



Insurance Test Practice

Utah Insurance Practice Test

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1. Which of the following best describes the role of a Managing General Agent (MGA)?

- A) A government official who oversees insurance markets
- ✓ B) An agent with broad authority from the insurer, including underwriting, binding, and claims functions
- C) An agent who manages a producer's agency on their behalf
- D) An agent who exclusively manages claims for the insurer

Explanation: A Managing General Agent (MGA) is an agent with expanded authority granted by the insurer, including the power to underwrite risks, bind coverage, issue policies, and sometimes handle claims and appointing sub-agents, all on behalf of the insurer.

2. To qualify for Social Security Disability Insurance (SSDI) benefits a worker must meet which of the following conditions?

- A) Have been denied private disability insurance coverage
- B) Be unable to perform their current job for at least 3 months
- C) Be at least 50 years of age with a partial disability
- ✓ D) Have a disability expected to last at least 12 months or result in death and be unable to engage in any substantial gainful activity

Explanation: SSDI requires that the worker has a physical or mental impairment that prevents them from engaging in any substantial gainful activity (SGA) and is expected to last at least 12 months or result in death. The definition is stricter than most private disability insurance policies.

3. Insurable interest in a life insurance policy must exist:

- A) At the time of the insured's death
- B) Throughout the entire policy period
- C) Only at the time of each premium payment
- ✓ D) At the time the policy application is made

Explanation: For life insurance, insurable interest must exist at the time the application is made. Unlike property insurance, it does not need to exist at the time of the insured's death.

4. A 'family term rider' on a life insurance policy provides:

- A) Separate individual policies for each family member
- B) Permanent coverage for all family members at a single premium
- C) Coverage only for the insured's spouse
- ✓ D) Term life coverage on the spouse and children of the insured under a single rider premium

Explanation: The Family Term Rider (also called Family Rider or Spouse and Children's Rider) provides term life coverage on the policyowner's spouse and children under a single rider. It is cost-efficient — one rider covers multiple family members for a flat premium. Children's coverage typically ends at age 25, and the spouse's coverage can often be converted to individual policies.

5. What is the maximum coverage limit provided by the Utah Life and Health Insurance Guaranty Association for LIFE INSURANCE DEATH BENEFITS for any one individual life?

- A) \$100,000
- ✓ B) \$300,000
- C) \$500,000
- D) \$1,000,000

Explanation: Under Utah Code 31A-28-108, the Guaranty Association covers up to \$300,000 in life insurance death benefits on any single life.

6. An agent accepts a cash premium from a client, issues a receipt, and uses the money to pay their personal mortgage. What crime and regulatory violation has the agent committed?

- A) Misrepresentation
- ✓ B) Theft/misappropriation of fiduciary funds
- C) Twisting
- D) Sliding

Explanation: Diverting client premium monies for personal use is criminal theft and a severe violation of producer fiduciary obligations.

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

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

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

8. Which annuity feature ensures that the insurer, not the owner, assumes the risk for investment losses?

- A) A high participation rate
- B) Variable subaccounts
- C) The surrender charge
- ✓ D) The general account

Explanation: In a fixed annuity, the premiums are invested in the insurer's general account. The insurer bears all the investment risk and guarantees the principal and a minimum rate of interest.

9. How often must an individual insurance producer in Utah renew their insurance license?

- A) Annually, on December 31
- ✓ B) Biennially (every 2 years), by the last day of the licensee birth month
- C) Every 3 years from the date of initial issuance
- D) Every 4 years on January 1

Explanation: Under Utah Code 31A-23a-111, individual producer licenses renew biennially on the last day of the licensee birth month.

10. A 'conditional' insurance contract requires:

- ✓ A) The insured to meet certain conditions before the insurer is obligated to perform
- B) Both parties to contribute equally to the premium
- C) The insurer to pay regardless of whether conditions are met
- D) Government approval before coverage begins

Explanation: An insurance contract is conditional because certain conditions must be met by the policyowner (e.g., paying premiums, filing a timely claim, cooperating with the insurer) for the insurer's promise to pay to be triggered. Failure to meet policy conditions can result in denial of a claim.

11. A 'limited pay life' policy differs from straight whole life primarily in that:

- A) The death benefit decreases as the payment period progresses
- B) Surrender charges apply for the full life of the policy
- C) Coverage terminates when premium payments end
- ✓ D) Premiums are paid for a limited number of years but coverage continues for the insured's entire life

Explanation: In a limited pay whole life policy, premiums are paid over a shorter period (e.g., 10 years, 20 years, or to age 65) but the policy provides permanent (whole life) coverage with no further premiums required after the payment period ends. Higher premiums during the payment period build sufficient cash value to sustain the policy for life.

12. What is a 'binder' in insurance?

- A) A summary of policy benefits
- B) The first premium payment
- ✓ C) A temporary contract of insurance, pending issuance of the policy
- D) A folder for holding policy documents

Explanation: A binder is a temporary written or oral agreement that provides immediate, temporary insurance coverage until a formal policy is issued or denied. It is common in property insurance but less so in life insurance.

13. A divorced spouse may be eligible for Social Security benefits based on their ex-spouse's work record if the marriage lasted at least:

- ✓ A) 10 years
- B) 5 years
- C) 7 years
- D) 15 years

Explanation: A divorced spouse can collect benefits on an ex-spouse's record if the marriage lasted at least 10 years, the divorced spouse is at least age 62, is currently unmarried, and is not entitled to a higher benefit on their own record. The ex-spouse's benefits are not reduced by this claim.

14. Premium tax credits under the ACA are available to individuals and families with household incomes:

- A) Only below \$50,000 per year regardless of family size
- B) At any income level
- C) Below 100% of the federal poverty level (FPL)
- ✓ D) Between 100% and 400% of the FPL (expanded to no upper limit through 2025)

Explanation: ACA premium tax credits (subsidies) are available to individuals and families with incomes between 100% and 400% of the federal poverty level who purchase coverage through an ACA marketplace. Enhanced subsidies temporarily removed the income cap through 2025. Medicaid-eligible individuals do not qualify for marketplace subsidies.

15. The 'nursing home benefit rider' or 'accelerated benefit for chronic illness rider' allows the insured to:

- A) Designate a nursing facility as the beneficiary
- ✓ B) Access a portion of the life insurance death benefit early if the insured requires long-term care or meets chronic illness triggers
- C) Receive nursing home care at no cost when added to a life policy
- D) Automatically convert the life policy to a long-term care policy at age 65

Explanation: The accelerated benefit for chronic illness rider (also called a long-term care rider) allows the insured to access the life policy's death benefit early when they require long-term care or meet chronic illness triggers (inability to perform 2 of 6 ADLs or cognitive impairment). The advance reduces the final death benefit. This is a hybrid life/LTC solution.

16. Medicare beneficiaries are generally eligible at age:

- A) 67
- B) 62
- C) 60
- ✓ D) 65

Explanation: Medicare eligibility generally begins at age 65 for U.S. citizens or permanent residents. Younger individuals under 65 may also qualify if they have received Social Security disability benefits for 24 months or have end-stage renal disease (ESRD) or ALS (Lou Gehrig's disease).

17. The 'nondiscrimination rules' under ACA Section 1557 prohibit:

- ✓ A) Discrimination in health programs or activities receiving federal financial assistance based on race, color, national origin, sex, age, or disability
- B) Charging different premiums to employees based on their claims history
- C) Offering wellness program incentives that vary by health status
- D) Employers from offering different benefit tiers to different employee groups

Explanation: ACA Section 1557 prohibits discrimination in health programs or activities receiving federal financial assistance on the basis of race, color, national origin, sex, age, or disability. This includes Medicaid, Medicare, and plans offered through the ACA marketplace. Insurance companies and providers receiving federal funding must comply.

18. 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.

19. How often must the Utah Insurance Commissioner examine the financial condition and affairs of every domestic insurer licensed in Utah?

- A) At least once every year
- B) At least once every 3 years
- ✓ C) At least once every 5 years
- D) At least once every 10 years

Explanation: Under Utah Code 31A-2-203, the Commissioner must examine every domestic insurer at least once every 5 years.

20. For a non-qualified annuity, the 'cost basis' is:

- A) The current accumulation value of the contract
- B) The total death benefit that will be paid tax-free
- C) The actuarial present value of all future income payments
- ✓ D) The total after-tax premiums paid into the contract (not yet received back as income)

Explanation: The cost basis in a non-qualified annuity equals the total after-tax premiums paid into the contract. Withdrawals are taxed LIFO (gains first). The cost basis represents dollars that were already taxed and can be recovered tax-free. Once all gains are withdrawn, subsequent withdrawals are treated as tax-free return of basis.

21. Which nonforfeiture option uses the policy's cash value to purchase a fully paid-up permanent policy with a reduced face amount?

- A) Automatic Premium Loan
- B) Cash Surrender
- ✓ C) Reduced Paid-Up Insurance
- D) Extended Term Insurance

Explanation: The Reduced Paid-Up nonforfeiture option allows the policyowner to use the accumulated cash value to make a one-time premium payment on a new whole life policy with the same insured. The new policy will have a smaller face amount but will be paid-up for life.

22. 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.

23. Under federal COBRA, what is the maximum period an employee can continue coverage after termination of employment?

- A) 36 months
- B) 29 months
- C) 12 months
- ✓ D) 18 months

Explanation: For a qualifying event such as termination of employment or a reduction in hours, a former employee and their dependents can continue their group health coverage under COBRA for up to 18 months.

24. The 'delayed payment' clause in a life insurance policy allows the insurer to delay paying policy loan proceeds for up to:

- ✓ A) 6 months for cash value loans
- B) 90 days
- C) 1 year
- D) 30 days

Explanation: The Delayed Payment provision allows the insurer to delay the payment of any cash surrender value or policy loan proceeds for up to 6 months. This protects the insurer during periods of extreme financial stress (such as a market crisis) that could threaten its liquidity. This clause does not apply to the payment of death benefits.

25. What is the primary advantage of group underwriting over individual underwriting?

- A) The benefits are always better.
- B) Premiums are always lower.
- C) Coverage is guaranteed to be permanent.
- ✓ D) The group as a whole is evaluated, and individuals are generally not subject to medical underwriting.

Explanation: Group underwriting focuses on the risk of the group rather than each individual member. Evidence of insurability is typically not required, meaning individuals can get coverage without a medical exam and regardless of their health history.

26. Which type of health insurance plan renews automatically but allows the insurer to increase premiums for an entire class?

- A) Noncancellable
- B) Conditionally renewable
- C) Optionally renewable
- ✓ D) Guaranteed renewable

Explanation: A guaranteed renewable policy guarantees the insured the right to renew coverage until a specified age (usually 65). The insurer cannot cancel the policy individually but CAN increase premiums for an entire class of insureds. This is the most common type of individual health insurance renewability.

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

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

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

28. An Exclusive Provider Organization (EPO) differs from a PPO primarily because an EPO:

- A) Uses a capitation payment model
- B) Requires a primary care physician referral for all services
- ✓ C) Provides no coverage for out-of-network services except in emergencies
- D) Is regulated exclusively by the federal government

Explanation: An EPO restricts coverage to in-network providers only, with the exception of emergency situations. Unlike a PPO, which provides reduced benefits for out-of-network care, an EPO generally provides no coverage for non-emergency services obtained outside the network.

29. All Medigap policies are:

- A) Offered by Medicare
- B) Non-cancellable
- ✓ C) Standardized
- D) Guaranteed issue

Explanation: All Medigap policies are standardized by federal law. This means that plans with the same letter designation (e.g., Plan G) must offer the exact same set of basic benefits, regardless of the insurance company selling it. The only difference between companies is the premium and customer service.

30. Which nonforfeiture option provides term insurance for the original face amount using the policy's cash value?

- A) Cash surrender value
- ✓ B) Extended term insurance
- C) Automatic premium loan
- D) Reduced paid-up insurance

Explanation: Extended Term Insurance is a nonforfeiture option that uses the policy's cash value to purchase term insurance for the full original face amount. The length of the term is determined by the amount of cash value available — the larger the cash value, the longer the term period.

31. Which of the following life insurance transactions is EXEMPT from Utah replacement regulations?

- A) Replacing an existing individual whole life policy with an indexed universal life policy
- ✓ B) Group life insurance used to fund pre-arranged funeral contracts or employee benefits
- C) Replacing an individual term policy with another individual term policy from a different insurer
- D) Replacing a fixed deferred annuity with a variable annuity

Explanation: Group life insurance, credit life, and contractual conversions within the same insurer are generally exempt from standard individual replacement rules.

32. A quarter of coverage under Social Security is earned by:

- A) Paying a flat quarterly fee to the Social Security Administration
- ✓ B) Earning a specified minimum amount of wages or self-employment income in a calendar quarter
- C) Working for any employer for three consecutive months
- D) Being employed full-time for at least one quarter of the year

Explanation: A quarter of coverage (also called a credit) is earned by receiving a minimum amount of earnings subject to Social Security tax in a calendar quarter. The amount required is adjusted annually for inflation. A maximum of 4 credits can be earned per year.

33. The annual HSA contribution limit is set by the IRS and includes both employer and employee contributions. Individuals age 55 and older can make additional 'catch-up' contributions of:

- A) \$500 per year
- B) \$1,500 per year
- ✓ C) \$1,000 per year
- D) \$2,000 per year

Explanation: Individuals who are age 55 or older by the end of the tax year are permitted to make an additional catch-up contribution of \$1,000 per year above the standard annual limit. This catch-up amount is set by law and is not indexed for inflation.

34. In a fixed-indexed annuity, the 'participation rate' means:

- A) The percentage of premiums used to purchase the index
- B) The surrender charge as a percentage of the premium
- ✓ C) The percentage of the index gain that is credited to the policy
- D) The minimum rate of return guaranteed by the insurer

Explanation: The participation rate in an indexed annuity determines what percentage of the index's gain will be credited to the annuity. For example, if the S&P 500 gains 10% and the participation rate is 80%, the annuity would be credited 8%. Participation rates, caps, and floors together determine the actual crediting rate.

35. In an indexed annuity, the 'spread' (also called 'margin' or 'asset fee') refers to:

- A) The difference between the annuity's value and the surrender value
- B) The difference between the cap rate and the participation rate
- ✓ C) A percentage the insurer subtracts from the index gain before crediting interest to the annuity
- D) The guaranteed minimum interest rate

Explanation: The spread is a percentage that the insurer deducts from the calculated index-linked interest before crediting it to the contract. For example, if the index gains 8% and the spread is 2%, the annuity is credited with 6%. The spread is one of three mechanisms (along with the cap rate and participation rate) that limit how much of the index gain is credited.

36. If a policyowner surrenders their life insurance policy for its cash value, what portion is taxable?

- A) The entire cash value amount.
- B) The entire amount is tax-free.
- ✓ C) The portion of the cash value that exceeds the total premiums paid.
- D) The portion of the cash value that represents the policy loans.

Explanation: When a policy is surrendered, the amount received is taxable as ordinary income only to the extent that it exceeds the policyowner's cost basis (the total premiums paid). The return of premium is not taxed.

37. If an applicant signs a blank application form and asks the producer to fill in medical questions later, what should the producer ethically do?

- A) Fill in the blanks using best guesses to speed up the process
- ✓ B) Refuse to accept a blank application and ensure the applicant answers all questions accurately before signing
- C) Sign the applicant name to an electronic document
- D) Leave the medical history completely blank

Explanation: Producers must never have applicants sign blank forms; all answers must be completed accurately by or with the applicant prior to signing.

38. 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.

39. An LTC policy that is 'tax-qualified' means it meets certain federal standards set by:

- A) The Affordable Care Act
- B) The IRS
- ✓ C) HIPAA
- D) The Social Security Administration

Explanation: A tax-qualified LTC policy must meet the standards established by the Health Insurance Portability and Accountability Act (HIPAA). This allows premiums to be potentially tax-deductible and benefits to be received tax-free up to a certain limit.

40. Single premium whole life insurance is a policy:

- A) With a single beneficiary who cannot be changed
- ✓ B) Funded with a single lump-sum premium payment that provides lifetime coverage
- C) That only pays a death benefit in a single lump sum
- D) Where one premium is paid monthly for one year

Explanation: Single Premium Whole Life (SPWL) is funded entirely by a single, lump-sum premium payment at issue. The policy is immediately paid-up and accumulates substantial cash value from day one. Because the policy is funded up-front with a large after-tax sum, the tax treatment is that of a Modified Endowment Contract (MEC).

41. A 'monthly average' indexed crediting method in a fixed-indexed annuity:

- A) Credits interest based only on the month-end index value
- B) Credits interest monthly instead of annually
- ✓ C) Calculates the index return based on the average of the 12 monthly ending index values during the crediting period compared to the beginning value
- D) Averages the cap rate and floor rate to determine the credited interest

Explanation: The monthly average (or monthly averaging) method calculates interest by comparing the average of the 12 month-end index values during the crediting period to the beginning index value. This smooths out extreme peaks and troughs. In volatile markets, monthly averaging may produce lower credits than annual point-to-point if the index rises sharply near year-end.

42. If an underwriter discovers an applicant has a hazardous hobby, they are most likely to:

- A) Decline the application outright.
- B) Issue the policy as a preferred risk.
- ✓ C) Issue the policy with a flat extra premium or an exclusion rider.
- D) Require the applicant to cease the hobby.

Explanation: For applicants with hazardous occupations or hobbies (e.g., scuba diving, auto racing), insurers often manage the increased risk by charging a flat extra premium or by adding an exclusion rider that eliminates coverage for death resulting from that specific activity.

43. Which of the following best describes the tax treatment of a Health Savings Account (HSA)?

- ✓ A) Contributions are tax-deductible and qualified withdrawals and growth are tax-free
- B) Contributions are tax-deductible and growth is taxed annually
- C) All contributions and withdrawals are fully taxable
- D) Contributions are taxable but withdrawals are tax-free

Explanation: HSAs offer a triple tax advantage: contributions are tax-deductible (or pre-tax if made through payroll), the account grows tax-free, and withdrawals for qualified medical expenses are also tax-free.

44. 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.

45. '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.

46. In a group health insurance plan, the contract is between the:

- A) Employee and the employer
- B) Employer and the state
- C) Employee and the insurer
- ✓ D) Employer and the insurer

Explanation: In a group plan, the master policy is held by the sponsoring organization (the employer). The contract exists between the employer and the insurance company.

47. What does the term 'utmost good faith' imply?

- ✓ A) Both parties are expected to be completely honest with each other.
- B) Both parties must be of legal age and sound mind.
- C) The contract must be for a legal purpose.
- D) The contract is non-negotiable.

Explanation: Insurance contracts are based on the principle of 'utmost good faith,' which means that both the insurer and the insured must disclose all material facts and act with complete honesty.

48. Which of the following actions by an insurer constitutes an unfair claims settlement practice in Utah?

- A) Requesting medical records directly relevant to a health insurance claim
- ✓ B) Failing to adopt and implement reasonable standards for the prompt investigation of claims
- C) Denying a claim where the policy was clearly lapsed and out of force
- D) Paying a legitimate claim within 10 days of receiving proof of loss

Explanation: Failing to establish and implement reasonable standards for the prompt investigation of claims is an unfair claims practice under Utah Code 31A-26-303.

49. What is the purpose of the Relation of Earnings to Insurance provision?

- ✓ A) To prevent over-insurance and limit the total disability benefit to a percentage of the insured's income.
- B) To tie the benefit period to the elimination period.
- C) To ensure the benefit keeps up with inflation.
- D) To relate the premium to the insured's age.

Explanation: This provision allows the insurer to limit the benefit payable to the insured's average income over the last 24 months. If the total disability benefit from all policies exceeds the insured's earnings, the insurer will only pay a proportionate share, preventing the insured from profiting from being disabled.

50. If a policyowner names 'the children of the insured' as beneficiaries and the insured has three children, how are the proceeds distributed upon the insured's death?

- A) The proceeds are paid to the insured's estate to be distributed.
- ✓ B) The proceeds are divided equally among the three children.
- C) The oldest child receives the full amount.
- D) The proceeds are held by the insurer until the youngest child is 18.

Explanation: When a class designation like 'children of the insured' is used, the proceeds are distributed equally among all members of that class who are alive at the time of the insured's death.