rating
✔ D) The actuarial value — the percentage of covered healthcare costs the plan pays on average

Explanation: ACA marketplace plans are categorized by metal tiers that indicate their actuarial value: Bronze (~60% of costs paid by insurer), Silver (~70%), Gold (~80%), Platinum (~90%). Higher metal tiers have higher premiums but lower cost-sharing when care is received. The actuarial value reflects average cost sharing — individual experiences vary.

20. 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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21. An insurer delays paying a claim for 6 months without conducting a proper investigation. Under Tennessee law, what violation has been committed?

A) Unfair Claims Settlement Practice
B) Twisting
✔ C) Churning
D) Redlining

Explanation: Refusing to pay claims without conducting a reasonable investigation is an unfair claims settlement practice.

22. A 'common disaster clause' in a life insurance policy:

A) Requires the insurer to investigate all death claims involving accidents
✔ B) Provides that if the beneficiary dies within a specified period after the insured, the proceeds are paid as if the beneficiary predeceased the insured
C) Provides extra coverage if both the insured and beneficiary die simultaneously
D) Excludes coverage if death results from a common disaster

Explanation: A common disaster clause (or short-term survivorship clause) states that if the primary beneficiary dies within a specified period (e.g., 60-90 days) after the insured, the proceeds are paid as if the beneficiary had predeceased the insured — meaning proceeds go to the contingent beneficiary or the insured's estate. This prevents proceeds from passing through two estates and being subject to double probate costs.

23. 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.

24. 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.

25. 'Secondary guarantee' (no-lapse guarantee) UL policies are also called:

✔ A) Guaranteed universal life (GUL) policies
B) Variable life insurance policies
C) Permanent term insurance
D) Current assumption whole life policies

Explanation: Guaranteed Universal Life (GUL) policies use a secondary guarantee that keeps the death benefit in force as long as the minimum required premium is paid — even if the cash value is zero or negative. GUL policies function similarly to permanent term insurance, providing guaranteed death benefit at a predictable cost without significant cash value accumulation.

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26. An increasing term life insurance policy provides:

A) A level death benefit with increasing premiums
B) A level death benefit and level premiums
✔ C) A death benefit that increases over the policy term while premiums remain level
D) A cash value that increases while the death benefit decreases

Explanation: Increasing term insurance features a death benefit that grows over the policy period, often to keep pace with inflation or rising financial obligations. It is the opposite of decreasing term. It is sometimes added as a rider (such as a COLA rider) rather than sold as a standalone policy.

27. The conversion privilege in term life insurance allows the policyowner to:

A) Exchange the policy for an annuity of equal value
B) Convert premiums paid into a cash value account
C) Convert the policy to a disability income policy
✔ D) Convert the term policy to a permanent policy without evidence of insurability

Explanation: The conversion privilege allows the policyowner to convert their term policy to a permanent life insurance policy (such as whole life or universal life) without proving insurability. This right is time-limited — it must typically be exercised before a specified age or date. It protects the insurability of individuals whose health may have declined.

28. 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.

29. What is the primary difference between a Group Annuity and an Individual Annuity?

A) Individual annuities are always fixed, while group annuities are always variable.
B) Group annuities have higher fees.
✔ C) A group annuity is established by an employer for its employees, typically as part of a retirement plan.
D) Group annuities do not require an annuitant.

Explanation: 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.

30. 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.

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31. Under health insurance, an 'in-network' provider is one that:

A) Is located within a specified geographic radius of the insured's home
B) Is a specialist who provides only inpatient care
✔ C) Has contracted with the health plan to provide services at negotiated rates
D) Provides only emergency care services

Explanation: An in-network provider has signed a contract with the health insurance plan agreeing to accept negotiated rates for covered services. Using in-network providers results in lower cost-sharing for the insured. Out-of-network providers have not signed such contracts and may charge higher amounts, resulting in higher cost-sharing for the insured.

32. The 'Welcome to Medicare' preventive visit is a one-time benefit available:

A) Only for those enrolled in a Medicare Advantage plan.
B) To all seniors, regardless of Medicare enrollment.
✔ C) Anytime during the first year of Medicare Part B enrollment.
D) Within the first 6 months of having Medicare Part A.

Explanation: The 'Welcome to Medicare' visit is a one-time, comprehensive preventive visit offered to new Medicare beneficiaries within the first 12 months of their Part B enrollment. It helps to establish a baseline for future care.

33. The cash value in a whole life policy grows on a:

A) Taxable basis
✔ B) Tax-deferred basis
C) Annual taxable distribution basis
D) Capital gains tax basis

Explanation: Cash value accumulation inside a whole life policy grows on a tax-deferred basis — meaning no income tax is owed on the growth as long as it remains inside the policy. This tax advantage makes whole life a potentially attractive long-term financial planning tool.

34. In a contributory group life insurance plan, what is typically required for the plan to remain in effect?

A) At least 50% of eligible members must participate
✔ B) At least 75% of eligible members must participate
C) Only the employer must contribute
D) 100% of eligible members must participate

Explanation: Contributory plans require employees to pay a portion of the premium. To prevent adverse selection, a minimum of 75% of eligible members must typically participate. Noncontributory plans require 100% participation since the employer pays the full premium.

35. If an insured and primary beneficiary die in a common disaster and the policy has a common disaster provision, what is the assumption?

A) The contingent beneficiary is disqualified.
✔ B) The insured survived the beneficiary.
C) The beneficiary survived the insured.
D) They died at the same time.

Explanation: The common disaster provision, or the Uniform Simultaneous Death Law, creates a presumption that the primary beneficiary died first. This prevents the death benefit from passing through the primary beneficiary's estate and ensures it goes directly to the contingent beneficiary.

36. If an insured commits suicide within the period specified by the suicide clause, what will the insurer pay?

A) The policy's cash value
B) Nothing
✓ C) A refund of the premiums paid, without interest
D) The full death benefit

Explanation: The suicide clause, typically in effect for the first two years of the policy, stipulates that if the insured commits suicide during this period, the insurer's liability is limited to a refund of the premiums paid. If suicide occurs after this period, the full death benefit is paid.

37. A Health Reimbursement Arrangement (HRA) differs from a Health Savings Account (HSA) in that an HRA is:

A) Funded exclusively by the employee
B) Portable when the employee changes jobs
✓ C) Funded exclusively by the employer
D) Owned and controlled by the employee

Explanation: An HRA is funded solely by the employer. Unlike an HSA, the employee cannot make contributions to an HRA. The employer decides how much to contribute and what expenses are eligible for reimbursement.

38. Which rider would pay a monthly income to an insured who becomes totally and permanently disabled?

A) Waiver of Premium Rider
B) Guaranteed Insurability Rider
C) Accidental Death Benefit Rider
✓ D) Disability Income Rider

Explanation: The Disability Income Rider provides a monthly benefit payment to the insured if they become totally disabled. This benefit is separate from and in addition to the policy's death benefit.

39. 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.

40. 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.

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41. The ownership provision in a life insurance policy grants the policyowner a bundle of rights, which typically includes all of the following EXCEPT:

A) The right to select a settlement option
✔ B) The right to change the terms of the policy contract unilaterally
C) The right to assign the policy
D) The right to name or change the beneficiary

Explanation: The policyowner has numerous rights, including naming or changing the beneficiary (if revocable), assigning the policy, borrowing against the cash value, selecting dividend and nonforfeiture options, and surrendering the policy. However, the policyowner cannot unilaterally change the terms written in the policy contract — insurance is a contract of adhesion drafted by the insurer.

42. Which party to an annuity contract is the person whose life expectancy is used to calculate the income payments?

A) The insurer
✔ B) The annuitant
C) The beneficiary
D) The owner

Explanation: The annuitant is the individual upon whose life the annuity payments are based. The owner and the annuitant are often the same person, but not always.

43. An annuity purchased with after-tax dollars and not held in a qualified retirement plan is called a:

✔ A) Non-qualified annuity
B) Roth annuity
C) Qualified annuity
D) Tax-sheltered annuity

Explanation: A non-qualified annuity is purchased with after-tax (already taxed) dollars outside of a qualified retirement plan. Only the earnings (gains) are subject to income tax upon distribution, not the return of the original after-tax investment (cost basis). This differs from a qualified annuity where all distributions are taxable.

44. What is a Business Overhead Expense (BOE) disability policy designed to cover?

- ✔ A) The fixed business expenses, such as rent and utilities, when the owner is disabled.
- B) The cost of buying out a disabled partner.
- C) The cost of hiring a permanent replacement for the disabled owner.
- D) The business owner's lost income.

Explanation: A BOE policy is owned and paid for by the business. If the business owner becomes disabled, the policy pays a benefit to the business to cover ongoing overhead expenses (rent, salaries, utilities, etc.). The owner's salary is not covered.

45. A Managing General Agent (MGA) differs from a regular agent in that an MGA typically has the authority to:

- A) Represent the insured rather than the insurer
- ✔ B) Bind coverage, underwrite risks, and handle claims on behalf of the insurer
- C) Only sell life insurance products
- D) Set premium rates without insurer approval

Explanation: A Managing General Agent is granted broad authority by an insurer that goes well beyond that of a regular agent. An MGA may have the power to underwrite and bind risks, collect premiums, appoint sub-agents, and adjust claims within their delegated authority.

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46. A resident has a long-term care policy with an insolvent insurer in Tennessee. What is the maximum coverage provided by the Tennessee Guaranty Association for long-term care benefits?

- A) $100,000
- B) $250,000
- ✔ C) $300,000
- D) $500,000

Explanation: Long-term care insurance claims are covered up to $300,000 by the Guaranty Association.

47. Which of the following is NOT a required element of a legal contract?

- A) Offer and Acceptance
- ✔ B) Equal Exchange of Value
- C) Consideration
- D) Competent Parties

Explanation: The four essential elements of a legal contract are: Agreement (Offer and Acceptance), Consideration, Competent Parties, and Legal Purpose. An equal exchange of value is not required; insurance contracts are aleatory by nature.

48. An agent is recommending a variable annuity to a 72-year-old client who needs liquid access to their savings for medical expenses. Which of the following is the primary suitability concern in this recommendation?

A) Variable annuities do not offer tax-deferred growth
✓ B) The client will face high surrender charges and market risk, which does not match their liquidity needs
C) Variable annuities are only suitable for clients under age 40
D) The death benefit is not guaranteed

Explanation: Variable annuities are long-term investment products that typically feature surrender charges for early withdrawals and expose principal to market fluctuations. They are generally unsuitable for older clients with immediate liquidity needs.

49. In insurance, what is the term for the cause of a loss?

A) Indemnity
✓ B) Peril
C) Risk
D) Hazard

Explanation: A peril is the direct cause of a loss. For example, in a fire insurance policy, fire is the peril.

50. 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.