Insurance Test Practice

Virginia Insurance Practice Test

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1. 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.

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

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

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

3. Under the ACA's employer shared responsibility provision (employer mandate) which employers are subject to the requirement?

A) Employers with 25 or more full-time equivalent employees
✓ B) Employers with 50 or more full-time equivalent employees
C) Employers with 100 or more full-time equivalent employees
D) All employers regardless of size

Explanation: 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.

4. Under Medicare Part A, the inpatient hospital deductible applies:

A) Once per calendar year
B) Each time the beneficiary is admitted
C) Once per lifetime
✓ D) Once per benefit period

Explanation: 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.

5. ACA-compliant health plans must cover the following preventive services at no cost-sharing:

A) All preventive services recommended by the insured's physician
✔ B) Preventive services with an 'A' or 'B' rating from the USPSTF, ACIP immunizations, and preventive care for women
C) Preventive services only for children and pregnant women
D) Only services provided by in-network providers at a hospital

Explanation: Under the ACA, non-grandfathered health plans must cover preventive services rated 'A' or 'B' by the U.S. Preventive Services Task Force (USPSTF), ACIP-recommended immunizations, and preventive care guidelines from HRSA — without any cost-sharing. Examples include mammograms, colonoscopies, and flu shots.

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6. 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) Pay the full claim but require the beneficiary to pay back premiums
B) Void the policy due to misrepresentation
C) Pay the full claim without adjustment
✔ D) Pay a reduced death benefit

Explanation: 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.

7. The 'critical illness rider' (or living benefit rider) in a life insurance policy:

✔ A) Provides accelerated access to the death benefit upon diagnosis of a specified serious illness
B) Pays an additional benefit equal to twice the death benefit if death results from a critical illness
C) Replaces the need for health insurance coverage for critical illnesses
D) Provides coverage only for illnesses lasting more than 90 days

Explanation: A critical illness (or living benefit) rider allows the insured to accelerate (access early) a portion of the life insurance death benefit upon diagnosis of a qualifying critical illness such as cancer, heart attack, or stroke. The acceleration reduces the remaining death benefit. This provides financial resources to cover treatment costs or lost income.

8. A 'contributory' group health plan means:

A) Employees contribute through payroll taxes
B) The employer pays 100% of the premium
C) The government contributes to the premium
✔ D) Both the employer and employees contribute to the premium

Explanation: In a contributory group plan, both the employer and employees share the premium cost. Employees' contributions are typically deducted from their paycheck. Most group health plans in the U.S. are contributory. Contributory plans typically require at least 75% employee participation to prevent adverse selection.

9. An agent, Jennifer, moves her residence from Alexandria to Richmond. Under Virginia regulations, within how many days must Jennifer notify the Bureau of Insurance of her change of address?

A) 10 calendar days
B) 15 calendar days
✔ C) 30 calendar days
D) 60 calendar days

Explanation: Virginia agents must notify the Bureau of Insurance in writing within 30 calendar days of any change of address or name.

10. A currently insured worker under Social Security must have earned at least:

A) 40 quarters of coverage
B) 10 quarters of coverage in the last 20 quarters
✔ C) 6 quarters of coverage in the last 13 quarters
D) 20 quarters of coverage in the last 40 quarters

Explanation: A worker is currently insured if they have earned at least 6 quarters of coverage during the 13-quarter period ending with the quarter of death or disability. Currently insured status provides limited survivor benefits compared to fully insured status.

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11. 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.

12. What is PACE (Program of All-Inclusive Care for the Elderly)?

A) A prescription drug assistance program.
B) A type of Medigap policy.
✔ C) A comprehensive healthcare program for frail, elderly individuals who are eligible for nursing home care but wish to remain in the community.
D) A federal housing program for seniors.

Explanation: PACE is a Medicare and Medicaid program that provides a full range of preventive, primary, acute, and long-term care services to frail seniors. The goal is to enable them to live at home instead of in a nursing facility.

13. Key person life insurance purchased through a group plan is intended to compensate which party in the event of the key person's death?

A) All employees in the group equally
✓ B) The business or employer for the economic loss caused by the key person's death
C) The state insurance guaranty fund
D) The key person's family exclusively

Explanation: Key person (key employee) life insurance is designed to compensate the business for the financial loss it would suffer upon the death of a crucial employee. The business is both the owner and beneficiary of the policy, and the proceeds help the company recover from the economic impact of losing that individual.

14. 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) 40%
B) 20%
C) 30%
D) 10%

Explanation: 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.

15. Which of the following describes 'reentry term' life insurance?

A) Term insurance that can be reentered after a lapse with no waiting period
B) Term insurance that requires a new medical exam at each renewal
✓ C) Term insurance that allows the insured to reenter at lower rates if they pass a medical exam at certain intervals
D) Term insurance where coverage reenters after the contestability period

Explanation: Reentry Term allows the insured to qualify for lower ('select') rates at specified reentry dates by providing evidence of continued good health. If the insured cannot meet health requirements at reentry, they continue at higher 'ultimate' rates. This structure rewards healthy insureds with significant premium savings.

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16. An insurance company, Cavalier Life, is suspected of violating state rate-filing laws. Who is responsible for appointing the Commissioner of Insurance to lead the Bureau of Insurance and investigate such violations?

A) The Governor
✓ B) The State Corporation Commission (SCC)
C) The State Senate
D) The NAIC Board of Directors

Explanation: In Virginia, the Commissioner of Insurance is appointed by the State Corporation Commission (SCC) to head the Bureau of Insurance.

17. Long-Term Disability (LTD) insurance typically has a benefit period of:

A) For the lifetime of the insured
B) Exactly 5 years
✔ C) At least 2 years, and often to age 65 or longer
D) Less than one year

Explanation: Long-Term Disability is designed to cover serious, long-lasting disabilities. Benefit periods are usually a minimum of 2 years and can extend to 5 years, 10 years, or most commonly, to the insured's Social Security retirement age (e.g., 65 or 67).

18. If an agent knowingly recommends a wildly unsuitable annuity to a senior, this could be considered:

A) Churning
B) Financial abuse of an elder
✔ C) All of the above
D) A deceptive practice

Explanation: Recommending a clearly unsuitable product to a vulnerable senior could be classified as a deceptive or unfair practice under the insurance code. It could also rise to the level of financial abuse of an elder, which carries severe penalties.

19. 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.

20. 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.

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

- ✔ A) Preferred
- B) Declined
- C) Standard
- D) Substandard

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

22. What is the tax treatment of premiums paid for a non-qualified annuity?

- ✔ A) They are not tax-deductible.
- B) They are fully tax-deductible.
- C) They are partially tax-deductible.
- D) They are a tax credit.

Explanation: Premiums for a non-qualified annuity are paid with after-tax dollars and are not tax-deductible. This is what establishes the owner's cost basis in the contract.

23. An agent represents to an applicant that they must purchase an optional accident rider as a condition for getting their health insurance application approved by the state. What is this practice called?

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

Explanation: Sliding is representing that a product or rider is required by law or company rules when it is optional.

24. The suicide clause in most life insurance policies states:

- A) The insurer can deny any claim without an investigation if suicide is suspected
- ✔ B) If the insured dies by suicide within the first 1-2 years of the policy, the insurer will only return the premiums paid
- C) Suicide doubles the death benefit due to the accidental nature
- D) Suicide is always excluded from coverage

Explanation: The standard suicide clause provides that if the insured dies by suicide within a specified period (usually 1-2 years from the policy date), the insurer will refund the premiums paid but will not pay the death benefit. After the suicide clause period expires, suicide is covered like any other cause of death.

25. A copayment in a health insurance plan is:

- ✔ A) A fixed dollar amount the insured pays for a specific service regardless of the total charge
- B) The insured's share of the annual premium
- C) A percentage of covered expenses the insured pays
- D) The amount paid by both the insurer and insured equally

Explanation: A copayment (or copay) is a fixed dollar amount paid by the insured for a specific healthcare service (e.g., $25 for a doctor visit, $15 for a generic prescription). The copay is paid at the time of service, and the insurer pays the remainder of the covered charge. Copays typically do not count toward meeting the deductible.

26. Which of the following describes the role of a surplus lines broker?

A) Placing coverage with admitted insurers at preferred rates
✔ B) Placing coverage with non-admitted insurers when admitted coverage is unavailable
C) Managing an insurer's investment portfolio
D) Representing the insured exclusively as a fiduciary

Explanation: Surplus lines brokers are licensed to place coverage with non-admitted (unlicensed in the state) insurers when the risk cannot be placed with admitted companies. The broker must diligently search the admitted market first. Surplus lines policies are not protected by state guaranty funds.

27. Under HIPAA, 'portability' means that a person with prior creditable coverage:

✔ A) Cannot be subject to a new pre-existing condition waiting period when joining a new group plan.
B) Can port their coverage to any state.
C) Is guaranteed to pay the same premium at their new job.
D) Can take their old insurance policy to their new job.

Explanation: HIPAA's portability rules were designed to help people keep their coverage when they move from one job to another. It ensures that if an individual has maintained creditable coverage without a significant break, a new group plan cannot impose a pre-existing condition exclusion period.

28. The risk of loss due to a lawsuit is an example of what type of hazard?

A) Physical hazard
B) Morale hazard
✔ C) Legal hazard
D) Moral hazard

Explanation: A legal hazard arises from a condition of the legal environment that increases the chance of a loss. The potential for large jury awards in liability lawsuits is a common example.

29. 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.

30. 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.

31. Under the ACA, how long can a young adult remain on their parent's health insurance plan?

A) Until age 18
B) Until they are married
C) Until age 21
✔ D) Until age 26

Explanation: The Affordable Care Act allows young adults to stay on a parent's health insurance plan until they turn 26. They can remain on the plan even if they are married, not living with their parents, attending school, or financially independent.

32. The ACA requires applicable large employers (ALEs) — those with 50 or more full-time employees — to:

A) Cover all employees including part-time employees who work at least 10 hours per week
B) Provide health insurance to all employees within 30 days of hire
✔ C) Offer minimum essential coverage to full-time employees and their dependents or potentially owe an employer shared responsibility payment
D) Reimburse employees for individual marketplace coverage purchases

Explanation: Under the ACA's employer shared responsibility provision (employer mandate), ALEs with 50+ full-time employees must offer minimum essential coverage (MEC) that is affordable and meets minimum value to full-time employees (and their dependents) or potentially owe a penalty if any full-time employee receives a premium tax credit through the marketplace.

33. 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.

34. Which rider allows the policyowner to purchase additional amounts of insurance at future dates without evidence of insurability?

A) Cost of Living Rider
✔ B) Guaranteed Insurability Rider
C) Accidental Death Benefit Rider
D) Payor Benefit Rider

Explanation: The Guaranteed Insurability Rider (GIR) gives the policyowner the right to buy specified amounts of additional life insurance on the insured at stated intervals (e.g., every three years or at marriage/childbirth) without having to prove insurability.

35. The mandatory 'Physical Examination and Autopsy' provision gives the insurer the right to:

✔ A) Require a physical exam of the insured at any time during a claim, at the insurer's expense
B) Require the insured to pay for a medical exam before benefits are paid
C) Require an annual physical as a condition of coverage
D) Deny any claim without a physical exam

Explanation: The insurer has the right to have the insured examined by a physician of its choice, as often as reasonably required during the pendency of a claim. The insurer also has the right to request an autopsy in the event of death, where not prohibited by law. All costs are borne by the insurer.

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36. Short-term disability (STD) insurance typically:

A) Has a longer elimination period and benefit period than long-term disability
B) Covers only occupational disabilities
C) Replaces 100% of the insured's pre-disability income
✔ D) Begins paying benefits quickly (after a short elimination period) and pays for a limited period (up to 2 years)

Explanation: Short-term disability insurance typically has a short elimination period (0-14 days) and a benefit period of up to 1-2 years. It is designed to cover brief periods of disability such as recovery from surgery or illness. Long-term disability (LTD) has longer elimination periods but pays for many years or until retirement age.

37. An Equity-Indexed Universal Life (EIUL) policy offers cash value growth linked to:

A) The prime interest rate.
✔ B) A stock market index, like the S&P 500, with a guaranteed minimum interest rate.
C) The insurer's general account performance.
D) The performance of subaccounts chosen by the policyowner.

Explanation: EIUL policies credit interest to the cash value based on the performance of a stock market index. They offer the potential for higher returns than traditional UL, but also protect the principal with a guaranteed minimum interest rate, so the cash value will not decrease due to market performance.

38. 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.

39. A traditional fee-for-service health plan is also known as a(n):

- ✔ A) Indemnity Plan
- B) Capitation Plan
- C) HMO Plan
- D) Managed Care Plan

Explanation: An indemnity plan is a traditional plan that pays a set percentage of charges for services, allowing the insured to see any medical provider they choose. The insurer reimburses the insured or pays the provider directly after a claim is filed.

40. Medicare Supplement (Medigap) insurance is designed to:

- A) Provide prescription drug benefits not in Original Medicare
- ✔ B) Fill the gaps in Original Medicare by covering deductibles, copays, and coinsurance
- C) Replace Medicare entirely with private coverage
- D) Extend Medicare to family members of the beneficiary

Explanation: Medigap insurance works alongside Original Medicare to cover cost-sharing gaps (deductibles, copayments, coinsurance). It does NOT replace Medicare. There are standardized Medigap plans (A through N) sold by private insurers. Medigap does not cover prescription drugs (a separate Part D plan is needed).

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41. A life insurance policy lapses due to nonpayment. The policyowner, Robert, wants to reinstate the policy. Under Virginia law, within how many years from the default date can Robert request reinstatement?

- A) Within 1 year
- ✔ B) Within 3 years
- C) Within 5 years
- D) Reinstatement is not allowed.

Explanation: Virginia law requires that individual life insurance policies allow reinstatement within 3 years of default, provided the client meets insurability and payment requirements.

42. How many categories of Essential Health Benefits (EHBs) are required under the Affordable Care Act?

- A) 8
- B) 5
- C) 12
- ✔ D) 10

Explanation: The ACA mandates that all individual and small group health insurance plans cover 10 categories of Essential Health Benefits, including ambulatory services, emergency services, hospitalization, maternity and newborn care, mental health and substance use disorder services, prescription drugs, rehabilitative services, laboratory services, preventive and wellness services, and pediatric services including dental and vision.

43. Susan has a life insurance policy with an Accidental Death Benefit (Double Indemnity) rider for $100,000. Her base policy face amount is $100,000. If Susan dies from a heart attack, how much will her beneficiary receive?

A) $200,000
✓ B) $100,000
C) $0
D) $50,000

Explanation: The Accidental Death Benefit rider only pays the additional benefit if death results from an accident. Because a heart attack is an illness (natural cause), only the base policy face amount of $100,000 is paid.

44. John has a Whole Life policy with a Waiver of Premium rider. He is totally disabled in a car accident and remains disabled for 8 months before recovering. What happens to the premiums paid during his disability?

A) Under no condition are any premiums refunded
✓ B) The premiums are waived during his disability, and any premiums paid during the initial 6-month waiting period are refunded
C) The insurer pays the premiums but deducts them from the cash value
D) The rider only applies if he remains disabled for life

Explanation: The Waiver of Premium rider waives premiums after a specified waiting period (typically 6 months) during total disability. Once met, the waiver is retroactive to the start of the disability, and any premiums paid during the waiting period are refunded.

45. A client, age 62, wants to take a lump-sum distribution from their annuity. What are the tax consequences?

A) The earnings portion is taxed as a capital gain.
B) The entire distribution is tax-free.
✓ C) The earnings portion is taxable as ordinary income, but there is no IRS penalty.
D) The earnings portion is tax-free, but subject to a penalty.

Explanation: The client is over age 59 1/2, so the 10% early withdrawal penalty does not apply. However, the earnings portion of the distribution (the amount exceeding the cost basis) is still fully taxable as ordinary income.

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46. Which of the following accounts is portable and stays with the employee when they change employers?

✓ A) Health Savings Account (HSA)
B) Health Reimbursement Arrangement (HRA)
C) Dependent Care FSA
D) Flexible Spending Account (FSA)

Explanation: HSAs are owned by the individual account holder and are fully portable, meaning the funds remain with the employee regardless of employment changes. HRAs and FSAs are employer-sponsored and generally not portable.

47. Preventive care services, such as mammograms and colonoscopies, are covered under most ACA-compliant plans at:

A) A small, fixed copayment
✓ B) No cost to the insured (no copay, coinsurance, or deductible)
C) A 50% coinsurance rate
D) 100% after the deductible is met

Explanation: The ACA mandates that most health plans cover a list of preventive services at 100%, without charging a copayment or coinsurance. This is true even if the yearly deductible has not been met, as long as the service is delivered by an in-network provider.

48. An Applicable Large Employer fails to offer affordable, minimum value coverage to its full-time employees. Under the ACA employer mandate, what is the potential consequence?

A) Loss of business license
✓ B) An assessable payment (penalty) under IRC Section 4980H
C) Criminal prosecution
D) Automatic enrollment of employees in Medicaid

Explanation: If an Applicable Large Employer (50+ full-time equivalent employees) fails to offer affordable, minimum value health coverage and at least one full-time employee receives a premium tax credit through the marketplace, the employer may be subject to an Employer Shared Responsibility Payment (penalty) under Internal Revenue Code Section 4980H.

49. Health insurance policies can be classified as either 'indemnity' plans or 'service plans.' The key difference is:

A) Service plans are only available through employers; indemnity plans are individual only
✓ B) Indemnity plans reimburse the insured for expenses incurred; service plans provide services directly through participating providers
C) Indemnity plans cover only hospitalization; service plans cover outpatient care
D) Indemnity plans have no deductibles; service plans always have deductibles

Explanation: Indemnity (fee-for-service) plans reimburse the insured for covered medical expenses after the fact. The insured can typically use any provider. Service plans (managed care, including HMOs) provide benefits in the form of healthcare services delivered through contracted provider networks, rather than cash reimbursement.

50. An agent, Karen, is helping a client replace an existing life insurance policy. In addition to the Notice Regarding Replacement, what else must Karen leave with the applicant?

✓ A) Copies of all sales proposals and illustrations used during the presentation
B) The agent's licensing certificate
C) A copy of the existing insurer's financial statement
D) A cash refund of the old policy's value

Explanation: The agent must leave with the applicant copies of all sales proposals, illustrations, and marketing materials used in the presentation.