Insurance Test Practice

Wisconsin Insurance Practice Test

Free Life & Health Insurance Practice Questions with Answers

- 50 carefully curated practice questions
- Real exam format and difficulty
- Updated for 2026 regulations
- Print-ready professional design

Ready to pass your exam? Practice with our interactive exam simulator:

Start Free Simulator at insurancetestpractice.com

Premium Access: Full Question Bank • Real Mock Tests • Smart Dashboard

Practice Questions Begin on Next Page

1. 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.

2. A Medicare beneficiary who wants to enroll in a Medicare Advantage (Part C) plan must have:

✓ A) Medicare Parts A and B
B) Medicare Part B only
C) Medicare Part A only
D) A Medigap policy

Explanation: To be eligible to enroll in a Medicare Advantage plan, an individual must be enrolled in both Medicare Part A and Medicare Part B. They must also live in the plan's service area.

3. What is the role of the Centers for Medicare & Medicaid Services (CMS)?

✓ A) It is a federal agency that administers the Medicare and Medicaid programs.
B) It is a private insurance company.
C) It is a consumer advocacy group.
D) It is a state agency that regulates HMOs.

Explanation: CMS is the federal agency within the U.S. Department of Health and Human Services that oversees the Medicare program, and works in partnership with state governments to administer Medicaid, CHIP, and health insurance portability standards.

4. 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.

5. A Point-of-Service (POS) plan combines features of:

A) COBRA and individual coverage
B) Term and whole life insurance adapted for health coverage
✔ C) HMO and PPO — requiring a PCP like an HMO but allowing out-of-network care like a PPO
D) Medicare Part A and Part B

Explanation: A POS (Point-of-Service) plan is a hybrid between an HMO and a PPO. Like an HMO, it requires members to choose a primary care physician and obtain referrals for specialists within the network. Like a PPO, members can go out-of-network but pay higher cost-sharing for doing so.

---

6. The concept of 'fortuitous loss' in insurance means:

A) Losses that are certain to occur within the policy period
B) Losses caused exclusively by natural disasters
✔ C) Losses that occur by chance or accident and are unforeseen by the insured
D) Losses that occur due to the insured's intentional acts

Explanation: Insurance requires that losses be fortuitous — meaning they occur by chance and are not certain or intentionally caused. If a loss is certain to occur or is intentionally caused by the insured, it is not insurable. Fortuitous losses are fundamental to the insurance concept because the uncertainty of occurrence is what creates the need for risk transfer.

7. Which type of life insurance offers pure death benefit protection with no cash value?

A) Universal Life
B) Endowment
✔ C) Term Life
D) Whole Life

Explanation: 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.

8. 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.

9. How is Medicare Part A primarily funded?

✔ A) Through payroll taxes (FICA) paid by employees and employers
B) Through monthly premiums paid by all beneficiaries
C) Through state government contributions
D) Through general tax revenues

Explanation: Medicare Part A is primarily funded by the Social Security payroll taxes paid by most employees, employers, and self-employed people.

10. What is a 'dread disease' or 'limited risk' policy?

A) A comprehensive policy covering all illnesses.
B) A policy designed for individuals with pre-existing conditions.
✔ C) A policy that covers only specific illnesses, such as cancer or heart disease.
D) A short-term medical policy.

Explanation: A limited risk policy, such as a cancer policy, provides benefits only for the diagnosis and treatment of a specific disease named in the policy. It is not a substitute for comprehensive health coverage.

---

11. Social insurance offset riders in disability income policies:

✔ A) Reduce the disability benefit by the amount received from Social Security or workers' compensation
B) Increase the benefit when Social Security disability is also paid
C) Allow benefits to be collected before Social Security eligibility
D) Provide additional coverage for federal employees only

Explanation: A Social Insurance Offset (or Social Security offset) rider reduces the disability income benefit by the amount the insured receives from Social Security disability or similar government programs. This coordination prevents over-indemnification and allows the insurer to lower premiums while still providing adequate total income replacement.

12. Which of the following is covered as a preventive service at no cost-sharing under the ACA?

✔ A) Vaccines recommended by the Advisory Committee on Immunization Practices (ACIP)
B) All prescription medications regardless of purpose
C) Elective cosmetic procedures
D) Dental fillings for adults

Explanation: ACA requires non-grandfathered health plans to cover ACIP-recommended vaccines at no cost-sharing. Other no-cost preventive services include USPSTF 'A' and 'B' rated screenings (mammograms, colonoscopies, blood pressure checks) and HRSA guidelines for preventive care for women. Cosmetic procedures, prescription drugs generally, and adult dental are NOT required preventive services.

13. Which of the following describes a 'third-party ownership' arrangement in life insurance?

A) A trust is named as both policyowner and beneficiary
✔ B) The policyowner and the insured are different people (e.g., a parent owns a policy on a child)
C) A bank or creditor holds the policy as collateral
D) Three people co-own a life insurance policy on one insured

Explanation: Third-party ownership occurs when someone other than the insured is the policyowner. Common examples: a parent owning a policy on a child, a business owning a policy on an employee, or a spouse owning a policy on their partner. The policyowner and insured must have an insurable interest relationship.

14. 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.

15. In a group life insurance plan, who holds the master contract?

- ✔ A) The employer or group policyholder
- B) Each individual employee
- C) The insurance commissioner
- D) The beneficiaries of the insured members

Explanation: In group life insurance, the master contract is issued to and held by the employer or entity sponsoring the plan. Individual members receive certificates of insurance as evidence of coverage.

---

16. A mutual insurance company is owned by:

- A) The state insurance department
- B) Stockholders who receive dividends
- C) Federal banking regulators
- ✔ D) Policyholders who may receive dividends from surplus

Explanation: A mutual insurance company is owned by its policyholders. Profits (surplus) may be returned to policyholders as dividends, which are considered a non-taxable return of excess premium. Mutual companies have no stockholders.

17. An annuity that begins paying income within one year of a single premium payment is called:

- A) Flexible premium annuity
- B) Variable annuity
- ✔ C) Immediate annuity
- D) Deferred annuity

Explanation: An immediate annuity begins making income payments almost immediately — typically within one payment period — after a single lump-sum premium is paid. Retirees use immediate annuities to convert a lump sum (such as a rollover from a 401k or the proceeds from a pension buyout) into guaranteed income they cannot outlive.

18. An agent's authority that is written into their agency contract is known as:

- ✔ A) Express authority
- B) Assumed authority
- C) Apparent authority
- D) Implied authority

Explanation: Express authority is the authority explicitly granted to an agent in their written contract with the insurer. It specifies the agent's duties and responsibilities.

19. Which of the following best describes the principle of indemnification?

A) To provide a guaranteed return on investment
B) To punish the party that caused the loss
✓ C) To restore the insured to the same financial position as before the loss
D) To allow the insured to profit from a loss

Explanation: The principle of indemnification aims to make the insured 'whole' again by restoring them to their approximate financial condition prior to the loss, without allowing for financial gain.

20. Coinsurance in health insurance means:

A) The insured pays a fixed dollar amount per service
B) The insurer pays 100% of all expenses after a certain date
C) Two insurers share coverage on the same risk
✓ D) After the deductible, the insured pays a percentage of covered expenses while the insurer pays the remainder

Explanation: Coinsurance requires the insured to pay a percentage of covered expenses after the deductible is satisfied. A common arrangement is 80/20 (the insurer pays 80%, the insured pays 20%) until the out-of-pocket maximum is reached, after which the insurer pays 100%.

---

21. Adult day care is a covered benefit under most LTC policies. It provides:

A) 24-hour residential nursing care
B) Full-time medical care in the insured's home
✓ C) Daytime supervision, social activities, and health services in a community setting for individuals who return home at night
D) Hospice services for terminally ill individuals

Explanation: Adult day care provides a structured program during daytime hours for individuals who need supervision or assistance but can still live at home. Services may include meals, social activities, health monitoring, and therapeutic activities. It also provides respite for family caregivers.

22. A life insurance beneficiary designation of 'children of the insured equally' means:

✓ A) All legally recognized children (biological, adopted, and potentially stepchildren if legally adopted) share equally
B) Only biological children of the insured share the proceeds
C) Adult children receive double the share of minor children
D) Children must be named individually to receive proceeds

Explanation: A designation of 'children of the insured equally' (or 'children equally') distributes proceeds equally among all legally recognized children — including biological and legally adopted children. Stepchildren who have not been legally adopted may or may not be included depending on jurisdiction and the specific policy language.

23. The purpose of the conditional receipt in life insurance is to:

- ✔ A) Provide coverage from the application date if the applicant is approved as applied for
- B) Allow the insurer to deny coverage without explanation
- C) Prove that the agent collected the first premium
- D) Replace the need for a medical examination

Explanation: The conditional receipt provides temporary coverage from the date of application (or medical exam if required), conditional on the applicant being found insurable as applied for at the standard rate. If the applicant is approved, coverage is retroactive to the application date. If not approved, no coverage existed and premiums are returned.

24. Which of the following statements about the interest rate guaranteed in a fixed annuity is CORRECT?

- A) The guaranteed rate is the only rate ever credited
- ✔ B) The insurer may credit a higher current rate but guarantees a minimum rate for the life of the contract
- C) Guaranteed rates only apply during the surrender charge period
- D) The guaranteed rate resets each year based on Treasury yields

Explanation: Fixed annuities guarantee a minimum interest rate for the life of the contract. The insurer may credit a higher current (declared) rate, but the minimum is the floor. Historically, minimum guarantees have ranged from 1% to 3.5% depending on when the contract was issued. The current credited rate can be reset periodically but cannot fall below the contractual minimum.

25. Under Wisconsin law, what is the standard free-look period for a newly issued individual life insurance policy?

- ✔ A) 10 days
- B) 15 days
- C) 20 days
- D) 30 days

Explanation: The standard free-look (right to return) period in Wisconsin is 10 days from policy delivery. For replacement policies, it is extended to 30 days.

---

26. When an insurer approves an application but issues the policy with different terms than applied for (such as a higher premium or an exclusion rider), this is called a:

- A) Policy amendment
- B) Conditional receipt
- ✔ C) Counter-offer
- D) Binder

Explanation: When the insurer modifies the terms of coverage from what was originally applied for, the issued policy is considered a counter-offer. The applicant must accept or reject the new terms. The policy does not go into effect until the applicant accepts the counter-offer and pays any required premium.

27. The '5-year look-back period' associated with Medicaid and long-term care planning means:

A) Medicaid reviews health records from the past 5 years before approving LTC coverage
✔ B) Medicaid examines asset transfers made within 5 years before applying to ensure assets were not transferred to qualify for benefits
C) Medicaid benefits begin 5 years after the application is filed
D) LTC insurers can deny claims based on conditions diagnosed in the past 5 years

Explanation: Medicaid's 5-year look-back period allows the state to review any asset transfers made by the applicant in the 5 years prior to the Medicaid application. If assets were transferred for less than fair market value during this period, Medicaid may impose a penalty period during which the applicant is ineligible for Medicaid LTC benefits.

28. The Law of Large Numbers helps an insurer to:

A) Eliminate risk entirely
✔ B) Predict the approximate number of losses that will occur in a group
C) Guarantee that no losses will occur
D) Predict the specific individuals who will suffer a loss

Explanation: The Law of Large Numbers states that as the size of the sample population increases, the actual loss experience will more closely approximate the true underlying probability. It allows insurers to predict losses for a group, not individuals.

29. HIPAA portability rules for group health plans require that:

A) HIPAA provides lifetime portability between any employer plans nationwide
B) All employees must be covered without any waiting period
C) Pre-existing conditions are covered immediately in all group plans
✔ D) Credit for prior coverage reduces any pre-existing condition exclusion period for new employees who enroll without a break in coverage of 63 days or more

Explanation: HIPAA's portability provisions reduce (or eliminate) pre-existing condition exclusion periods in new group plans by crediting prior continuous coverage, as long as there was no break in coverage of 63 days or more. This allows employees to change jobs without losing health coverage for pre-existing conditions. The ACA further strengthened this by eliminating pre-existing condition exclusions for non-grandfathered plans.

30. A policyowner wants to ensure that her spouse receives a monthly income from the life insurance proceeds, but also wants to ensure their children receive the principal after the spouse dies. Which settlement option should be chosen?

A) Life Income
B) Fixed Period
C) Fixed Amount
✔ D) Interest Only

Explanation: The 'Interest Only' option is ideal for this scenario. The insurer holds the principal and pays out the interest earned to the spouse. Upon the spouse's death, the principal is then paid to the contingent beneficiaries (the children).

31. A 'fully insured' group health plan differs from a self-insured plan in that:

A) The employer pays claims directly to providers
B) All employees must be insured under the plan
✓ C) The employer pays premiums to an insurer who assumes the risk of paying claims
D) The plan is regulated by the federal government instead of the state

Explanation: In a fully insured group plan, the employer pays premiums to an insurance company that assumes all risk of paying claims. This is regulated by state insurance law. In a self-insured plan, the employer assumes the risk directly (usually with stop-loss reinsurance), and the plan is regulated primarily by ERISA, not state insurance law.

32. A 'direct writer' or 'direct response insurer' sells insurance:

✓ A) Directly to consumers without using independent agents, often through mail, phone, or internet
B) Only through independent agents with broad market access
C) Only to businesses through wholesale distribution channels
D) Only to other insurance companies through reinsurance arrangements

Explanation: Direct writers sell insurance directly to the public without using independent agents. Examples include major insurers who advertise directly to consumers on television and online. Their premiums may be lower because they eliminate agent commission costs, but consumers do not receive personalized agent advice.

33. A Medicare SELECT plan is a type of:

✓ A) Medigap policy that requires the use of a network of providers
B) Special Needs Plan
C) Prescription drug plan
D) Medicare Advantage HMO

Explanation: Medicare SELECT is a type of Medigap policy that functions like a PPO. In exchange for a lower premium, the policyholder must use specific network hospitals and, in some cases, doctors to get full benefits. Out-of-network care may be more expensive or not covered (except in emergencies).

34. All variable product sales must be suitable for the customer. Suitability is determined by evaluating all of the following EXCEPT:

A) The customer's financial situation and needs
✓ B) The customer's political affiliations
C) The customer's tax status
D) The customer's investment objectives and risk tolerance

Explanation: FINRA suitability rules require that any recommendation of a variable product be based on a thorough evaluation of the customer's financial situation, investment objectives, risk tolerance, tax status, time horizon, liquidity needs, and existing holdings. Personal characteristics like political affiliation are irrelevant to suitability.

35. For a settlement option, what part of the payment is taxable?

A) The entire payment.
B) The entire payment is tax-free.
C) The principal part of the payment.
✓ D) The interest part of the payment.

Explanation: When a death benefit is paid out over time using a settlement option, the principal amount of the death benefit is tax-free. However, any interest earned on that principal and paid out as part of the installment payments is taxable as ordinary income.

36. 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.

37. An independent insurance agent differs from a captive agent in that the independent agent:

- ✔ A) Can represent multiple insurance companies
- B) Cannot bind coverage
- C) Represents only one insurer
- D) Is employed directly by the insurer

Explanation: An independent agent represents multiple insurers and can place business with any of them. The independent agent typically owns the policy expirations and renewal rights, unlike a captive agent whose expirations belong to the insurer.

38. 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.

39. The prospectus for a variable life insurance product must disclose:

- A) The historical performance of the separate account's benchmark index only
- B) The insurer's anticipated profit margin on each policy sold
- ✔ C) Charges, fees, investment options, risks, and other material information required by SEC regulations
- D) Only the state insurance license number of the selling agent

Explanation: Variable life insurance prospectuses are required by the SEC to disclose all material information including: policy charges (mortality, administrative, subaccount management fees), investment options available, risks involved, historical subaccount performance, and minimum death benefit guarantees. This ensures investors have full information before purchasing.

40. To be eligible for Medicare Part A without paying a premium, an individual must have:

- A) Applied for Social Security retirement benefits
- B) Been enrolled in a Medicare Advantage plan for at least 5 years
- ✔ C) Paid Medicare taxes for at least 10 years (40 quarters of covered work)
- D) Purchased Medicare Part A coverage through an employer

Explanation: Premium-free Medicare Part A is available to individuals age 65+ who have at least 40 quarters (10 years) of Medicare-covered employment. Those with fewer than 40 quarters may purchase Part A coverage for a monthly premium. Spouses of eligible workers may also qualify for premium-free Part A.

41. The principle that requires both parties to an insurance contract to disclose all material facts is known as:

- ✔ A) Utmost Good Faith
- B) Proximate Cause
- C) Indemnity
- D) Subrogation

Explanation: Utmost Good Faith (Uberrima Fides) requires both the insurer and insured to deal honestly and disclose all material information. It is the foundation for misrepresentation and concealment rules.

42. Universal life insurance is distinguished from whole life by its:

- A) Guaranteed minimum cash value and fixed premiums
- ✔ B) Flexible premium payments and adjustable death benefit
- C) Requirement for FINRA securities registration to sell
- D) Higher cost and shorter policy term

Explanation: Universal Life (UL) insurance offers premium flexibility (the policyowner can pay more or less than a target premium within limits) and an adjustable death benefit (can be increased or decreased subject to insurability requirements). The policy has a minimum premium that must be paid to keep it in force.

43. 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.

44. A 'hospital confinement indemnity' policy pays:

- ✔ A) A fixed daily benefit for each day the insured is confined in a hospital, regardless of actual charges
- B) Only the difference between hospital charges and what the primary insurer pays
- C) Hospital bills only for catastrophic illnesses
- D) A percentage of hospital charges up to a daily maximum

Explanation: Hospital confinement indemnity policies pay a fixed daily benefit (e.g., $200/day) for each day the insured is confined in a hospital, regardless of the actual hospital charges. These benefits are paid directly to the insured (not to the hospital) and can supplement other health coverage for expenses not covered by primary insurance.

45. A client, age 55, takes a $10,000 withdrawal from his non-qualified annuity. His cost basis is $50,000 and the current value is $70,000. How much of the withdrawal is taxable, and what is the penalty?

- ✔ A) $10,000 is taxable, plus a $1,000 penalty.
- B) The taxable amount is zero, but there is a $1,000 penalty.
- C) The taxable amount is $2,857, plus a $285 penalty.
- D) The entire $10,000 is a tax-free return of basis.

Explanation: Under LIFO rules, the withdrawal comes from the $20,000 of earnings first. So, the entire $10,000 withdrawal is taxable as ordinary income. Because the client is under age 59 1/2, a 10% penalty applies to the taxable amount, which is 10% of $10,000 = $1,000.

---

46. The 'face amount' in a universal life policy under Option B (Increasing Death Benefit) refers to:

- A) The level insurance component excluding any cash value
- B) The guaranteed minimum cash value
- ✔ C) The specified amount (also called corridor amount) to which the cash value is added to determine the total death benefit
- D) The total death benefit including cash value

Explanation: Under Universal Life Option B, the death benefit = specified (face) amount + cash value. The 'specified amount' (or corridor amount) is the pure insurance component. As cash value grows, the total death benefit grows accordingly. This option provides an increasing death benefit that keeps pace with cash value growth.

47. The 'legal actions' provision in a life insurance policy specifies:

- A) The arbitration requirement for all coverage disputes
- B) The jurisdiction where any disputes must be resolved
- ✔ C) The minimum time an insured must wait before filing a lawsuit (often 60 days) and the maximum time period within which to file
- D) The governing law that applies to the policy

Explanation: The legal actions provision establishes the timeframe for filing legal action against the insurer. Typically, the insured must wait a minimum period (often 60 days) after proof of loss is filed before filing suit (to allow claims adjustment), and there is a maximum period (statute of limitations) within which a suit must be filed — often 3 years from the date of loss.

48. A 'group captive' is best described as:

- A) A type of surplus lines carrier for high-risk groups
- B) An insurer that was seized by a state regulator
- ✔ C) A captive insurer formed by a group of unrelated businesses with similar risk profiles to insure their own risks
- D) An employer health plan covering a captive group of employees

Explanation: A group captive (or association captive) is a jointly owned captive insurer formed by multiple unrelated businesses that share similar risk profiles (often in the same industry). Each member contributes capital and premiums. Group captives allow smaller businesses to access the benefits of captive insurance — greater control, potential savings, and customized coverage.

49. The 'premium mode' refers to:

- ✔ A) The frequency at which premiums are paid (annual, semi-annual, quarterly, monthly)
- B) The method used to calculate insurance premiums
- C) A premium discount available for non-smokers
- D) The maximum premium the insured can pay

Explanation: Premium mode refers to the frequency of premium payments. The most common modes are: annual (once per year), semi-annual (twice per year), quarterly (four times per year), and monthly. Annual payments typically result in the lowest total premium because no installment charges apply.

50. If no beneficiary is named in a life insurance policy, or if the named beneficiary is deceased, where do the death benefit proceeds go?

- A) To the insured's next of kin as determined by the court
- B) To the state's unclaimed property fund
- ✔ C) To the insured's estate
- D) To the insurance company

Explanation: If there is no living named beneficiary at the time of the insured's death, the policy proceeds are typically paid to the insured's estate. This can subject the proceeds to probate, delays, and creditors' claims.