

TEXAS

# Free Practice Questions

50 Sample Questions with Explanations

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1. What is a self-funded or self-insured health plan?
  - A. A plan purchased from a private insurance company.
  - B. A plan where the employer pays for claims out of its own funds, rather than paying premiums to an insurer.
  - C. A government-sponsored health plan.
  - D. A plan that is funded by employee contributions only.
2. 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. Hospitals only.
  - D. Specialists only.
3. Which type of life insurance offers pure death benefit protection with no cash value?
  - A. Whole Life
  - B. Universal Life
  - C. Term Life
  - D. Endowment
4. The length of time that disability income benefits will be paid is called the:
  - A. Elimination period
  - B. Benefit period
  - C. Coverage period
  - D. Payment period
5. If an insured's age is found to be understated on a life insurance application, what will the insurer do at the time of claim?
  - A. Void the policy due to misrepresentation
  - B. Pay the full claim but require the beneficiary to pay back premiums
  - C. Pay a reduced death benefit
  - D. Pay the full claim without adjustment
6. In an Interest-Sensitive Whole Life policy, the cash value can grow at a rate that is:
  - A. Tied directly to the stock market.
  - B. Fixed and guaranteed for the life of the policy.
  - C. Greater than the guaranteed minimum rate if the insurer's investments perform well.
  - D. Determined by the policyowner's choice of subaccounts.
7. In Texas, all life insurance policies must contain a provision specifying a grace period of at least:
  - A. 10 days
  - B. 31 days
  - C. 60 days
  - D. 90 days
8. A policy's Cost of Living (COLA) rider is designed to:
  - A. Waive premiums in the event of disability.
  - B. Allow for the purchase of additional insurance without evidence of insurability.
  - C. Automatically increase the death benefit to align with inflation, typically tied to the Consumer Price Index (CPI).
  - D. Provide a source of income during retirement.
9. Delayed retirement credits under Social Security increase benefits for each year a worker delays retirement past full retirement age up to age:
  - A. 67
  - B. 68
  - C. 70
  - D. 72

10. Under the ACA, a Bronze plan has an actuarial value of approximately 60%. This means that on average the enrollee is expected to pay what percentage of covered medical costs through cost-sharing?
- A. 10%
  - B. 20%
  - C. 30%
  - D. 40%
- 
11. In Texas, when a group member's coverage terminates, the conversion privilege generally must be exercised within how many days?
- A. 15 days
  - B. 31 days
  - C. 60 days
  - D. 90 days
12. Under Texas law, an insurer that fails to promptly investigate a claim may be found to have committed:
- A. A clerical error
  - B. An unfair claim settlement practice
  - C. A legitimate underwriting activity
  - D. A risk management decision
13. The mandatory 'Notice of Claim' provision requires an insured to provide written notice to the insurer within how many days after a covered loss begins?
- A. 10 days
  - B. 20 days
  - C. 30 days
  - D. 60 days
14. Cash value growth in a permanent life insurance policy is:
- A. Taxed annually as it grows.
  - B. Tax-deferred.
  - C. Tax-free.
  - D. Taxed at capital gains rates.
15. Which of the following is required before a person can sit for the Texas insurance licensing examination?
- A. One year of industry experience
  - B. Completion of an approved pre-licensing education course
  - C. A college degree in business or finance
  - D. Sponsorship by a licensed agent
- 
16. What is a Life Settlement?
- A. A settlement option that provides lifetime income.
  - B. The sale of a life insurance policy by a healthy, typically elderly, individual to a third party.
  - C. A dividend option that purchases more insurance.
  - D. The cash surrender of a policy.
17. Under Medicare Part A, the inpatient hospital deductible applies:
- A. Once per calendar year
  - B. Once per benefit period
  - C. Once per lifetime
  - D. Each time the beneficiary is admitted
18. An annuity that begins making payments to the annuitant one payment interval after it is purchased is a(n):
- A. Deferred Annuity
  - B. Flexible Premium Annuity
  - C. Single Premium Annuity
  - D. Immediate Annuity

19. Can a minor be named as a beneficiary of a life insurance policy?
- A. No - beneficiaries must be of legal age.
  - B. Yes - but a guardian or trustee must be appointed to receive and manage the funds.
  - C. Yes - but the funds will be held by the insurer until the minor reaches age 18.
  - D. Yes - and the minor can directly receive the funds.
20. Which entity in Texas investigates allegations of insurance fraud?
- A. The FBI Insurance Fraud Division
  - B. The Texas Department of Insurance Fraud Unit
  - C. Local police departments exclusively
  - D. The Texas Secretary of State
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21. In a deferred annuity, what is the 'surrender charge'?
- A. A fee for taking out a loan.
  - B. A penalty for withdrawing money from the annuity during a specified period after purchase.
  - C. The tax on the annuity's earnings.
  - D. A fee for annuitizing the contract.
22. Once a variable annuity is annuitized, the number of annuity units:
- A. Fluctuates daily.
  - B. Increases each year.
  - C. Remains fixed.
  - D. Decreases each year.
23. An insurer that cedes a portion of its risk to another insurer is known as the:
- A. Reinsurer
  - B. Assuming insurer
  - C. Ceding insurer
  - D. Primary insurer
24. What is the role of an agent in the event of an unintentional LTC policy lapse due to cognitive impairment?
- A. To pay the premium on the client's behalf.
  - B. To notify a designated third party before the policy can be terminated.
  - C. To reinstate the policy automatically.
  - D. To sell the policy in a life settlement.
25. In Texas, which is a community property state, what right does a spouse have regarding a life insurance policy purchased with community funds?
- A. No rights unless named as beneficiary
  - B. The spouse has a community property interest in the policy and must consent to a beneficiary change
  - C. The spouse automatically becomes the irrevocable beneficiary
  - D. The spouse can cancel the policy at any time
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26. Medicaid's 'spend-down' requirement is for individuals who:
- A. Are eligible for Medicaid with no costs.
  - B. Have income above the limit for free Medicaid and must spend a certain amount on medical bills before Medicaid begins to pay.
  - C. Are eligible for both Medicare and Medicaid.
  - D. Receive a share of their employer's health care costs.
27. What is a 'qualifying event' for COBRA?
- A. An employee getting a promotion
  - B. An employee going on vacation
  - C. An employee's termination of employment or reduction in hours
  - D. An employee purchasing an individual health plan

28. The Texas Partnership for Long-Term Care program allows individuals who purchase qualifying long-term care policies to:
- A. Receive free long-term care services
  - B. Protect a portion of their assets from Medicaid spend-down requirements
  - C. Avoid paying premiums after age 75
  - D. Transfer their policy to another person
29. How is the death benefit from an annuity treated for tax purposes if the owner dies during the accumulation phase?
- A. It is received entirely tax-free by the beneficiary.
  - B. The earnings portion of the benefit is taxable as ordinary income to the beneficiary.
  - C. The entire benefit is taxed as a capital gain.
  - D. The death benefit is subject to a 10% penalty regardless of the beneficiary's age.
30. A client wants to purchase a life insurance policy to cover a 30-year mortgage. Which policy would be the most cost-effective and appropriate?
- A. 30-Year Decreasing Term
  - B. 30-Year Level Term
  - C. Whole Life
  - D. Universal Life
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31. Medicare Part A covers skilled nursing facility (SNF) care under what conditions?
- A. It covers long-term custodial care indefinitely.
  - B. It covers up to 100 days of SNF care per benefit period, following a qualifying hospital stay.
  - C. It covers SNF care without any prior hospitalization.
  - D. It pays the full cost of SNF care with no coinsurance.
32. In a variable annuity, the Assumed Interest Rate (AIR) is used to:
- A. Guarantee a minimum rate of return on the separate account
  - B. Determine the amount of the first annuity payment and serve as a benchmark for subsequent payments
  - C. Set the cap rate on an indexed annuity
  - D. Calculate the surrender charge percentage
33. An employee has both a limited-purpose FSA and an HSA. The limited-purpose FSA may only be used for which of the following expenses, while preserving HSA eligibility?
- A. All medical expenses including doctor visits
  - B. Dental and vision expenses only
  - C. Prescription drug expenses only
  - D. Mental health expenses only
34. Which Medigap plans are no longer available for sale to individuals newly eligible for Medicare on or after January 1, 2020?
- A. Plans A and B
  - B. Plans C and F
  - C. Plans K and L
  - D. Plans M and N
35. In a direct writing or direct response system, insurance is sold:
- A. Only through independent agents
  - B. Only through exclusive agents
  - C. Directly by the insurer to the consumer without the use of agents
  - D. Only through surplus lines brokers
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36. The provision that allows a policyowner to restore a lapsed policy to its original status is the:
- A. Reinstatement Provision
  - B. Grace Period Provision
  - C. Incontestability Clause
  - D. Free Look Provision

37. What is a Flexible Spending Account (FSA)?
- A. A savings account for retirement medical expenses.
  - B. An employer-sponsored account that allows employees to set aside pre-tax dollars for medical expenses.
  - C. A portable health savings account owned by the employee.
  - D. An account funded solely by the employer.
38. A High Deductible Health Plan (HDHP) is often paired with a:
- A. Flexible Spending Account (FSA)
  - B. Health Reimbursement Arrangement (HRA)
  - C. Health Savings Account (HSA)
  - D. Traditional IRA
39. Which type of insurer is organized to provide insurance benefits to members of a specific religious or social organization?
- A. Stock insurer
  - B. Mutual insurer
  - C. Fraternal benefit society
  - D. Reciprocal exchange
40. In Texas, the 'entire contract' provision in a life insurance policy means:
- A. The policy and all attached endorsements make up the complete agreement between the insurer and the insured
  - B. The agent's verbal promises are part of the contract
  - C. The application is not part of the contract
  - D. The policy can be changed at any time by the insurer
41. Under the ACA's employer shared responsibility provision (employer mandate) which employers are subject to the requirement?
- A. All employers regardless of size
  - B. Employers with 25 or more full-time equivalent employees
  - C. Employers with 50 or more full-time equivalent employees
  - D. Employers with 100 or more full-time equivalent employees
42. When a producer recommends an annuity in Texas, the producer must complete a(n):
- A. Credit report
  - B. Suitability analysis and documentation
  - C. Medical exam form
  - D. Detailed family history
43. The Fair Credit Reporting Act (FCRA) gives consumers the right to:
- A. Receive a copy of any consumer report an insurer uses.
  - B. Prevent insurers from accessing their credit history.
  - C. Correct any errors in their MIB report.
  - D. Demand insurance coverage regardless of their credit score.
44. The National Association of Insurance Commissioners (NAIC) is best described as:
- A. A federal agency that regulates all insurance companies
  - B. A voluntary organization of state insurance regulators that develops model laws and promotes uniformity
  - C. A trade association that lobbies for insurance companies
  - D. A consumer protection agency funded by the federal government
45. Credit life insurance is designed to do which of the following?
- A. Provide retirement income to the borrower
  - B. Pay off the remaining balance of a debtor's loan if the debtor dies
  - C. Insure the lender against investment losses
  - D. Replace the borrower's income for their family

46. A client wants to fund an annuity with a single payment and start receiving income next month. What type of annuity should they purchase?
- A. Single Premium Deferred Annuity (SPDA)
  - B. Flexible Premium Deferred Annuity (FPDA)
  - C. Single Premium Immediate Annuity (SPIA)
  - D. Variable Universal Annuity (VUA)
47. A risk retention group is a liability insurance company that is:
- A. Owned by the state government
  - B. Owned by its members, who are exposed to similar liability risks
  - C. A reinsurance company that assumes risk from primary insurers
  - D. A federal program that insures against catastrophic losses
48. What is the Medigap Open Enrollment Period?
- A. The 7-month period around the 65th birthday.
  - B. 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.
  - C. The period from October 15 to December 7 each year.
  - D. The period after leaving an employer health plan.
49. The provision that addresses a disability that reappears after the insured has returned to work is the:
- A. Recurrent Disability Provision
  - B. Presumptive Disability Provision
  - C. Waiver of Premium Provision
  - D. Elimination Period Provision
50. Which of the following individuals is exempt from the Texas agent licensing requirement?
- A. A salaried employee of an insurer who only processes claims
  - B. A person who solicits insurance as a side business
  - C. A person who receives commission for selling insurance
  - D. An independent contractor who sells policies on behalf of an insurer

## Answer Key

1. **B** — In a self-funded plan, the employer assumes the financial risk of providing health benefits to its employees. Instead of paying a fixed premium to an insurer, the employer pays for each claim as it is incurred. These plans are often managed by a Third-Party Administrator (TPA).
2. **B** — 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.
3. **C** — Term Life insurance provides coverage for a specific period (term). It pays a death benefit only if the insured dies during that term. It is the purest form of life insurance and does not build any cash value.
4. **B** — The benefit period is the maximum amount of time that benefits will be paid for a single disability. It can range from a few months (for short-term disability) to several years or even to age 65 (for long-term disability).
5. **C** — Under the Misstatement of Age provision, the insurer will adjust the death benefit to the amount the premium would have purchased had the correct age been stated. They will not void the policy after the contestability period.
6. **C** — Interest-Sensitive Whole Life (also called Current Assumption Whole Life) offers a guaranteed minimum interest rate on cash value, but may credit a higher, current interest rate based on the performance of the insurer's general account investments.
7. **B** — Texas law requires a grace period of at least 31 days for life insurance policies. During the grace period, the policy remains in force and the insurer must pay any claim that arises, minus the unpaid premium.
8. **C** — The Cost of Living rider protects the policy's death benefit from the effects of inflation. It automatically increases the face amount of the policy annually, based on the increase in the CPI. Evidence of insurability is not required, but the premium will increase with the coverage.
9. **C** — Workers who delay receiving Social Security retirement benefits past their full retirement age earn delayed retirement credits, which increase their benefit by a certain percentage for each year of delay up to age 70. There is no additional credit for delaying beyond age 70.
10. **D** — A Bronze plan's 60% actuarial value means the plan covers approximately 60% of the average total cost of covered services, leaving the enrollee responsible for about 40% through cost-sharing mechanisms such as deductibles, copayments, and coinsurance. Bronze plans have the lowest premiums but highest out-of-pocket costs.
11. **B** — Under Texas law and standard group life insurance provisions, a terminating member typically has 31 days from the date of termination to exercise the conversion privilege and apply for an individual policy without evidence of insurability.
12. **B** — Failing to promptly investigate a claim is considered an unfair claim settlement practice under Texas law. Insurers are required to investigate claims in a timely manner and respond to claimants within specified timeframes.
13. **B** — The insured must give written notice of a claim to the insurer within 20 days after the occurrence or commencement of any loss covered by the policy, or as soon as reasonably possible thereafter.
14. **B** — The accumulation of cash value within a life insurance policy grows on a tax-deferred basis. This means the policyowner does not pay taxes on the interest or earnings as they accrue.
15. **B** — Before an individual can take the Texas insurance licensing exam, they must complete the required pre-licensing education through a TDI-approved provider. No industry experience or college degree is specifically required.
16. **B** — 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.
17. **B** — The Part A deductible is charged per benefit period, not per year. A benefit period begins the day the beneficiary is admitted to a hospital and ends when they have been out of the hospital or skilled nursing facility for 60 consecutive days. If readmitted after 60 days, a new benefit period (and a new deductible) starts.
18. **D** — An immediate annuity is funded with a single, lump-sum premium and is designed to start paying out income almost immediately (within one year, but typically within one month).
19. **B** — A minor can be named as a beneficiary, but they cannot legally receive the death benefit proceeds directly. The funds would be paid to a court-appointed guardian or a trustee named in the policy (e.g., through a UTMA/UGMA designation), which can be a complex and costly process if not planned for.
20. **B** — The TDI's Fraud Unit is responsible for investigating allegations of insurance fraud in Texas. They work in coordination with law enforcement agencies to identify, investigate, and prosecute insurance fraud.
21. **B** — A surrender charge is a type of back-end sales charge. It is a penalty assessed if the owner withdraws funds from the annuity during the surrender charge period, which typically lasts for the first 5 to 10 years of the contract. The charge is usually a percentage of the amount withdrawn and declines over time.
22. **C** — At the time of annuitization, the accumulation units are converted into a fixed number of annuity units. This number does not change for the rest of the payout period. However, the value of each annuity unit changes, causing the income payment amount to fluctuate.
23. **C** — The ceding insurer is the primary insurer that transfers or 'cedes' a portion of its risk to another company, the reinsurer.
24. **B** — Texas law requires LTC applications to allow applicants to designate at least one other person to receive notice of lapse or termination for nonpayment of premium. This is a protection against unintentional lapse, especially for seniors who may develop cognitive impairments.
25. **B** — Texas is a community property state. If a life insurance policy is purchased with community funds (marital assets), the non-insured spouse has a one-half community property interest in the policy. This means the policyowner generally needs the spouse's written consent to change the beneficiary or assign the policy.
26. **B** — A Medicaid spend-down works like a deductible. It is the amount an individual must spend on medical expenses in a given period before they can become eligible for Medicaid benefits. It applies to those whose income is above the standard Medicaid eligibility limits but who have high medical expenses.

- 27. C** — Qualifying events are specific circumstances that cause an individual to lose their group health coverage. For an employee, this includes voluntary or involuntary termination of employment (for reasons other than gross misconduct) or a reduction in work hours.
- 28. B** — The Texas Partnership for Long-Term Care allows individuals with qualifying policies to protect assets equal to the benefits received from the policy. If they later need Medicaid, those protected assets will not count against the Medicaid spend-down requirement.
- 29. B** — If the annuity owner dies before annuitization, the beneficiary receives the death benefit. The portion of the benefit that represents earnings (the amount exceeding the owner's cost basis) is taxable as ordinary income to the beneficiary.
- 30. A** — Decreasing term insurance is specifically designed to cover the declining balance of a loan, such as a mortgage. The death benefit decreases over the 30-year term, and the premiums are typically lower than for a level term policy.
- 31. B** — Medicare Part A covers short-term, rehabilitative care in a SNF. Coverage is limited to 100 days per benefit period and requires a prior qualifying inpatient hospital stay of at least three days. The first 20 days are fully covered, with a daily coinsurance for days 21-100.
- 32. B** — The AIR is the benchmark rate used to calculate the initial annuity payment when a variable annuity is annuitized. If the actual performance of the separate account exceeds the AIR, the next payment will increase. If performance is below the AIR, the payment will decrease. If performance equals the AIR, the payment stays the same.
- 33. B** — A limited-purpose FSA (also called a post-deductible FSA) restricts reimbursement to dental and vision expenses. This structure allows an employee to maintain HSA eligibility while still using an FSA for specific non-medical health expenses.
- 34. B** — 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.
- 35. C** — In a direct writing (or direct response) system, the insurer markets and sells policies directly to the public through its own employees, mail, telephone, or the internet. There are no independent or exclusive agents involved in the transaction.
- 36. A** — The Reinstatement Provision allows the owner of a lapsed policy to put it back in force, provided certain conditions are met, such as paying back premiums with interest and proving continued insurability. This is usually allowed within 3 to 5 years of lapse.
- 37. B** — An FSA is an employer-established benefit. Employees contribute pre-tax dollars through payroll deductions. A key feature is the 'use-it-or-lose-it' rule, where most unused funds at the end of the plan year are forfeited.
- 38. C** — HDHPs feature lower premiums and higher deductibles. They are designed to be paired with a Health Savings Account (HSA), which is a tax-advantaged savings account that individuals can use to pay for qualified medical expenses.
- 39. C** — A fraternal benefit society is a nonprofit organization that provides life and health insurance exclusively to its members, who share a common bond such as religion, ethnicity, or occupation.
- 40. A** — The entire contract provision states that the policy, along with any attached endorsements, riders, and the application (if attached), constitutes the entire agreement. No verbal promises or external documents are part of the contract.
- 41. C** — The ACA's employer mandate, also known as the employer shared responsibility provision, applies to Applicable Large Employers (ALEs), which are employers with 50 or more full-time equivalent employees. These employers must offer affordable, minimum value coverage or potentially face penalties.
- 42. B** — Texas requires producers to gather and document suitability information before recommending an annuity. The producer must have a reasonable basis for believing the recommendation is suitable based on the consumer's financial situation, needs, and objectives.
- 43. A** — 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.
- 44. B** — 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.
- 45. B** — Credit life insurance is a type of group life insurance that pays off the remaining balance of a borrower's debt if the borrower dies before the loan is fully repaid. The creditor is the policyholder and beneficiary, and the amount of coverage decreases as the loan balance decreases.
- 46. C** — A Single Premium Immediate Annuity (SPIA) is designed for this exact purpose. It is purchased with one lump-sum payment (single premium) and begins paying out income within one payment period (immediate).
- 47. B** — A risk retention group (RRG) is a special type of liability insurance company formed under the federal Liability Risk Retention Act. Its members are businesses or professionals with similar risk exposures who band together to self-insure their liability risks.
- 48. B** — 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.
- 49. A** — The recurrent disability provision states that if the insured suffers a relapse of the same disability within a certain period (e.g., 6 months) after returning to work, it will be treated as a continuation of the prior disability. This means the insured does not have to satisfy a new elimination period.
- 50. A** — Salaried employees of an insurer who only handle claims and do not sell or solicit insurance are generally exempt from agent licensing requirements in Texas.