Insurance Test Practice

Official State Insurance Licensing Examination Preparation

Idaho Life & Health Practice Exams

3 Full-Length Practice Exams • 450 Total Questions

Life Insurance • Health Insurance • State-Specific Regulations

What's Included in This Package

- ✓ **3 Full-Length Practice Tests:** Each with 75 Life & 75 Health questions, matching the state exam format.
- ✓ **Complete Answer Keys & Rationales:** Detailed explanations for every question to help you understand the concepts.
- ✓ **State-Specific Questions Included:** Idaho insurance laws, rules, and ethics regulations are fully covered.
- ✓ **Timed Exam Simulation:** Realistic timing and scoring thresholds to gauge your exam readiness.

Updated for 2026 State Licensing Requirements

Examination Instructions & Study Guide

Please read these instructions carefully before beginning your practice exams.

Exam Structure & Format

- Each full-length practice exam contains two sections: Life Insurance (75 questions) and Health Insurance (75 questions).
- Each question has four answer choices (A, B, C, D) with exactly one correct answer.
- Questions cover general insurance principles, product knowledge, policy provisions, and state-specific laws.
- The passing score is typically 60% – 70%, depending on the specific state examination provider.

How to Use These Practice Tests

- Simulate real exam conditions: Take each test in a quiet environment with a timer set to 3 hours.
- Do not look at the answer key until you have completed the entire test.
- Mark questions you are unsure about and review them carefully afterward.
- Read the detailed explanation for every question you answered incorrectly, as well as those you guessed on.
- Aim for a consistent score of 80% or higher before scheduling your official state examination.

Tips for Exam Day

- Read each question carefully and identify keywords such as EXCEPT, NOT, ALWAYS, or NEVER.
- Eliminate obviously incorrect answers first to improve your odds on difficult questions.
- Pace yourself: You have approximately 1.2 minutes per question.
- Answer every question — there is no penalty for guessing on the state licensing examination.

PRACTICE TEST 1

Life Insurance Section

75 Questions • 3 Hours Time Limit • 60% Passing Score

Simulates the official state licensing exam. Do not view answer key until finished.

1. Which of the following would be LEAST suitable for a 75-year-old client with limited liquidity?

A. An immediate annuity that provides income right away with no surrender period
B. A 5-year fixed annuity with a 5-year surrender charge period
C. A short-term CD equivalent fixed annuity with a 1-year surrender period
D. A 10-year fixed annuity with a 10-year surrender charge period

2. A 'bonus' annuity adds a percentage (such as 3-5%) to the owner's initial premium or subsequent premiums. What is a common trade-off associated with bonus annuities?

A. They typically have longer surrender charge periods and higher ongoing fees to offset the bonus
B. They do not allow annuitization
C. They are only available as immediate annuities
D. They offer no death benefit

3. Section 79 of the IRS Code allows employees to exclude from gross income the cost of up to what amount of group term life insurance provided by their employer?

A. $50,000
B. $10,000
C. $100,000
D. $25,000

4. In most group life insurance plans, an employee becomes eligible for coverage after completing a:

A. Series of training courses
B. Financial background check
C. Medical examination
D. Waiting or probationary period

5. The party who receives the income payments from an annuity is called the:

A. Beneficiary
B. Owner
C. Contingent annuitant
D. Annuitant

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6. 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

7. A policyowner named his wife as the primary beneficiary and his son as the contingent beneficiary. The wife dies several years before the insured. When the insured dies, who receives the death benefit?

A. The wife's estate
B. The insured's estate
C. The son
D. The proceeds are split between the son and the insured's estate.

8. Of the 24 hours of continuing education required biennially for an Idaho resident producer, how many hours must specifically cover insurance ethics or consumer protection?

A. At least 1 hour
B. At least 2 hours
C. At least 6 hours
D. At least 3 hours

9. What is the main difference between a revocable and an irrevocable beneficiary?

A. Their relationship to the insured
B. Their age
C. Whether the policyowner can change the designation without the beneficiary's consent
D. Whether the beneficiary can be a trust

10. 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.

11. What is the main risk for the policyowner in a Variable Life insurance policy?

A. The risk that the premium will increase.
B. The risk that the policy will be cancelled.
C. The risk of the insurer becoming insolvent.
D. The risk that the cash value and death benefit may decrease due to poor investment performance.

12. 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

13. The grace period provision in a life insurance policy allows:

A. The policyowner 31 days after the due date to pay the premium before the policy lapses
B. The beneficiary time to claim benefits after the insured's death
C. The insurer a 31-day grace period before paying death claims
D. The insured to receive benefits while hospitalized without paying premiums

14. A limited-pay whole life policy (such as 20-Pay Life) differs from straight whole life because:

A. The death benefit decreases each year premiums are paid
B. Cash value does not accumulate in limited-pay policies
C. Coverage terminates after 20 years
D. Premiums are paid for a limited number of years but coverage lasts for the insured's entire life

15. How long must a replacing life insurer retain records of replacement notices, sales materials, and illustrations in Idaho?

A. At least 1 year
B. At least 3 years
C. At least 10 years
D. At least 5 years

16. Under Idaho Code § 41-4308, what is the maximum death benefit protection provided by the Idaho Life and Health Insurance Guaranty Association for any one life?

A. Up to $100,000
B. Up to $500,000
C. Up to $1,000,000
D. Up to $300,000

17. What is the purpose of the Automatic Premium Loan (APL) provision?

A. To automatically pay a premium from the policy's cash value to prevent a lapse.
B. To allow the insurer to increase the premium automatically.
C. To provide a loan to the policyowner for any purpose.
D. To provide a loan to pay for a different insurance policy.

18. Which of the following conditions is NECESSARY for a risk to be insurable?

A. The loss must be caused by a government-recognized peril
B. The premium must be equal to the expected loss
C. There must be a sufficiently large number of similar exposure units for accurate loss prediction
D. The potential loss must be catastrophic in nature

19. 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

20. Which payout option would be suitable for a married couple who want income to continue as long as either of them is alive?

A. Life with Period Certain
B. Straight Life
C. Life with Refund
D. Joint and Survivor

21. A valued policy pays a fixed, predetermined amount in the event of a total loss, regardless of the actual value of the loss. Which type of insurance is typically a valued contract?

A. Automobile liability insurance
B. Homeowner's insurance
C. Health insurance
D. Life insurance

22. Variable insurance products must be registered with the:

A. State Department of Insurance only
B. Federal Reserve Board
C. Securities and Exchange Commission (SEC)
D. National Association of Insurance Commissioners (NAIC)

23. Which of the following is an example of a speculative risk?

A. A work-related injury
B. A house fire
C. A car accident
D. A gambling debt

24. A surviving spouse caring for a deceased worker's child under age 16 is eligible for a mother's or father's benefit equal to what percentage of the worker's PIA, assuming the worker was fully or currently insured?

A. 75%
B. 100%
C. 66 2/3%
D. 50%

25. Under group term life insurance, if an employee converts their coverage to an individual whole life policy upon termination:

A. The premium is based on the insured's attained age at the time of conversion with no evidence of insurability required
B. The converted policy will have the same premium as the group plan for 2 years
C. The premium is based on the group rate they were paying before termination
D. The converted policy has a 2-year contestability period beginning from the original group enrollment date

26. The period during which an annuity makes payments to the annuitant is the:
- A. Accumulation period
- B. Growth period
- C. Contribution period
- D. Liquidation period

27. Which policy allows the policyowner to adjust the premium payments, death benefit, and cash value accumulation?
- A. Variable Life
- B. Term Life
- C. Whole Life
- D. Universal Life

28. 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

29. 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

30. 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

31. The 'suicide clause' in a life insurance policy typically excludes coverage for suicide committed:
- A. Only if a prior suicide attempt was disclosed on the application
- B. At any time during the policy period
- C. During the first 1 to 2 years of the policy
- D. Only if the insured had a prior mental health history

32. Which method of handling risk involves accepting financial responsibility for potential losses without purchasing insurance?
- A. Risk sharing
- B. Risk transfer
- C. Risk retention
- D. Risk avoidance

33. 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.

34. What is a 'jumping juvenile' policy?
- A. A policy on a child where the face amount automatically increases at a certain age, usually 21 or 25.
- B. A policy that can be transferred from parent to child.
- C. A policy that insures all children in a family under one contract.
- D. A term policy for a minor.

35. John has a dispute with his insurer over an ambiguous clause in his health insurance contract. Since the contract was written solely by the insurer with no negotiation, how will a court typically resolve the ambiguity?

A. In favor of the insurer because they wrote it
B. In favor of John because the contract is a contract of adhesion
C. By declaring the contract void due to lack of mutual agreement
D. By split decision dividing the benefit 50/50

36. Social Security retirement benefits are funded primarily through:

A. FICA payroll taxes paid by employees and employers
B. State income taxes
C. Federal income taxes
D. Voluntary contributions by workers

37. 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 Immediate Annuity (SPIA)
B. Flexible Premium Deferred Annuity (FPDA)
C. Variable Universal Annuity (VUA)
D. Single Premium Deferred Annuity (SPDA)

38. What is the primary statutory purpose of the Idaho Life and Health Insurance Guaranty Association (Idaho Code § 41-4301)?

A. To guarantee high investment returns on variable annuities
B. To protect Idaho policyowners, insureds, and beneficiaries against financial loss due to the insolvency or impairment of member insurers
C. To regulate insurance premium rates across the state
D. To pay commissions to agents whose companies went bankrupt

39. The 'book value' surrender in a fixed annuity means:

A. The surrender is equal to the premiums paid without interest
B. The annuity is surrendered at its current market value
C. Surrender is allowed only at the book value of the insurer's bond portfolio
D. The annuity is surrendered at its accumulated value without a market value adjustment

40. 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

41. The 'payout rate' in an immediate annuity refers to:

A. The ratio of annual income payments to the lump-sum premium — used to compare annuity income efficiency
B. The maximum allowable interest rate on the annuity contract
C. The percentage of the premium returned each year as income
D. The rate of return earned by the insurer on the annuity premium

42. Which element is NOT required for a risk to be considered insurable?

A. The loss must be definite and measurable.
B. The loss must pose a minimal financial hardship.
C. The loss must not be catastrophic.
D. The loss must be due to chance.

43. Life insurance is considered a personal contract, which means:
- A. The policy must be delivered in person
- B. The contract terms are personalized for each insured
- C. Only individuals can purchase it
- D. The policy insures the person rather than property and cannot be freely transferred to another party

44. The Law of Large Numbers in insurance means that:
- A. Larger policies are more likely to be paid
- B. Large companies are more financially stable
- C. Insurance premiums increase with policy size
- D. As the number of similar exposure units increases, actual losses become more predictable

45. When does the 7-pay test apply?
- A. When calculating the taxable portion of a policy loan.
- B. When determining if a life insurance policy is a Modified Endowment Contract (MEC).
- C. When a policy is transferred to a new owner.
- D. When a policy is surrendered for cash.

46. What is a Viatical Settlement?
- A. The sale of a life insurance policy by a terminally ill person to a third party for a discounted cash amount.
- B. A loan from the insurer against the policy's death benefit.
- C. A settlement option that pays the beneficiary for life.
- D. An advance payment from the insurer to a chronically ill insured.

47. What is the maximum coverage provided by the Idaho Guaranty Association for disability income insurance and long-term care insurance benefits for any one individual?
- A. Up to $100,000
- B. Up to $500,000
- C. Up to $750,000
- D. Up to $300,000

48. To sell Variable Universal Life insurance, an agent must hold which of the following licenses?
- A. Accident and Health agent license
- B. Both a Life-Only agent license and a FINRA Series 6 or 7 securities license
- C. FINRA Series 6 or 7 license
- D. Life-Only agent license

49. Under group term life insurance, the conversion privilege upon termination of employment allows the terminated employee to:
- A. Convert to an individual whole life policy within 31 days without evidence of insurability
- B. Convert to an individual term policy at standard rates
- C. Continue the group coverage at the group rate for 18 months
- D. Maintain the group coverage for up to one year after termination

50. When proceeds are left under the 'fixed amount' settlement option:
- A. A specified dollar amount is paid until the proceeds plus interest are exhausted
- B. A fixed number of equal payments is made regardless of interest earned
- C. A fixed amount is paid for the lifetime of the beneficiary
- D. The fixed amount equals the face value divided by 12

51. In life insurance, 'stock redemption' arrangements use life insurance to:
- A. Purchase stock for employees
- B. Provide a tax-advantaged retirement account for executives
- C. Fund the buyout of a deceased partner's business interest from their estate
- D. Replace key employees with trained successors

52. A life insurance policy that remains in force for the insured's entire life and builds cash value is known as:
- A. Whole Life
- B. Term Life
- C. Annuity
- D. Accident & Health

53. What does the 'participation rate' in an indexed annuity determine?
- A. The percentage of the index's gain that will be credited to the annuity.
- B. The guaranteed minimum interest rate.
- C. The fee for investing in the index.
- D. The maximum interest rate the annuity can earn.

54. A deferred annuity's accumulation phase ends when:
- A. The contract is transferred to a beneficiary
- B. The surrender charge period expires
- C. The annuitant reaches age 59½
- D. The contract is annuitized and income payments begin

55. The 'accelerated death benefit' (ADB) provision allows the insured to:
- A. Accelerate the accumulation of cash value by increasing premiums
- B. Convert the policy to an annuity on an accelerated basis
- C. Receive the death benefit in advance if they are diagnosed with a terminal or qualifying critical illness
- D. Receive a partial death benefit immediately while the estate settles

56. Which settlement option will pay out the largest monthly amount to a beneficiary, assuming all other factors are equal?
- A. Life Income with 10-Year Period Certain
- B. Interest Only
- C. Joint and Survivor Life Income
- D. Straight Life Income

57. A physical hazard is best described as:
- A. The cause of the loss itself
- B. A legal restriction that increases risk
- C. A physical condition that increases the chance of loss
- D. A person's dishonest tendencies

58. Robert names his wife, Linda, as the primary beneficiary of his life insurance policy and his son, Tim, as the contingent beneficiary. If Robert and Linda are in a fatal car accident and Linda dies two hours before Robert, who receives the death benefit?
- A. Linda's estate
- B. Robert's estate
- C. Tim
- D. Split equally between Linda's estate and Tim

59. 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

60. Which of the following is a common exclusion found in life insurance policies?
- A. Death from a covered illness
- B. Death resulting from an act of war
- C. Death by natural causes
- D. Death occurring after the contestability period

61. A 'per capita' beneficiary designation means that:
A. The death benefit is distributed by bloodline.
B. The death benefit is divided equally among only the surviving named beneficiaries.
C. The death benefit is passed down to the beneficiaries' heirs.
D. The death benefit is paid to the insured's estate.

62. The difference between UL Option A (Level Death Benefit) and Option B (Increasing Death Benefit) is:
A. Both A and B are correct
B. Option A is cheaper than Option B for the same initial face amount
C. Option A has a level cash value; Option B has increasing cash value
D. Under Option B the death benefit equals the face amount PLUS the cash value; under Option A it equals only the face amount

63. A condition that increases the chance of a loss is called a:
A. Peril
B. Risk
C. Hazard
D. Exposure

64. Under the FCRA, what must an insurer do if it takes an adverse action based on a consumer report?
A. Offer the applicant a substandard policy instead.
B. Get the applicant's permission before taking the adverse action.
C. Send a copy of the report to the applicant automatically.
D. Notify the applicant in writing and provide the name of the reporting agency.

65. A policyowner takes a withdrawal from a universal life policy. Which of the following is true regarding taxation?
A. The withdrawal is taxed on a LIFO basis.
B. The entire withdrawal is taxed.
C. The withdrawal is treated as a loan and is never taxed.
D. The withdrawal is treated as a return of premium up to the policy's cost basis and is not taxed.

66. What happens to the cash value of a whole life policy if the insured dies?
A. It is retained by the insurance company; the beneficiary receives the face amount.
B. It is forfeited to the state.
C. It is paid to the policyowner's estate.
D. It is paid to the beneficiary in addition to the death benefit.

67. If an annuity is used to fund a qualified retirement plan (like an IRA), how are the distributions taxed at retirement?
A. Only the earnings are taxed.
B. Distributions are taxed as capital gains.
C. The entire distribution is taxable as ordinary income.
D. Distributions are tax-free.

68. A stock insurance company is owned by its:
A. Board of Directors
B. Policyholders
C. Shareholders
D. Agents

69. If there is a discrepancy between the insured's age on the application and their actual age, the Misstatement of Age or Sex provision allows the insurer to:
A. Charge the beneficiary for the back premiums owed.
B. Void the policy.
C. Deny the claim entirely.
D. Adjust the death benefit to what the premium would have purchased at the correct age.

70. An insured, Greg, commits suicide 18 months after purchasing a life insurance policy that contains a standard 2-year suicide clause. What action will the insurer take regarding the beneficiary's claim?

A. Pay the full face amount of the policy
B. Deny the claim and refund only the premiums paid
C. Deny the claim and refund nothing
D. Pay 50% of the face amount as a compromise

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71. 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.

72. Under Idaho Code § 41-4308, what is the maximum coverage limit provided by the Guaranty Association for basic hospital, medical, and surgical insurance (health benefit plans)?

A. Up to $100,000
B. Up to $300,000
C. Up to $500,000
D. Up to $1,000,000

73. 'Aggregation rules' for annuity taxation mean:

A. All annuities from the same insurer owned by the same person are treated as one contract for tax purposes
B. Multiple annuities can be aggregated for a tax-free 1035 exchange
C. Tax is calculated on the aggregate value of all qualified plans
D. All annuities owned by a person's family are taxed together

74. An Attending Physician Statement (APS) is:

A. A government form required for all insurance applications
B. A report from the applicant's personal doctor providing their medical history
C. A statement from the insurer's medical director
D. A summary of the agent's observations about the applicant

75. Can a minor be named as a beneficiary of a life insurance policy?

A. No - beneficiaries must be of legal age.
B. Yes - and the minor can directly receive the funds.
C. Yes - but a guardian or trustee must be appointed to receive and manage the funds.
D. Yes - but the funds will be held by the insurer until the minor reaches age 18.

PRACTICE TEST 1

Health Insurance Section

75 Questions • 3 Hours Time Limit • 60% Passing Score

Simulates the official state licensing exam. Do not view answer key until finished.

1. 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.

2. 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

3. Long-term care insurance benefit triggers typically include:

A. Any hospitalization lasting more than 5 days
B. Loss of income due to disability or injury
C. Any diagnosis of a chronic illness by a physician
D. Inability to perform at least 2 of 6 Activities of Daily Living (ADLs) or severe cognitive impairment

4. Utilization review in managed care is the process of:

A. Reviewing an insured's driving record to determine health risk
B. Evaluating the appropriateness and necessity of healthcare services before, during, or after care is provided
C. Reviewing a claimant's employment history to determine premium rates
D. Auditing insurance companies for regulatory compliance

5. A disability buy-sell agreement funded by a disability policy is designed to:

A. Provide funds for the able partners to buy out the business interest of a disabled partner.
B. Provide income to a disabled partner.
C. Pay for a disabled partner's medical bills.
D. Cover the overhead expenses of the business.

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6. For dependents, a qualifying event under COBRA can include all of the following EXCEPT:

A. Death of the covered employee
B. Divorce from the covered employee
C. The dependent child getting married
D. The covered employee becoming eligible for Medicare

7. A consumer exercises a contractual conversion privilege to convert a term life policy to a whole life policy with the same insurer. Is this subject to replacement rules?

A. Yes, all conversions are treated as full replacements
B. No, contractual conversions with the same insurer where no new underwriting is required are exempt
C. Only if the death benefit exceeds $500,000
D. Yes, and it requires a 60-day review period

8. What does a 'guaranteed renewable' provision ensure?

A. The insured can renew the policy at any time without underwriting.
B. The insurer cannot cancel the policy or increase premiums.
C. The policy benefits are guaranteed to increase with inflation.
D. The insurer cannot cancel the policy, but can increase premiums by class.

9. What is the 'out-of-pocket maximum' or 'stop-loss' in a health insurance policy?

A. The maximum amount the insured will have to pay for deductibles, copays, and coinsurance in a year.
B. The deductible amount.
C. The total amount of the premium for the year.
D. The maximum amount the insurer will pay in a year.

10. An insurance agent primarily represents:

A. The state Department of Insurance
B. The insurance company
C. The insured
D. An independent third party

11. What is the Medicare Part A inpatient hospital deductible applicable to?

A. Each hospitalization regardless of benefit period
B. Each calendar year
C. Each benefit period (spell of illness)
D. Each month of hospitalization

12. What is the free-look period for Medicare Supplement (Medigap) and Long-Term Care policies delivered in Idaho?

A. 10 days
B. 20 days
C. 30 days
D. 45 days

13. An HSA account holder turns 65 and enrolls in Medicare. They withdraw HSA funds to pay for a new television. Which of the following describes the tax treatment of this withdrawal?

A. It is subject to income tax plus a 20% penalty
B. It is tax-free because the account holder is over 65
C. It is subject to income tax only with no additional penalty
D. It is not permitted under HSA rules

14. Under the ACA for plan years beginning on or after January 1, 2014, annual and lifetime dollar limits on:

A. All benefits are prohibited
B. All limits were grandfathered and remain in effect
C. Only inpatient hospital benefits are prohibited
D. Essential health benefits are prohibited; lifetime limits on non-essential benefits may still apply

15. In a Point of Service (POS) plan, what happens when a member chooses to receive care from an out-of-network provider without a referral?

A. The claim is denied entirely
B. The provider is automatically added to the network
C. The member pays significantly higher out-of-pocket costs
D. The member receives the same level of benefits as in-network care

16. When is the initial enrollment period for Medicare?

A. The 3 months before, the month of, and the 3 months after an individual's 65th birthday.
B. From January 1st to March 31st each year.
C. Anytime after an individual turns 65.
D. The 6 months immediately following an individual's 65th birthday.

17. All Medigap policies are:

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

18. The 'probationary period' in a disability income policy refers to the:
A. Time an insured must be disabled before benefits are paid.
B. Time between when the policy is issued and when sickness coverage goes into effect.
C. Maximum time benefits will be paid.
D. Time an employee must wait to be eligible for group coverage.

19. Medicare Part B covers:
A. Physician services, outpatient care, preventive services, and durable medical equipment
B. Prescription drugs
C. Hospital inpatient care
D. Long-term care in nursing homes

20. What is the general enrollment period for Medicare Part B?
A. From October 15th to December 7th each year.
B. The 7-month period around an individual's 65th birthday.
C. The 8-month period after employer coverage ends.
D. From January 1st to March 31st each year.

21. Coordination of Benefits (COB) in group health insurance prevents:
A. Employers from self-funding their group health plan
B. An insured from collecting benefits exceeding 100% of their actual covered medical expenses
C. Dependents from being covered under a parent's plan
D. Employees from having more than one insurer

22. Under the Affordable Care Act (ACA), what is the purpose of the 'metal levels' (Bronze, Silver, Gold, Platinum)?
A. They indicate the quality of care provided by the plan.
B. They correspond to different income levels for eligibility.
C. They classify plans based on their actuarial value, or how costs are shared between the plan and the insured.
D. They determine the size of the provider network.

23. An insurer terminates a producer for embezzlement and notifies the Idaho DOI. Within how many days must the insurer send a copy of the notification to the terminated producer at their last known address?
A. Within 15 days of notifying the Director
B. Within 5 days
C. Within 30 days of notifying the Director
D. The insurer is legally prohibited from contacting the producer

24. A Risk Retention Group (RRG) is:
A. A liability insurance company owned by its members to insure similar risks
B. A reinsurance pool for admitted insurers
C. A self-funded health plan for large employers
D. A state-created fund that retains premium until claims are paid

25. 'Presumptive disability' in a disability income policy means:
A. The insurer presumes the insured is disabled without medical evidence
B. Certain specified severe conditions (e.g., loss of limbs, sight, or speech) automatically qualify the insured for total disability benefits without a waiting period
C. The insured is presumed to be disabled based on their job duties
D. Benefits are paid based on the physician's presumptive diagnosis

26. Which of the following is typically considered a 'major' service under a dental plan?
A. Routine cleanings
B. X-rays
C. Crowns and bridges
D. Fillings

27. What is the main difference between an HMO and a PPO?

A. HMOs require a gatekeeper and have a limited network; PPOs offer more flexibility and out-of-network options.
B. PPOs cover preventative care; HMOs do not.
C. HMOs use a capitation fee; PPOs use a fee-for-service model.
D. PPOs are federally regulated; HMOs are state-regulated.

28. The 'consideration' provided by the insured in a life insurance contract consists of:

A. The insured's agreement to provide evidence of insurability upon request
B. The agent's promise to provide good service
C. The premium payment and truthful completion of the application
D. The insured's good health at the time of application

29. The insurer's consideration in an insurance contract is the:

A. Promise to pay for covered losses
B. Underwriting of the policy
C. Agent's binding authority
D. Collection of premiums

30. When can a person change their Medicare Advantage or Part D plan?

A. During the Annual Election Period (AEP) from October 15 to December 7.
B. Only during their Initial Enrollment Period.
C. At any time during the year.
D. Only if they move out of state.

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31. When an insurer issues a claim payment check, what information must it provide to the claimant under Idaho regulations?

A. The names of all corporate shareholders
B. An explanation of benefits (EOB) indicating the specific coverage and provisions under which the payment is made
C. The agent commission percentage
D. A waiver forfeiting all future medical coverage

32. An Accidental Death and Dismemberment (AD&D) policy pays benefits according to a schedule. A 'capital' loss (such as loss of life or loss of both hands) typically pays what percentage of the principal sum?

A. 50%
B. 100%
C. 75%
D. 25%

33. Concealment in an insurance application refers to:

A. Failing to read the policy after it is delivered
B. Providing false information on an application
C. Submitting an incomplete claim form
D. Intentionally withholding material facts that would affect the underwriting decision

34. Which rider allows for future increases in the disability benefit amount without evidence of insurability?

A. Return of Premium Rider
B. Future Increase Option (FIO) Rider
C. Cost of Living Adjustment (COLA) Rider
D. Social Security Rider

35. A PPO (Preferred Provider Organization) plan allows members to:

A. Receive care from any provider they choose, but with lower out-of-pocket costs for in-network providers.
B. Only receive care from providers within its network.
C. Receive care without deductibles or coinsurance.
D. Choose a primary care physician who must provide referrals.

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36. The mandatory 'Time of Payment of Claims' provision requires the insurer to pay claims:
A. Within 30 days of receiving notice of claim
B. Immediately upon receiving proper proof of loss
C. Within 60 days of receiving proof of loss
D. Within 90 days of the date of loss

37. When an individual A&H policy is reinstated, coverage for accidents is effective:
A. After a 30-day waiting period
B. Immediately upon reinstatement
C. After a 90-day waiting period
D. After a 10-day waiting period

38. Which of the following best describes the payment model used by Health Maintenance Organizations (HMOs)?
A. Prepaid or capitation model where providers receive a fixed amount per member per month
B. Indemnity-based reimbursement after services are rendered
C. Cost-plus pricing based on actual expenses incurred
D. Fee-for-service with no discounts

39. The process of classifying risks into appropriate categories to determine premium rates is called:
A. Risk classification
B. Risk selection
C. Adverse selection
D. Risk pooling

40. A health insurer denies a claim on the grounds that the policyholder did not use an in-network provider, but failed to make an up-to-date provider directory available. What is the status of this denial?
A. The denial is completely valid and cannot be appealed
B. The insured must pay a fine to the state
C. It is an unfair claims practice, as insurers must provide accessible and accurate provider directories
D. The provider must forfeit all fees

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41. A 'care coordinator' or 'case manager' in a long-term care insurance plan serves to:
A. Monitor the insured's health to determine if benefits should continue
B. Process claims and approve or deny coverage decisions
C. Act as the insured's legal representative in healthcare disputes
D. Assess the insured's needs and help arrange appropriate services to ensure quality care is received cost-effectively

42. 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

43. Cost-sharing reductions (CSRs) under the ACA are available to individuals who enroll in which metal tier plan through the marketplace?
A. Bronze
B. Gold
C. Any metal tier
D. Silver

44. A noncancellable health insurance policy guarantees that:
A. Premiums can increase for an entire class of policyholders
B. The insurer cannot cancel the policy and premiums will not increase as long as premiums are paid
C. The policy automatically renews but coverage amounts can decrease
D. The insurer can cancel but must give 60-day notice

45. The process of evaluating a risk to determine if it is acceptable to an insurer is called:
A. Claims adjusting
B. Reinsurance
C. Underwriting
D. Marketing

46. The waiver of a known legal right or advantage by one party to an insurance contract is called:
A. Contribution
B. Estoppel
C. Waiver
D. Subrogation

47. Under Idaho Code § 41-1905, an individual life insurance policy becomes INCONTESTABLE after it has been in force during the lifetime of the insured for what period of time?
A. 1 year from the date of issue
B. 3 years from the date of issue
C. 2 years from the date of issue
D. 5 years from the date of issue

48. An ACA marketplace plan with a higher premium generally has:
A. Lower cost-sharing (lower deductibles, copays, and coinsurance) when care is received
B. Better customer service and faster claims processing
C. A larger provider network than lower-premium plans
D. Less coverage of essential health benefits

49. 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.

50. What is the primary purpose of coordination of benefits (COB)?
A. To prevent duplication of payments when an insured is covered by more than one group plan.
B. To coordinate care between primary and specialty physicians.
C. To determine eligibility for group coverage.
D. To determine which provider a patient must see.

51. What is the maximum penalty the Director may impose on a producer under Idaho Code § 41-1016 for an individual administrative violation in lieu of or in addition to suspension?
A. Up to $1,000 per violation
B. Up to $500
C. Up to $10,000 per violation
D. Up to $50,000 per violation

52. The part of the policy that outlines the duties and responsibilities of both the insurer and the insured is the:
A. Exclusions
B. Insuring Clause
C. Conditions
D. Declarations

53. 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

54. Under the ACA dependent coverage provision up to what age must health plans allow adult children to remain on a parent's plan?

A. Age 26
B. Age 25
C. Age 21
D. Age 23

55. What distinguishes a closed panel provider network from an open panel provider network?

A. There is no meaningful difference between a closed panel and an open panel
B. A closed panel is used only for dental plans; an open panel is used for medical plans
C. A closed panel restricts care to a specific group of contracted providers; an open panel allows any willing provider to participate
D. A closed panel allows any licensed provider to participate; an open panel restricts membership

56. How long does an individual have to elect COBRA coverage after receiving the election notice?

A. 60 days
B. 14 days
C. 45 days
D. 30 days

57. Under the mandatory 'Proof of Loss' provision, the insured must submit written proof of loss to the insurer within how many days after the loss?

A. 90 days
B. 120 days
C. 60 days
D. 30 days

58. Which of the following is a key feature of a Health Savings Account (HSA)?

A. It can only be used to pay deductibles.
B. Contributions are made with after-tax dollars.
C. Unused funds are forfeited at the end of the year.
D. It is owned by the individual and is portable.

59. What is 'home health care' coverage in an LTC policy?

A. Coverage for major home renovations like installing ramps.
B. Coverage for skilled nursing or therapy services provided in the insured's home.
C. Coverage for housekeeping and meal delivery services.
D. Coverage for a 24-hour live-in caregiver.

60. A policyholder converts an existing whole life policy into an extended term nonforfeiture option to buy a new universal life policy. What is this transaction classified as?

A. A policy loan exemption
B. An automatic reinstatement
C. An assignment of benefits
D. A replacement transaction

61. A 'benefit period' in a major medical health plan is:

A. The time period during which disability benefits are paid
B. The time period within which all covered expenses must be incurred to apply to the same deductible
C. The waiting period before coverage begins
D. The maximum years of coverage under the plan

62. An individual with a history of diabetes applies for health insurance during Open Enrollment. Under the ACA the insurer:

A. May accept the applicant but exclude coverage for diabetes
B. May deny coverage due to the pre-existing condition
C. Must accept the applicant and may not exclude or limit coverage for pre-existing conditions
D. May charge a higher premium due to the pre-existing condition

63. Which of the following best describes a 'health maintenance organization' (HMO) from an insurance carrier perspective?

A. An HMO is a type of reinsurance arrangement
B. An HMO is a government health program for low-income individuals
C. An HMO is an insurance company that only covers hospital expenses
D. An HMO is a managed care organization that provides comprehensive healthcare services to enrolled members for a fixed periodic premium

64. Under the ACA's guaranteed issue provision for individual health insurance an insurer:

A. Must accept all applicants regardless of health status during Open Enrollment
B. May impose a waiting period based on health history
C. May charge higher premiums based on pre-existing conditions
D. May deny coverage based on health status during Open Enrollment

65. When a replacement occurs, within how many working days must the replacing insurer notify the existing insurer of the proposed replacement?

A. Within 30 days of policy delivery
B. Within 60 days
C. Within 5 working days of receiving the application
D. The replacing insurer is not required to notify the existing insurer

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66. The difference between 'copayment' and 'coinsurance' in health insurance is:

A. A copay is a fixed dollar amount per service; coinsurance is a percentage of costs after the deductible
B. Copays apply only to HMOs; coinsurance applies only to PPOs
C. Coinsurance applies only to hospital care; copays apply to outpatient care
D. Both terms mean the same thing — a percentage of covered costs

67. 'Partial disability' benefits in a disability income policy are:

A. Paid when the insured can perform some but not all occupational duties and earns reduced income
B. Always equal to 50% of the total disability benefit
C. Only available for physical injuries, not illnesses
D. Paid only if the insured cannot work at all

68. Medicare Part A covers skilled nursing facility (SNF) care under what conditions?

A. It covers up to 100 days of SNF care per benefit period, following a qualifying hospital stay.
B. It covers long-term custodial care indefinitely.
C. It covers SNF care without any prior hospitalization.
D. It pays the full cost of SNF care with no coinsurance.

69. In an Independent Practice Association (IPA) model HMO, physicians:

A. Are employed by a single multispecialty medical group
B. Practice only in HMO-owned clinics
C. Maintain their own private practices and contract with the HMO to see its members
D. Are salaried employees of the HMO

70. What is a self-funded or self-insured health plan?

A. A plan where the employer pays for claims out of its own funds, rather than paying premiums to an insurer.
B. A plan purchased from a private insurance company.
C. A government-sponsored health plan.
D. A plan that is funded by employee contributions only.

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71. The 'notice of claims' provision in a health insurance policy requires:

A. The insured to give written notice of a claim to the insurer within a specified time after a covered loss
B. All health claims to be submitted electronically to qualify for reimbursement
C. Both the insured and the provider to submit separate claim notices
D. The insurer to notify the insured within 30 days of any claim decision

72. 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

73. An insurance company based in Boise wishes to offer disability income insurance policies. Which regulatory agency is responsible for administering and enforcing insurance laws in Idaho?

A. The Idaho Department of Insurance (DOI)
B. The National Association of Insurance Commissioners (NAIC)
C. The Idaho Attorney General
D. The Idaho State Legislature

74. 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%

75. The process where an insurer may check information from the Department of Motor Vehicles (DMV) for an applicant is part of:

A. A paramedical exam
B. A consumer report
C. An inspection report
D. Credit scoring

Practice Test 1 Answer Key

Life Insurance Section — Answers

1. D — A 10-year annuity with a 10-year surrender charge period would be least suitable for a 75-year-old with limited liquidity, as the surrender charges would lock up funds for 10 years — potentially through the client's 85th birthday. Healthcare and living expenses may create unexpected liquidity needs. An immediate annuity providing income right away or a short-term annuity would be more appropriate.

2. A — While the upfront bonus appears attractive, insurers recover the cost through longer surrender charge periods (often 10+ years) and higher annual fees such as mortality and expense charges. Agents must ensure that a bonus annuity is suitable and that the client understands these trade-offs.

3. A — Under IRS Section 79, the first $50,000 of employer-provided group term life insurance is excludable from the employee's gross income. Employer-paid premiums for coverage above $50,000 create imputed income for the employee, which is taxable based on IRS Table I rates.

4. D — Most group plans require new employees to complete a probationary or waiting period (commonly 30 to 90 days) before they become eligible for coverage. This requirement helps reduce administrative costs and ensures that only committed employees are enrolled.

5. D — The annuitant is the person whose life expectancy determines the income payments and the duration of payments. The annuitant receives the income payments. The owner of the annuity contract may or may not be the same person as the annuitant.

6. A — 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.

7. C — The contingent beneficiary's role is to receive the proceeds if the primary beneficiary is no longer living when the insured dies. Since the wife predeceased the insured, the son, as the contingent beneficiary, receives the full death benefit.

8. D — Under IDAPA 18.06.04, at least three (3) of the 24 required continuing education hours must be completed in approved ethics or consumer protection courses.

9. C — A revocable beneficiary can be changed at any time by the policyowner. An irrevocable beneficiary has a vested right in the policy, and their designation cannot be changed without their written permission.

10. A — 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.

11. D — In a variable life policy, the policyowner bears the investment risk. Poor performance in the chosen separate accounts can cause the cash value to decrease. While the death benefit typically has a guaranteed minimum, it can also fluctuate based on investment results.

12. B — 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.

13. A — The Grace Period (typically 31 days for life insurance) gives the policyowner additional time after a missed premium due date to pay the premium without the policy lapsing. During the grace period, the policy remains in force. If the insured dies during the grace period, the insurer pays the death benefit minus the overdue premium.

14. D — In a limited-pay whole life policy, premiums are concentrated into a shorter payment period (e.g., 20 years), but the coverage remains in force for the insured's entire life. Because premiums are paid over a shorter period, they are higher than straight whole life premiums but the policy becomes fully paid-up after the payment period.

15. D — Replacing insurers must maintain copies of replacement notices, proposals, and verification records for at least five (5) years or until the next Department examination.

16. D — Under Idaho Code § 41-4308, the Guaranty Association maximum liability for life insurance death benefits is $300,000 in death benefits for any one individual life.

17. A — The Automatic Premium Loan (APL) provision is an optional feature that authorizes the insurer to use the policy's cash value to pay a premium that is past due. It is essentially a loan against the cash value to prevent an unintentional policy lapse.

18. C — For risk to be insurable (and priced accurately), there must be a large enough number of homogeneous (similar) exposure units that the Law of Large Numbers can be applied. Without sufficient similar risks, the insurer cannot accurately predict losses and set reasonable premiums. Other requirements include accidental, definite, and non-catastrophic losses.

19. B — 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.

20. D — The Joint and Survivor option makes payments for the lives of two or more annuitants (typically a married couple). When the first annuitant dies, payments either continue at the same level or are reduced (e.g., to 2/3 or 1/2) for the surviving annuitant.

21. D — Life insurance is a valued contract because the face amount (death benefit) is agreed upon when the policy is issued and is paid in full upon the insured's death, regardless of the insured's actual economic value at the time of death.

22. C — Because variable products are both insurance contracts and securities, they must be registered with the SEC under the Securities Act of 1933 and the Investment Company Act of 1940. Additionally, the agent selling them must be registered with FINRA and licensed by the state Department of Insurance.

23. D — Speculative risk involves a chance of either loss or gain. Gambling, stock market investments, and starting a new business are all examples of speculative risks, which are typically not insurable.

24. A — A surviving spouse who is caring for a child under age 16 (or a disabled child) is entitled to a mother's or father's benefit equal to 75% of the deceased worker's Primary Insurance Amount. These benefits end when the youngest child reaches age 16.

25. A — Upon conversion of group term to individual whole life, the insured pays the standard premium for their current age (attained age) for the type of individual policy issued. No evidence of insurability is required. The premium will be significantly higher than the group rate because individual policies are more expensive per unit of coverage than group rates.

26. D — The liquidation period, also known as the annuitization or payout period, is the phase when the contract begins to make regular income payments to the annuitant. Once this phase begins, it generally cannot be altered.

27. D — Universal Life (UL) is a flexible premium policy. The policyowner can increase or decrease premium payments and even skip payments, as long as there is enough cash value to cover the monthly mortality and expense charges.

28. D — 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.

29. A — 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.

30. B — 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.

31. C — The suicide clause provides that if the insured dies by suicide within the first 1-2 years of the policy (the exclusion period), the insurer will only return the premiums paid — not the full death benefit. After the exclusion period, suicide is covered as any other cause of death. This prevents purchase of insurance for speculative purposes.

32. C — Risk retention (self-insurance) means accepting the financial consequences of a potential loss rather than transferring the risk to an insurer. This can be intentional or unintentional.

33. D — 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.

34. A — A jumping juvenile policy is a life insurance policy written on a minor. The face amount is typically small (e.g., $1,000) until the child reaches a specified age (e.g., 21), at which point it automatically increases (jumps) to a much larger amount (e.g., $5,000) with no increase in premium.

35. B — Because insurance contracts are contracts of adhesion (offered on a 'take-it-or-leave-it' basis by the insurer), any ambiguities are legally resolved in favor of the adhering party (the insured).

36. A — Social Security (OASDI) is funded through the Federal Insurance Contributions Act (FICA) payroll tax, which is split equally between the employee and employer. Self-employed individuals pay both portions through the Self-Employment Contributions Act (SECA) tax.

37. A — 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).

38. B — Under Idaho Code § 41-4301, the Idaho Life and Health Insurance Guaranty Association protects policyowners, insureds, and beneficiaries against financial loss resulting from insurer insolvency.

39. D — A book value surrender allows the owner to withdraw the full accumulation value of a fixed annuity without a market value adjustment (MVA). This is the standard for most fixed annuity surrenders during the surrender charge period — the surrender charge is applied to the book value, not an MVA-adjusted value.

40. B — 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.

41. A — The payout rate (or payment rate) is the annual income per $1,000 of premium, used to compare immediate annuity quotes. A higher payout rate means more income for the same premium. Payout rates depend on the annuitant's age, sex (where applicable), interest rates, and the chosen payout option.

42. B — For a risk to be insurable, the potential loss must be significant enough to cause financial hardship. Trivial or minimal risks are generally not insurable because the cost of the policy would outweigh the benefit.

43. D — Because life insurance is a personal contract, it follows the person rather than insuring a specific piece of property. The policyowner cannot transfer (assign) ownership of the policy to another party without the insurer's consent.

44. D — The Law of Large Numbers states that as more similar risks are pooled, the actual loss experience approaches the statistically expected loss rate, allowing accurate premium pricing.

45. B — The 7-pay test is the mechanism used by the IRS to determine if the total premiums paid into a life insurance policy within its first seven years are in excess of the amount needed to have the contract be paid-up in seven years. If it fails this test, it becomes a MEC.

46. A — A viatical settlement involves a terminally ill policyowner (the 'viator') selling their life insurance policy to a viatical settlement company. The company pays the insured a percentage of the face value in cash and becomes the new owner and beneficiary of the policy.

47. D — Under Idaho Code § 41-4308, disability income insurance and long-term care insurance benefits are covered up to a maximum of $300,000 for any one individual.

48. B — Variable products are considered both insurance and securities. Therefore, the agent needs both a state life insurance license and a federal securities license (Series 6 or 7).

49. A — When group life coverage terminates, an employee has the right to convert to an individual (whole life) policy within 31 days, without providing evidence of insurability. This protects employees who may have become uninsurable during their employment from losing all life insurance coverage.

50. A — Under the Fixed Amount option, the insurer pays a specified dollar amount at regular intervals until the proceeds plus earned interest are fully exhausted. If the beneficiary dies before all payments are made, the remaining balance continues to the contingent payee. The payment period is unknown at the outset because it depends on how long the funds last.

51. C — Stock redemption (or entity purchase) arrangements use life insurance on each owner/partner, with the business as the beneficiary. Upon an owner's death, the insurance proceeds are used by the business to buy the deceased owner's interest from their estate, ensuring business continuity.

52. A — Whole Life insurance provides permanent, lifelong protection. It includes a savings element (cash value) that grows on a tax-deferred basis and is guaranteed to be available to the policyowner.

53. A — The participation rate determines how much of the index's increase is used to calculate the interest credited. For example, if the index gains 10% and the participation rate is 80%, the annuity would be credited with 8% interest (before any caps or spreads).

54. D — The accumulation phase of a deferred annuity ends when the contract is annuitized — converted from the savings phase to the income-paying phase. At annuitization, the accumulated value is used to calculate regular income payments based on the chosen payout option and the annuitant's life expectancy.

55. C — The Accelerated Death Benefit provision allows terminally ill insureds (and sometimes those with chronic or critical illnesses) to receive a portion of the life insurance death benefit before death. Payments accelerated during life reduce the final death benefit. This is also called a 'living benefit.' Federal tax law generally treats ADB payments as non-taxable income.

56. D — Straight Life Income provides the largest periodic payment because it is based solely on the beneficiary's life expectancy. There is no guarantee of a minimum number of payments or a survivor benefit, which makes it the riskiest option for the beneficiary but provides the highest payout.

57. C — A physical hazard is a tangible condition or characteristic that increases the likelihood of a peril occurring, such as a faulty electrical system in a building or a person's high blood pressure.

58. C — Because Linda (the primary beneficiary) predeceased the insured (Robert), the contingent beneficiary (Tim) is entitled to receive the death benefit.

59. C — 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.

60. B — Most life insurance policies contain exclusions for death caused by war or act of war, aviation (under certain circumstances such as military or private piloting), and suicide within the first two years. These exclusions limit the insurer's liability for specific high-risk events.

61. B — 'Per capita' (by the head) means the death benefit is shared equally among the surviving beneficiaries in a designated class. If one beneficiary in the class has died, their share is redistributed among the other survivors in that class, and their heirs receive nothing.

62. D — Under UL Option A (Level Death Benefit), total death benefit = face amount (net amount at risk + cash value = face amount). Under Option B (Increasing Death Benefit), total death benefit = specified amount PLUS the accumulated cash value. Option B provides a higher total death benefit but costs more because the net amount at risk remains level.

63. C — A hazard is a condition or situation that increases the probability or severity of a loss. A peril is the cause of the loss, such as fire or theft.

64. D — If an insurer takes an adverse action (e.g., denying coverage or charging a higher rate) based on information in a consumer report, it must inform the applicant of the decision and provide the name, address, and phone number of the agency that supplied the report.

65. D — For non-MEC policies, withdrawals are treated on a FIFO (First-In, First-Out) basis. This means the policyowner can withdraw up to their cost basis (total premiums paid) without incurring any taxes. Withdrawals exceeding the cost basis are taxable as ordinary income.

66. A — When the insured of a traditional whole life policy dies, the insurer pays the face amount (death benefit) to the beneficiary. The cash value is considered part of the death benefit and is not paid out separately; it is effectively absorbed by the insurer.

67. C — When an annuity is 'qualified' (used to fund a plan like a Traditional IRA or 401(k)), the contributions are made with pre-tax dollars. Since no taxes have been paid on either the principal or the earnings, the entire amount of any distribution is taxable as ordinary income.

68. C — A stock insurance company is a corporation owned by its stockholders or shareholders. Profits are distributed to these shareholders as dividends and are taxable.

69. D — The Misstatement of Age or Sex provision states that if the insured's age or sex was misstated, the insurer will not void the policy but will adjust the benefits. The death benefit will be recalculated to the amount the premium paid would have purchased at the correct age or sex.

70. B — Under the suicide clause, if the insured commits suicide within the first two years of the policy, the insurer's liability is limited to a refund of the premiums paid. After two years, the full death benefit must be paid.

71. C — 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.

72. C — Under Idaho Code § 41-4308, the Guaranty Association provides up to $500,000 for basic hospital, medical, and surgical insurance or major medical health benefit plans.

73. A — IRS aggregation rules (IRC Section 72(e)(12)) treat multiple annuity contracts issued after October 21,1988 by the same insurer to the same owner in the same calendar year as a single contract for tax purposes. This prevents owners from using multiple contracts to avoid paying gains first on withdrawals.

74. B — An APS is a detailed report obtained from the applicant's personal physician. It provides the underwriter with the applicant's medical history, diagnoses, treatments, and prognosis. It is one of the most thorough and reliable sources of medical underwriting information.

75. C — 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.

Health Insurance Section — Answers

1. C — 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.

2. D — 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.

3. D — LTC insurance benefits are triggered when the insured cannot perform at least 2 of 6 Activities of Daily Living (ADLs): bathing, dressing, eating, continence, toileting, and transferring. Severe cognitive impairment (such as Alzheimer's) is also a trigger. Both triggers must be certified by a licensed healthcare practitioner.

4. B — Utilization review (UR) is a systematic process used by health insurers and managed care organizations to evaluate the appropriateness and medical necessity of healthcare services. UR can occur prospectively (prior authorization before services), concurrently (during ongoing treatment), or retrospectively (after services are rendered).

5. A — Similar to a life insurance-funded buy-sell, a disability buy-out policy provides the funds needed for the business or remaining partners to execute the buy-sell agreement and purchase the disabled partner's share of the business.

6. C — Qualifying events for dependents include the death of the employee, divorce or legal separation, the employee's termination or reduction in hours, the employee becoming eligible for Medicare, or a dependent child ceasing to be a 'dependent child' under the plan's rules. Marriage of a dependent child is not itself a qualifying event, but losing dependency status is.

7. B — Exercising a contractual right of conversion with the same insurer without additional evidence of insurability is exempt from replacement rules.

8. D — A guaranteed renewable policy requires the insurer to renew the policy as long as premiums are paid. However, the insurer can raise the premium rates for an entire class of insureds, but not on an individual basis.

9. A — The out-of-pocket maximum is a financial protection feature. It is the absolute most an insured will have to pay in a policy year for covered services through deductibles, copayments, and coinsurance. Once this limit is reached, the insurer pays 100% of covered costs for the rest of the year.

10. B — An insurance agent is a representative of the insurance company (principal). The agent's authority is derived from the insurer, and the insurer is bound by the authorized acts of its agents under the law of agency.

11. C — The Medicare Part A hospital deductible applies per benefit period (spell of illness) — NOT per calendar year. A new benefit period begins after the beneficiary has been out of the hospital and not receiving skilled nursing facility care for 60 consecutive days. A beneficiary can have multiple benefit periods in a year, each with its own deductible.

12. C — Medicare Supplement and Long-Term Care insurance policies must provide a thirty (30) day free-look period with a right to a 100% full refund of premiums paid.

13. C — Once an HSA account holder reaches age 65, the 20% penalty for non-qualified withdrawals no longer applies. However, non-qualified withdrawals are still subject to regular income tax, similar to a traditional IRA distribution.

14. D — The ACA prohibits annual and lifetime dollar limits on essential health benefits (EHBs) in non-grandfathered plans. Insurers cannot cap the annual or lifetime amount they will pay for EHBs. However, annual and lifetime limits may still be applied to benefits that are not EHBs.

15. C — A POS plan is a hybrid of HMO and PPO features. When members use their PCP and obtain referrals, they receive HMO-level benefits. When they go out-of-network without a referral, they pay substantially higher deductibles and coinsurance, similar to an indemnity plan.

16. A — The Medicare Initial Enrollment Period (IEP) is a 7-month period. It begins 3 months before the month a person turns 65, includes the month they turn 65, and ends 3 months after the month they turn 65.

17. C — 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.

18. B — The probationary period is a one-time period that begins on the policy's effective date, typically 15-30 days. It specifies that no benefits will be paid for a sickness that begins during this initial period. This is designed to protect the insurer from adverse selection (people buying a policy because they know they are about to get sick).

19. A — Medicare Part B (Medical Insurance) covers physician services, outpatient care, preventive services, mental health services, and durable medical equipment (DME). Part B requires a monthly premium (income-adjusted) and has an annual deductible with 20% coinsurance after the deductible.

20. D — If an individual misses their Initial Enrollment Period and does not qualify for a Special Enrollment Period, they can sign up for Part B during the General Enrollment Period, which runs from January 1 to March 31 each year. Coverage will not start until July 1, and a late enrollment penalty may apply.

21. B — COB rules prevent double recovery — an insured with two group health plans cannot collect more than their actual covered medical expenses combined. COB rules determine which plan is primary (pays first) and which is secondary (pays after the primary, covering remaining eligible expenses up to 100% of cost).

22. C — The metal levels represent the average percentage of health care costs the plan will cover. Bronze plans cover about 60%, Silver 70%, Gold 80%, and Platinum 90%. A plan with a higher metal level will have a higher premium but lower out-of-pocket costs.

23. A — Under Idaho Code § 41-1019, within fifteen (15) days after making the notification to the Director, the insurer must mail a copy of the notification to the producer at their last known address.

24. A — A Risk Retention Group (RRG) is a liability insurance company formed under the federal Liability Risk Retention Act, owned by its member-insureds, and formed to insure risks shared by members of a similar industry or trade group.

25. B — Presumptive disability provisions automatically waive the elimination period and provide immediate total disability benefits when the insured suffers certain catastrophic losses — such as complete and permanent loss of sight, hearing, speech, or the use of two limbs. The insured is presumed permanently and totally disabled from the specified loss.

26. C — Dental plans often categorize services. Preventive (cleanings), Basic (fillings), and Major (crowns, bridges, dentures, orthodontia). Major services usually have the highest level of cost-sharing (e.g., 50% coinsurance) and may have a waiting period.

27. A — The primary distinction lies in the network and choice. HMOs are more restrictive, requiring members to use a limited network and a PCP gatekeeper. PPOs offer a broader network and the freedom to see out-of-network providers, albeit at a higher cost.

28. C — Consideration is something of value exchanged by each party. For the insured, consideration consists of the initial premium payment AND the representations made in the application. The insurer's consideration is the promise to pay the death benefit upon the insured's death.

29. A — The insurer's consideration is its promise to pay benefits or claims in the event of a covered loss, as described in the policy.

30. A — The Annual Election Period (AEP) is the primary time when Medicare beneficiaries can review and change their health and drug plans for the following year. Changes made during AEP become effective on January 1st.

31. B — Failing to indicate to a claimant the specific coverage or policy provisions under which a payment is made constitutes an unfair claims settlement practice.

32. B — A capital loss is the most severe type covered under an AD&D policy and pays the full principal sum (100%). Capital losses include loss of life, loss of both hands, loss of both feet, loss of sight in both eyes, or any combination of two. Loss of one hand, one foot, or sight in one eye typically pays 50% (the 'capital' sum).

33. D — Concealment is the intentional withholding of material facts from the insurer at the time of application. Material concealment, like material misrepresentation, can be grounds for rescission of the policy if the insurer discovers it during the contestability period.

34. B — The Future Increase Option (FIO) rider, also known as a Guaranteed Insurability Rider, allows the insured to purchase additional amounts of disability income coverage at specified future dates without having to prove their health status.

35. A — The key feature of a PPO is flexibility. Members can see any doctor or specialist they want without a referral, both in-network and out-of-network. However, their cost-sharing (deductibles, copays) will be significantly lower when they use providers within the PPO's network.

36. B — The insurer must pay benefits immediately upon receipt of due written proof of loss. For disability income benefits, periodic payments must be made at least monthly, if the period of disability is sufficiently long.

37. B — Upon reinstatement of an A&H policy, coverage for accidental injuries is effective immediately. However, coverage for sickness does not take effect until 10 days after the date of reinstatement, to prevent individuals from reinstating a policy only when they know they are already ill.

38. A — In an HMO, providers are typically paid through capitation, meaning they receive a fixed, prepaid amount per enrolled member per month regardless of whether the member uses services. This incentivizes preventive care and cost control.

39. A — Risk classification is the process of grouping applicants with a similar level of risk together. This allows insurers to charge premiums that are commensurate with the level of risk posed by each group (e.g., preferred, standard, substandard).

40. C — Insurers must maintain and provide accessible provider network directories; penalizing an insured when directories are inaccessible or inaccurate is unfair.

41. D — Many LTC insurance policies include care coordination or case management services. A care coordinator (often a nurse or social worker) assesses the insured's care needs, recommends appropriate levels of care, and helps the insured and family access suitable services. This benefit can improve care quality and may help control overall claim costs.

42. A — 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.

43. D — Cost-sharing reductions are only available to eligible individuals who enroll in a Silver-level plan through the health insurance marketplace. CSRs lower out-of-pocket costs such as deductibles, copayments, and coinsurance for individuals with household incomes between 100% and 250% of the federal poverty level.

44. B — A noncancellable (noncancellable and guaranteed renewable) policy provides the strongest renewability protection. The insurer cannot cancel the policy, cannot increase premiums, and cannot reduce benefits as long as the insured pays premiums. This provides maximum long-term stability for the insured.

45. C — Underwriting is the process of risk selection, classification, and pricing. Underwriters for the insurance company decide whether to accept or reject applications for insurance.

46. C — Waiver is the voluntary relinquishment of a known legal right or advantage. If an insurer waives a policy condition (e.g., late premium payment), it cannot later enforce that condition.

47. C — Under Idaho Code § 41-1905, life insurance policies must contain a provision stating that the policy becomes incontestable after it has been in force for two (2) years from its issue date.

48. A — In the ACA marketplace, metal tier plans with higher premiums (Gold, Platinum) have lower cost-sharing — meaning lower deductibles, copays, and coinsurance when you actually receive care. Lower premium plans (Bronze) have higher cost-sharing. This tradeoff between premium and cost-sharing is the fundamental choice consumers make when selecting ACA plans.

49. A — 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.

50. A — The COB provision is used when a person is covered by two or more health plans to determine the order of payment. It ensures that the total payment from all plans does not exceed the total medical expenses, thus preventing overinsurance.

51. A — Under Idaho Code § 41-1016, the Director may impose an administrative penalty of up to $1,000 per violation on any individual licensee who violates the provisions of Title 41.

52. C — The Conditions section sets forth the rules of conduct, duties, and obligations for both the policyholder and the insurer. Examples include the requirement to provide proof of loss and the insurer's obligation to pay claims in a timely manner.

53. D — 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.

54. A — The ACA requires all health plans that offer dependent coverage to allow children to remain on their parent's plan until they turn 26, regardless of the child's marital status, financial dependency, student status, or availability of employer-sponsored coverage.

55. C — In a closed panel arrangement (typical of HMOs), members must receive care from a select group of contracted providers, often employed by or exclusively contracted with the plan. In an open panel (typical of PPOs), any provider willing to accept the plan's terms may participate.

56. A — After a qualifying event, the employer must notify the plan administrator, who then provides an election notice to the qualified beneficiary. The beneficiary has 60 days from the date the notice is sent or the date coverage ended (whichever is later) to elect to continue coverage.

57. A — Written proof of loss must be furnished to the insurer within 90 days after the date of the loss. If it is not reasonably possible to give proof within 90 days, the claim is not invalidated if proof is given as soon as reasonably possible, but no later than one year (unless the insured is legally incapacitated).

58. D — An HSA is owned by the individual, not the employer. Contributions are tax-deductible, growth is tax-deferred, and withdrawals for qualified medical expenses are tax-free. The account is portable, meaning the individual keeps it even if they change jobs or health plans.

59. B — Home health care coverage provides for services delivered at home, such as skilled nursing, physical therapy, occupational therapy, or speech therapy, typically provided by licensed professionals.

60. D — Changing an existing policy into a nonforfeiture option (such as extended term or reduced paid-up) to purchase a new policy meets the statutory definition of replacement.

61. B — In a major medical health plan, the benefit period (usually a calendar year) is the period within which all covered expenses must be incurred to apply toward the same deductible and out-of-pocket maximum. At the end of the benefit period, these amounts reset. Most plans use January 1 to December 31 as the benefit period.

62. C — The ACA prohibits health insurers from denying coverage, excluding benefits, or charging higher premiums based on pre-existing conditions. This applies to all individual and group health insurance plans, ensuring that individuals with conditions like diabetes receive equal access to coverage.

63. D — From an insurer perspective, an HMO is a type of managed care organization that provides or arranges healthcare services to enrolled members in exchange for fixed periodic premiums (capitation). HMOs combine the insurance and delivery functions of healthcare — they both finance and provide (or arrange) medical care through contracted provider networks.

64. A — The ACA's guaranteed issue provision requires health insurers in the individual and small group markets to accept all applicants regardless of health status, pre-existing conditions, gender, or other factors during the Open Enrollment Period or a qualifying Special Enrollment Period.

65. C — Under replacement rules, the replacing insurer must notify the existing insurer within five (5) working days of receiving the application and provide copies of proposals upon request.

66. A — A copayment (copay) is a fixed dollar amount paid per service (e.g., $30 per doctor visit). Coinsurance is a percentage the insured pays after the deductible is met (e.g., 20% of all covered expenses). Both are forms of cost-sharing designed to reduce premium costs and encourage appropriate utilization of healthcare services.

67. A — Partial (residual) disability benefits compensate the insured for a reduction in earning capacity when they can work but earn less than before due to disability. The benefit is proportional to the income loss. Many modern DI policies include partial disability benefits to encourage gradual return to work.

68. A — 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.

69. C — In an IPA model, independent physicians maintain their own offices and private practices. They contract with the HMO to provide services to its members, typically on a capitated or negotiated fee basis. The physicians also see non-HMO patients, giving them more independence than staff model physicians.

70. A — 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).

71. A — The notice of claims provision requires the insured to notify the insurer of a claim within a specified time period (typically within 20 days of the loss or as soon as reasonably possible). Timely notice allows the insurer to investigate the claim and provide claim forms. Failure to provide timely notice does not necessarily void coverage but may complicate the claims process.

72. A — 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.

73. A — The Idaho Department of Insurance (DOI), headed by the Director of Insurance, is the state regulatory agency responsible for administering and enforcing Title 41 of the Idaho Code.

74. A — 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.

75. C — An inspection report is a general report on the applicant's finances, character, work, hobbies, and lifestyle. This may include a review of their driving record from the DMV, especially if they are applying for a large amount of coverage or have a history of reckless behavior.

PRACTICE TEST 2

Life Insurance Section

75 Questions • 3 Hours Time Limit • 60% Passing Score

Simulates the official state licensing exam. Do not view answer key until finished.

1. Variable life insurance is regulated as both an insurance product AND a security because:

A. The insurer invests premiums in government bonds
B. Variable policies are issued only by publicly traded companies
C. Variable insurance can be purchased on stock exchanges
D. The policyowner bears investment risk through subaccount investing

2. A licensee in Nampa receives an official notice of hearing regarding client complaints but fails to attend or respond. What action is the Director permitted to take?

A. The Director must dismiss all charges automatically
B. The Director may proceed in the licensee absence and enter a default order suspending or revoking the license
C. The Director must reschedule the hearing indefinitely
D. The Director must refer the licensee to the NAIC for mediation

3. Under the SECURE Act, a non-spouse beneficiary who inherits a qualified annuity (such as one held in an IRA) must generally distribute the entire account within:

A. 5 years of the owner's death
B. The beneficiary's own life expectancy
C. 10 years of the owner's death
D. 20 years of the owner's death

4. Non-qualified annuity withdrawals are taxed using the LIFO method, which means:

A. All withdrawals from non-qualified annuities are always tax-free
B. The last money in (earnings/gains) is deemed to come out first and is taxable
C. Withdrawals are taxed as capital gains
D. The first dollars out are tax-free until the cost basis is recovered

5. A Modified Endowment Contract (MEC) occurs when:

A. An annuity's interest rate is modified by the insurer
B. A variable annuity includes a guaranteed minimum death benefit rider
C. An annuity's cash value exceeds its death benefit
D. A life insurance policy is over-funded beyond IRS limits based on a 7-pay test

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

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

7. If an applicant misstates their age on a life insurance application in Idaho, what action does the insurer take upon discovering the error after death?

A. Adjust the death benefit to the amount that the premium paid would have purchased at the correct age
B. Void the policy and deny the claim completely
C. Sue the beneficiary for fraud
D. Pay double the face amount

8. What is the 'option B' death benefit in a Universal Life policy?

A. A decreasing death benefit.
B. An increasing death benefit equal to the face amount plus the cash value.
C. A level death benefit equal to the policy's face amount.
D. A death benefit linked to a stock market index.

9. How often must the Idaho Director of Insurance examine the financial condition and affairs of every domestic insurer licensed in the state?

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

10. Life insurance is unique among financial products because the death benefit paid to the beneficiary is generally:

A. Received income-tax-free by the beneficiary under IRC Section 101(a)
B. Subject to capital gains tax on appreciation
C. Only tax-free for surviving spouses
D. Subject to ordinary income tax

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11. When an individual decides to self-insure by setting aside funds to cover potential losses, they are using which risk management technique?

A. Sharing
B. Retention
C. Transfer
D. Avoidance

12. 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

13. How is the death benefit of a life insurance policy paid to a beneficiary generally treated for tax purposes?

A. It is subject to capital gains tax.
B. It is received income tax-free.
C. It is subject to estate tax for the beneficiary.
D. It is taxed as ordinary income.

14. If an applicant makes a material misrepresentation on an application, the insurer may:

A. Void the policy
B. Increase the premium
C. Sue the applicant for fraud
D. Add an exclusion rider

15. 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

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

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

17. 'Blending' or 'loading' in a participating whole life policy refers to:
- A. Blending both fixed and variable components in the same policy
- B. Loading higher premiums onto smoker-rated policies
- C. Mixing whole life with paid-up additions to increase cash value and reduce net premium cost
- D. Adding term insurance rider to increase coverage at a lower cost

18. The 'term rider' in a permanent life insurance policy:
- A. Provides term coverage only for the insured's spouse
- B. Adds additional term coverage to the base permanent policy to increase total death benefit at a lower cost
- C. Converts the entire permanent policy to term coverage after a specified period
- D. Extends the policy term by 5 years automatically

19. An employer wants to insure a key executive under the company's group life plan with a benefit amount significantly higher than other employees. Which group insurance principle could this potentially violate?
- A. The doctrine of adhesion
- B. The law of large numbers
- C. The requirement that benefit amounts be determined by a formula that precludes individual selection
- D. The principle of indemnity

20. The 'subaccount' in a variable life insurance policy is managed by:
- A. The insurance company's general account investment team
- B. A professional investment manager or fund company under contract with the insurer
- C. FINRA-appointed trustees who manage the assets on behalf of all policyholders
- D. The policyowner personally through a brokerage interface

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21. Which of the following describes a single premium whole life policy?
- A. A policy with a single beneficiary.
- B. A policy that is paid up after one year.
- C. A policy that requires only one premium payment for the life of the contract.
- D. A policy where the premium can be paid at any time.

22. Dividends received from a participating life insurance policy are:
- A. Taxable as ordinary income.
- B. Tax-deductible for the policyowner.
- C. Taxable as capital gains.
- D. Generally considered a tax-free return of premium.

23. A 'cost of living adjustment' (COLA) rider on a life insurance or disability income policy:
- A. Pays an additional benefit only if the cost of the funeral exceeds a set amount
- B. Adjusts the premium if the cost of living in the insured's area increases
- C. Automatically increases the benefit over time to keep pace with inflation (often tied to the CPI)
- D. Reduces the benefit if inflation causes costs to rise

24. A contract requires that both parties bring something of value to the exchange. This is known as:
- A. Competent Parties
- B. Consideration
- C. Agreement
- D. Legal Purpose

25. A fraternal benefit society differs from a stock or mutual insurer because it:
- A. Only provides group life insurance to employers
- B. Is regulated by the federal government, not state agencies
- C. Is nonprofit and sells insurance only to its own members through a lodge system
- D. Sells coverage to the general public without any membership requirement

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26. 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

27. 'Annuity units' in the distribution phase of a variable annuity are used to:

A. Represent the insurer's share of the annuity's investment gains
B. Calculate the variable income payments during the annuitization phase
C. Track the annuity owner's investment performance during accumulation
D. Determine the surrender charge during the distribution phase

28. The 'notice of conversion rights' under group life insurance must be provided to:

A. Employees whose group life coverage terminates for any qualifying reason, notifying them of their right to convert to individual coverage
B. Only employees who are voluntarily resigning
C. Only employees who are terminated involuntarily
D. Employees who have been with the company for more than 5 years

29. Under Idaho Code § 41-1904, what is the required statutory grace period for individual life insurance policies?

A. 10 days
B. 30 days or one month
C. 15 days
D. 60 days

30. What is a primary statutory restriction placed on the holder of an Idaho temporary insurance producer license?

A. The temporary licensee may only sell variable universal life policies
B. The temporary licensee must pay quadruple licensing fees
C. The temporary license must be renewed annually for up to 5 years
D. The temporary license is granted solely to wind down or maintain existing business and cannot be used to solicit new insurance business for profit

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31. A producer repeatedly replaces a client life policy with new policies within the same insurance company solely to generate higher first-year commissions. What is this practice called?

A. Twisting
B. Rebating
C. Defamation
D. Churning

32. If an insurer allows an unlicensed individual to solicit insurance applications using the company's letterhead, business cards, and office space, the insurer may be liable under the doctrine of:

A. Apparent authority
B. Implied authority
C. Express authority
D. Subrogation

33. Fixed-indexed annuities are regulated as:

A. Banking products subject to FDIC oversight
B. Securities by the SEC and FINRA
C. Both insurance and securities products requiring dual licensing
D. Insurance products by state insurance departments; they are NOT securities

34. What is a 'rider' in an annuity contract?

A. The primary beneficiary of the annuity.
B. An optional benefit or feature that can be added to the contract, usually for an additional cost.
C. The person who drives the annuitant to appointments.
D. The application form for the annuity.

35. Group life insurance is most commonly written as:

A. Term insurance on a one-year renewable term basis
B. Whole life with guaranteed cash value accumulation
C. Permanent insurance with level premiums
D. Universal life with flexible premiums

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36. The 'paid-up at 65' whole life policy is one in which:

A. Cash value equals face amount at age 65
B. Premium payments end at age 65 but the policy remains in force for life
C. Coverage terminates when the insured reaches age 65
D. The policy automatically converts to term at age 65

37. '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

38. A per stirpes beneficiary designation means:

A. Only direct blood relatives can receive proceeds
B. If a primary beneficiary predeceases the insured, that beneficiary's share passes to their children (descendants)
C. All named beneficiaries share equally regardless of family relationship
D. The insurer divides proceeds equally among all living relatives

39. Annuity suitability regulations require the producer to make a record of:

A. The client's family medical history.
B. The producer's commission rate.
C. The client's political views.
D. The recommendation made to the client and the basis for it.

40. An employee who does not enroll in a group life insurance plan during the initial eligibility period and later wishes to join is considered a:

A. Preferred risk
B. Substandard risk
C. Late enrollee
D. Non-eligible employee

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41. An agent, Bob, takes an application from a client, collects the initial premium, and issues a conditional receipt. The client dies in an accident the next day, before the medical exam is completed. Under what condition will the insurer pay the death benefit?

A. Under no condition because the medical exam was not completed
B. Only if the underwriter determines the client would have been acceptable at standard risk on the date of application
C. The benefit is automatically paid because a receipt was issued
D. Only if the beneficiary agrees to pay for the medical exam post-mortem

42. A 'market value adjustment' (MVA) provision in a fixed annuity:

A. Applies a positive or negative adjustment to the surrender value based on changes in interest rates since the contract was issued
B. Guarantees the annuity owner receives at least market-rate returns
C. Adjusts the insurer's reserve requirements based on market conditions
D. Automatically resets the credited rate to match current market rates

43. What is a Life Settlement?

A. A dividend option that purchases more insurance.
B. A settlement option that provides lifetime income.
C. The sale of a life insurance policy by a healthy, typically elderly, individual to a third party.
D. The cash surrender of a policy.

44. 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

45. 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

46. Mortality and expense (M&E) charges in a variable annuity:

A. Compensate the insurer for mortality risk and administrative expenses associated with the variable annuity guarantees
B. Pay for investment management of the subaccounts
C. Are optional charges that the policyowner can choose to waive
D. Are charged only when the policyowner receives income payments

47. Which of the following is an example of risk avoidance?

A. Deciding not to skydive to avoid the risk of injury
B. Setting aside funds to cover potential losses
C. Installing a sprinkler system to reduce fire damage
D. Purchasing fire insurance on your home

48. The 'net single premium' for a life insurance policy represents:

A. The lump-sum amount needed today to fund the present value of all future death benefit payments
B. The minimum premium required to keep the policy in force
C. The premium after removing agent commissions
D. The monthly premium after deducting dividends

49. The annuitization of a deferred annuity contract must begin by what age to avoid penalties?

A. Age 59 1/2
B. There is no required age
C. Age 72
D. Age 85

50. A survivorship life insurance policy, also known as a 'second-to-die' policy, pays the death benefit when:

A. The second insured dies.
B. Either insured dies.
C. Both insureds die simultaneously.
D. The first insured dies.

51. A producer in Idaho is indicted for a felony financial crime. Under Idaho Code § 41-1021, within how many days must the producer report this criminal prosecution to the Director?

A. Within 10 days of indictment
B. Within 30 days of the initial pretrial hearing date
C. Only after final conviction and sentencing
D. Within 6 months of being charged

52. 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

53. A 1035 exchange from an annuity to a life insurance policy:

A. Is permitted but triggers a 10% early withdrawal penalty
B. Is permitted on a tax-free basis under Section 1035
C. Is permitted if the annuity and life insurance policy are with the same insurer
D. Is NOT a qualifying 1035 exchange — annuities cannot be exchanged tax-free for life insurance

54. Under the 'reasonable expectations' doctrine:

A. Agents are expected to reasonably explain all policy provisions
B. Premiums must be reasonable and actuarially justified
C. An insured is entitled to coverage they would reasonably expect based on the contract language, even if ambiguous
D. Insurers are expected to pay all claims reasonably filed

55. What is the tax implication of an accelerated death benefit paid to a terminally ill insured?

A. It is generally received income tax-free.
B. It is fully taxable as income.
C. It is subject to a 10% penalty.
D. It is taxed as a capital gain.

56. Under what circumstance may an Idaho licensed life producer share or split a sales commission with another individual?

A. If the other individual is an unlicensed real estate agent who provided the lead
B. If the other individual is the applicant spouse
C. Commission splitting is strictly illegal under all circumstances in Idaho
D. Only if the other individual is also a licensed insurance producer in the same line of insurance

57. The settlement option that provides the HIGHEST monthly income per dollar of proceeds is:

A. Straight life income (life only)
B. Joint and survivor annuity
C. Life with 20-year period certain
D. Fixed amount option

58. A universal life policy may lapse even when premiums are being paid if:

A. The insured turns 65 and the insurer re-prices the policy
B. The policyowner fails to submit annual medical updates
C. The cost of insurance charges exceed the premium being paid plus available cash value
D. The beneficiary changes cause administrative delays

59. Which of the following best describes the concept of 'insurable interest' in a life insurance context?

A. The insured's right to receive policy benefits
B. An interest clause that allows the insurer to invest policy reserves
C. The amount of coverage the insured can purchase on another person
D. A financial interest in the continued life of the insured — typically the expectation of financial benefit from the insured's survival or loss upon their death

60. The 'waiver of premium' provision in group life insurance typically requires the disabled employee to be:
A. Disabled for any period, however brief
B. Totally and permanently disabled for at least 6 months before premiums are waived
C. Receiving government disability benefits as a condition of the waiver
D. Disabled and under age 60

61. An annuity that does not start making payments until some point in the future (more than one year after purchase) is a(n):
A. Deferred Annuity
B. Life Annuity
C. Immediate Annuity
D. Lump-Sum Annuity

62. Under a variable annuity, the owner can allocate premium among subaccounts that are most similar to:
A. Government bonds of varying maturities
B. Mutual fund portfolios with various investment objectives (stock, bond, money market)
C. Bank certificates of deposit
D. Fixed annuity credits with varying interest rates

63. A producer who submits a life insurance application without the initial premium is issuing what type of receipt?
A. Premium receipt
B. An application without any receipt
C. Conditional receipt
D. Binding receipt

64. A 'class designation' for a beneficiary would be:
A. 'The trustee of my family trust'
B. 'My children'
C. 'My wife, Jane Doe'
D. 'My business partner, John Smith'

65. 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

66. 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 Level Term
B. 30-Year Decreasing Term
C. Universal Life
D. Whole Life

67. The rider that provides an additional death benefit if the insured dies as a result of an accident is the:
A. Cost of Living Rider
B. Waiver of Premium Rider
C. Guaranteed Insurability Rider
D. Accidental Death Benefit (ADB) Rider

68. Under a universal life policy, what happens when the cash value is insufficient to cover the monthly cost of insurance?
A. The insurer converts the policy to term insurance automatically
B. The insurer automatically doubles the premium
C. The beneficiary is notified and must pay the shortage
D. The policy lapses unless additional premium is paid or the face amount is reduced

69. The term 'surplus lines' insurance refers to coverage:
- A. Offered only through state-operated insurance pools
- B. Available from non-admitted insurers when coverage cannot be obtained from admitted insurers
- C. Provided above the limits of a standard policy
- D. Provided only by mutual insurance companies

70. A producer mails official-looking postcards to senior citizens designed to resemble federal government notifications, which generate leads for Medicare Supplement policies. What is this called?
- A. Deceptive and misleading advertising / lead generation
- B. Permissible public marketing
- C. Sliding
- D. Controlled business

71. What document does an individual member of a group life insurance plan receive as proof of coverage?
- A. A master policy
- B. A certificate of insurance
- C. A declaration page
- D. A binder of coverage

72. What is the purpose of a Statement of Good Health?
- A. To act as a receipt for the first premium
- B. To serve as the primary application for insurance
- C. To verify that the applicant's health has not changed since the application date
- D. To provide a detailed medical history from a physician

73. 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

74. Which of the following is NOT a characteristic of a variable annuity?
- A. Requires a securities license to sell
- B. Guaranteed rate of return
- C. Owner assumes investment risk
- D. Funds invested in a separate account

75. The 'cash refund' life annuity payout option provides that if the annuitant dies before receiving payments equal to the principal:
- A. The beneficiary will receive a lump-sum payment of the remaining principal.
- B. The beneficiary will continue to receive payments for life.
- C. Payments will continue to a beneficiary for a fixed period.
- D. All payments will cease.

PRACTICE TEST 2

Health Insurance Section

75 Questions • 3 Hours Time Limit • 60% Passing Score

Simulates the official state licensing exam. Do not view answer key until finished.

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

2. An insurer needs additional time to investigate a complex disability claim. What must the insurer do under Idaho claims regulations?

A. Deny the claim temporarily and require a re-filing
B. Void the policy contract
C. Send a written notice to the claimant explaining the reasons why more time is needed
D. Report the claimant to the fraud division

3. An insurer that cedes a portion of its risk to another insurer is known as the:

A. Primary insurer
B. Ceding insurer
C. Assuming insurer
D. Reinsurer

4. In a contributory group health plan, what is the typical minimum participation requirement?

A. 90% of eligible employees
B. 75% of eligible employees
C. 100% of eligible employees
D. 50% of eligible employees

5. The 'out-of-pocket maximum' in a health insurance plan means:

A. The total annual amount the insured must pay in deductibles, copays, and coinsurance before the insurer pays 100%
B. The maximum premium the insured can pay annually
C. The most the insurer will pay for any single claim
D. The maximum benefit the insurer will pay in one year

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6. Which of the following is a PRIMARY eligibility requirement for opening a Health Savings Account (HSA)?

A. The individual must be over the age of 50
B. The individual must be employed full-time
C. The individual must be enrolled in any health insurance plan
D. The individual must be enrolled in a High Deductible Health Plan (HDHP)

7. James is laid off from his job at a firm with 25 employees. He wants to continue his group health insurance under federal COBRA. How long can he continue this coverage, and what is the maximum premium he can be charged?

A. 18 months at 102% of the premium
B. 36 months at 100% of the premium
C. 12 months at 150% of the premium
D. 6 months at 102% of the premium

8. What is residual disability?
- A. A disability that results from an accident.
- B. A disability that provides a benefit based on the percentage of income lost due to the disability.
- C. A permanent but not total disability.
- D. The final disability payment made.

9. What is the primary purpose of health insurance?
- A. To protect against the financial consequences of illness or injury
- B. To replace income lost during retirement
- C. To provide investment returns to the policyholder
- D. To fund long-term savings goals

10. Under Idaho Code § 41-2140, within how many days after the birth of a newborn must the policyholder notify the insurer and pay any required additional premium to maintain continuous coverage?
- A. Within 15 days
- B. Within 90 days of birth
- C. Within 31 to 60 days of birth
- D. By the end of the calendar year

11. A hazard that arises from an individual's carelessness because they feel protected by insurance is called a:
- A. Moral hazard
- B. Morale hazard
- C. Speculative hazard
- D. Physical hazard

12. 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. Mental health expenses only
- B. All medical expenses including doctor visits
- C. Dental and vision expenses only
- D. Prescription drug expenses only

13. Under COBRA, the employer must notify the group health plan administrator of a qualifying event (such as termination or reduction in hours) within how many days?
- A. 45 days
- B. 30 days
- C. 14 days
- D. 60 days

14. Under a Flexible Spending Account (FSA), what happens to unused funds at the end of the plan year if the employer does not offer a carryover or grace period?
- A. They are forfeited under the use-it-or-lose-it rule
- B. They are refunded to the employee
- C. They are transferred to the employee's HSA
- D. They are rolled over automatically to the next year

15. 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

16. Which of the following acts is statutory grounds for the Director to suspend, revoke, or refuse to renew an insurance producer license under Idaho Code § 41-1016?
- A. Providing materially incorrect, misleading, or untrue information in a license application
- B. Failing to meet annual sales quotas set by an insurance carrier
- C. Selling policies from more than one authorized insurer
- D. Offering policies with annual rather than monthly premium modes

17. 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

18. Medicare Advantage (Part C) plans must cover all of the following EXCEPT:

A. Medicare Part A and Part B services
B. Skilled nursing facility care after a qualifying hospital stay
C. Emergency care services nationwide
D. Long-term custodial care in a nursing home indefinitely

19. What is 'respite care' in the context of an LTC policy?

A. Temporary care to provide a break for the primary caregiver.
B. Care provided by a family member.
C. Care provided in a hospital.
D. Care provided at the end of life.

20. Under Medicare, the 'lifetime reserve days' provision means:

A. Medicare pays for unlimited hospital stays over the beneficiary's lifetime
B. Beneficiaries have a one-time bank of 60 extra inpatient days they can use if they exhaust the standard 90 inpatient days in a benefit period
C. Beneficiaries earn reserve days by paying into Medicare for more than 40 quarters
D. Medicare guarantees a minimum 60-day hospital stay per year

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21. The optional 'Change of Occupation' provision allows the insurer to adjust benefits or premiums if the insured changes to a:

A. Different employer in the same field
B. More hazardous occupation
C. Part-time position
D. Higher-paying occupation

22. 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

23. Which of the following care settings is for individuals who need some assistance with daily living but do not require 24-hour nursing care?

A. Hospital
B. Assisted Living Facility
C. Hospice Facility
D. Skilled Nursing Facility

24. Under a Point-of-Service (POS) plan, the member avoids higher cost-sharing by:

A. Using out-of-network providers covered at the in-network rate
B. Using only specialists without referrals
C. Staying in-network and using their PCP for referrals when seeing specialists
D. Paying the full cost upfront and requesting reimbursement later

25. When does legal delivery of an insurance policy occur?

A. When the insurer mails the policy to the agent
B. When the agent receives the policy from the insurer
C. When the insured signs the policy acceptance form
D. When the agent delivers the policy to the insured and collects any premium due

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26. Health insurance policies that include a 'preexisting condition' exclusion may deny benefits for:
A. A medical condition for which treatment was sought within a specified lookback period before coverage began
B. Conditions that run in the insured's family
C. Any illness diagnosed after the policy is issued
D. All chronic conditions indefinitely

27. Under the ACA employer mandate for ALEs with 100+ employees in 2015 and 50+ in 2016 and beyond:
A. All full-time employees must be enrolled in coverage whether they want it or not
B. All plans must be grandfathered to be exempt from the mandate
C. Coverage must be free to all employees with no employee contributions allowed
D. The employer must offer qualifying coverage to full-time employees (30+ hours/week) and their dependents

28. Which of the following are considered Activities of Daily Living (ADLs)?
A. Working, exercising, and reading.
B. Paying bills and managing medications.
C. Driving, shopping, and cooking.
D. Bathing, dressing, eating, transferring, toileting, and continence.

29. How many categories of Essential Health Benefits (EHBs) are required under the Affordable Care Act?
A. 8
B. 5
C. 12
D. 10

30. What is the eligibility period for group health insurance?
A. The period during which a new employee can enroll in the plan without evidence of insurability.
B. The length of time coverage is in effect.
C. The period during which claims can be submitted.
D. The period during which an employee must work before becoming eligible for coverage.

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31. A 'deductible' in a health insurance policy is:
A. The amount the insurer pays before the insured contributes anything
B. The fixed amount the insured must pay out-of-pocket before insurance benefits begin
C. The maximum benefit the insurer will pay
D. The insured's monthly premium payment

32. What is the purpose of stop-loss insurance for a self-funded employer?
A. To provide health insurance to employees.
B. To insure against employee lawsuits.
C. To cover administrative costs.
D. To limit the employer's liability for large or catastrophic claims.

33. An Exclusive Provider Organization (EPO) is characterized by:
A. Providing only preventive care services
B. Covering only specialist services
C. Allowing members to use any provider nationwide
D. Requiring members to use the plan's network except in emergencies, with no out-of-network coverage otherwise

34. Which of the following losses would most likely be insurable?
A. A speculative loss from a bad business investment
B. Loss from illegal gambling activity
C. Accidental destruction of a home by fire
D. Loss from a deliberate act of the insured

35. 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.

36. Under Idaho Code § 41-1016, an insurance producer license is considered to be used for controlled business if the aggregate commissions from policies covering the producer, family, or employer exceed what percentage in a 12-month period?
A. 10% of total aggregate commissions
B. 25% of total aggregate commissions
C. 50% of total aggregate commissions
D. 75% of total aggregate commissions

37. A Social Security Rider (or Social Insurance Supplement) on a private disability policy will:
A. Pay a benefit in addition to Social Security benefits.
B. Pay a benefit during the Social Security waiting period and if Social Security denies the claim.
C. Pay a benefit only if the insured is not eligible for Social Security.
D. Replace Social Security benefits entirely.

38. Before a licensed health producer in Idaho may sell Long-Term Care Partnership (LTCP) policies, what initial training requirement must be met?
A. A 2-hour online orientation
B. An initial 8-hour approved Long-Term Care Partnership training course
C. A 24-hour classroom course in geriatric nursing
D. Passing a separate state LTCP licensing examination

39. A producer in Pocatello publishes an advertisement stating that policyholders are 100% protected against loss by the Idaho Life and Health Insurance Guaranty Association. What is true regarding this ad?
A. It is a required disclosure on all insurance marketing materials
B. It is permitted if approved by the local Chamber of Commerce
C. It is an illegal and prohibited unfair trade practice under Idaho Code § 41-4319
D. It is permitted only for universal life policies

40. What is a 'qualifying event' for COBRA?
A. An employee getting a promotion
B. An employee's termination of employment or reduction in hours
C. An employee purchasing an individual health plan
D. An employee going on vacation

41. How much can an employer charge a former employee for COBRA continuation coverage?
A. 102% of the premium
B. 110% of the premium
C. 150% of the premium
D. 100% of the premium

42. An insurance contract is aleatory because:
A. It can be altered by either party at any time
B. The values exchanged are unequal and dependent on an uncertain event
C. Both parties exchange equal value
D. It requires personal performance by both parties

43. What is a 'Special Needs Plan' (SNP)?
A. A Medigap plan for individuals with pre-existing conditions.
B. A state program that supplements Medicaid.
C. A prescription drug plan with no donut hole.
D. A type of Medicare Advantage plan designed for people with specific diseases, disabilities, or limited incomes.

44. Which of the following is considered a qualified medical expense for HSA withdrawals?
A. Cosmetic surgery for aesthetic purposes
B. Health insurance premiums paid outside of COBRA or Medicare
C. Prescription medications
D. Gym membership fees

45. An insurance policy is an aleatory contract, which means:
A. It involves an unequal exchange of value.
B. The terms are take-it-or-leave-it.
C. Only one party makes a promise.
D. It is based on utmost good faith.

46. The 'entire contract' provision in an insurance policy states that:
A. The policy and the attached application constitute the entire agreement.
B. All oral statements are part of the contract.
C. The contract includes the insurer's marketing materials.
D. The policy can be changed by the agent at any time.

47. What is apparent authority?
A. Authority the public reasonably believes an agent has, based on the insurer's actions
B. Authority written in the agent's contract
C. Authority granted by the state's Department of Insurance
D. Authority required to transact business that is not written down

48. Which type of utilization review occurs before a medical service is provided, requiring approval from the managed care plan?
A. Concurrent review
B. Peer review
C. Prior authorization
D. Retrospective review

49. A disability policy with a 'return of premium' rider provides that:
A. The beneficiary will receive a refund of premiums if the insured dies.
B. Premiums are refunded if the policy is cancelled.
C. The insurer will refund a portion of the premiums paid if the insured has not had any claims after a stated period.
D. All premiums will be returned at age 65.

50. Which element is NOT required for a valid insurance contract?
A. Competent parties
B. Legal purpose
C. A licensed agent
D. Consideration

51. If an insurer requests an HIV test from an applicant, who is responsible for the cost?
A. The Medical Information Bureau
B. The agent
C. The insurer
D. The applicant

52. Which ACA provision requires health plans to cover certain preventive services without any cost-sharing to the insured?
A. Essential Health Benefits mandate
B. Minimum Essential Coverage requirement
C. Medical Loss Ratio rule
D. Preventive care with no cost-sharing requirement

53. Medicare Part A covers:
- A. Dental and vision care
- B. Prescription drug benefits
- C. Physician office visits and outpatient services
- D. Inpatient hospital care, skilled nursing facility care, hospice, and limited home health care

54. The term 'representation' in an insurance application means:
- A. A misstatement that voids the contract
- B. A written endorsement added to the policy
- C. A statement the applicant believes to be true but does not guarantee
- D. A guarantee that a statement is true in all respects

55. 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

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56. What happens to COBRA eligibility if a former employee becomes eligible for Medicare?
- A. They can extend their COBRA coverage.
- B. Their COBRA coverage automatically terminates.
- C. They can have both COBRA and Medicare.
- D. Their COBRA premium is reduced.

57. What is the Medical Loss Ratio (MLR) requirement for large group health insurance plans under the ACA?
- A. 80%
- B. 75%
- C. 85%
- D. 90%

58. Estoppel in insurance prevents an insurer from:
- A. Increasing premiums at renewal
- B. Asserting a right inconsistent with a prior position on which the insured relied to their detriment
- C. Denying a claim for non-payment of premium
- D. Paying a claim when fault is disputed

59. Which of the following would disqualify an individual from contributing to a Health Savings Account (HSA)?
- A. Having dental and vision coverage
- B. Being self-employed
- C. Having a High Deductible Health Plan
- D. Being enrolled in a general-purpose health FSA or non-HDHP coverage

60. David's house is damaged by fire. His insurer pays him $50,000 to repair the damage. David then attempts to sue the negligent neighbor who caused the fire for the same $50,000. Which principle prevents David from collecting twice?
- A. The principle of utmost good faith
- B. The principle of subrogation
- C. The principle of insurable interest
- D. The principle of estoppel

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61. A long-term care insurance policy that guarantees premiums will never increase is called:
- A. Guaranteed renewable
- B. Conditionally renewable
- C. Optionally renewable
- D. Noncancellable

62. The 'own occupation' definition of total disability is MORE favorable to the insured than the 'any occupation' definition because:

A. It has no elimination period
B. It considers the insured totally disabled if they cannot perform the duties of their specific occupation
C. It pays a higher benefit amount
D. It covers partial disability automatically

63. Which of the following settings is typically covered by long-term care insurance?

A. Outpatient surgery
B. Emergency room visits
C. Assisted living facility care
D. Acute care hospital stays

64. A producer in Boise falsely tells a client that a competing insurer is facing insolvency and failing to pay claims, in order to convince the client to switch carriers. What unfair trade practice has occurred?

A. Twisting
B. Defamation
C. Rebating
D. Coercion

65. A fixed dollar amount that an insured pays for a specific covered service, such as a doctor's visit, is a(n):

A. Copayment
B. Premium
C. Deductible
D. Coinsurance

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66. The activities of daily living (ADLs) used as benefit triggers in long-term care policies include all of the following EXCEPT:

A. Dressing
B. Eating
C. Working (employment or job duties)
D. Bathing

67. When a replacement is involved in a life insurance transaction, what document must the producer present to the applicant at the time of application?

A. Notice Regarding Replacement of Life Insurance or Annuity
B. Certificate of Incontestability
C. Guaranty Association Waiver
D. FINRA Disclosure Statement

68. A group health plan where the employer pays the entire premium is called a(n):

A. Contributory plan
B. Noncontributory plan
C. Voluntary plan
D. Self-funded plan

69. Under Idaho Code § 41-117, any person who willfully violates any provision of the Idaho Insurance Code for which no specific penalty is provided is guilty of a:

A. Class A felony
B. Civil infraction with no criminal penalties
C. Misdemeanor, punishable by a fine of up to $1,000, imprisonment for up to 6 months, or both
D. Federal administrative violation

70. The 'own occupation' disability definition is typically available:

A. For all employees under standard group LTD plans
B. Only in short-term disability policies
C. For professionals such as physicians, attorneys, and dentists who need maximum income protection
D. Only through government-sponsored disability programs

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71. A health insurance policy that the insurer can cancel at any time for any reason is classified as:

A. Optionally renewable
B. Noncancellable
C. Guaranteed renewable
D. Conditionally renewable

72. A Multiple Employer Trust (MET) allows:

A. Employers to self-fund their health benefits.
B. Multiple small employers to pool together to purchase group health insurance as if they were a single large employer.
C. One large employer to offer multiple health plans.
D. Employees to choose from multiple insurance companies.

73. When a lapsed individual health insurance policy is reinstated in Idaho, what coverage is immediately provided versus delayed?

A. Sickness is covered immediately; accidents are covered after 30 days
B. All claims are covered immediately without waiting periods
C. No claims are covered for the first 6 months
D. Accidental injuries are covered immediately; sickness is covered after a 10-day waiting period

74. 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

75. 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)

Practice Test 2 Answer Key

Life Insurance Section — Answers

1. **D** — Variable life insurance involves the allocation of cash values to separate account subaccounts (similar to mutual funds), where the policyowner bears the investment risk. Because the policy value can decline and the policyowner is subject to investment risk, it is classified as both an insurance product and a security, requiring producers to hold a state insurance license AND FINRA registration.
2. **B** — If a licensee fails to appear at a properly noticed hearing, the Director may proceed in their absence and issue an order based on evidence presented, including suspension or revocation of the license.
3. **C** — The SECURE Act of 2019 eliminated the 'stretch' option for most non-spouse beneficiaries. They must now distribute the entire inherited account within 10 years of the original owner's death. Exceptions exist for eligible designated beneficiaries such as surviving spouses, minor children, disabled individuals, and beneficiaries not more than 10 years younger than the deceased.
4. **B** — Non-qualified deferred annuities follow LIFO (Last In, First Out) tax treatment. Earnings (gains) are deemed to be withdrawn first and are taxed as ordinary income. The cost basis (after-tax premiums paid) is recovered last and received tax-free. This contrasts with qualified annuities where all withdrawals are fully taxable.
5. **D** — A Modified Endowment Contract (MEC) is a life insurance policy that has been funded with cumulative premiums exceeding the IRS 7-pay test limit. MECs lose certain tax advantages of life insurance — withdrawals and loans are taxed on LIFO basis (gains first), and pre-59½ withdrawals face a 10% penalty. MECs are not annuities but share similar tax treatment.
6. **A** — A non-qualified annuity is purchased with after-tax (already taxed) dollars outside of a qualified retirement plan. Only the earnings (gains) are subject to income tax upon distribution, not the return of the original after-tax investment (cost basis). This differs from a qualified annuity where all distributions are taxable.
7. **A** — Under Idaho Code § 41-1908, if the age of the insured has been misstated, the amount payable under the policy is adjusted to what the premium would have purchased at the correct age.
8. **B** — Universal Life Option B provides an increasing death benefit. The beneficiary receives the policy's specified face amount plus the accumulated cash value. This results in a higher death benefit but also higher monthly cost of insurance deductions.
9. **C** — Under Idaho Code § 41-219, the Director must examine the affairs, transactions, accounts, records, and assets of each authorized domestic insurer at least once every five (5) years.
10. **A** — Under IRC Section 101(a), life insurance death benefits paid to beneficiaries are received income-tax-free. This is one of the most significant tax advantages of life insurance. The proceeds may still be included in the insured's estate for estate tax purposes if the insured owned the policy, but income tax does not apply to the beneficiary's receipt.
11. **B** — Risk retention is the practice of assuming all or part of a risk rather than insuring against it. Setting up a dedicated savings fund for potential losses is a form of planned retention.
12. **C** — 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.
13. **B** — Death benefits from a life insurance policy are generally paid to the beneficiary free of any federal or state income tax.
14. **A** — A material misrepresentation is a false statement that, if known, would have caused the insurer to reject the application or issue a different policy. The insurer can rescind (void) the policy if a material misrepresentation is discovered within the contestability period.
15. **C** — 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.
16. **C** — Variable Universal Life (VUL) combines the flexible premiums and adjustable death benefit of universal life with the investment component (separate account subaccounts) of variable life. The policyowner can vary premiums and allocate cash values among investment subaccounts, bearing all investment risk.
17. **C** — In participating whole life, 'blending' (or 'overfunding') refers to combining base whole life with paid-up additions (PUAs) to maximize the ratio of cash value to death benefit. This strategy is used in Infinite Banking and Bank On Yourself concepts where the policy is designed primarily for its cash value accumulation efficiency.
18. **B** — A term rider adds additional temporary death benefit coverage on top of the base permanent policy. This allows the insured to have both permanent protection (base policy) and additional temporary coverage (term rider) — often used to cover a mortgage, replace income during child-rearing years, or provide enhanced protection during high-need periods.
19. **C** — A fundamental principle of group underwriting is that benefit amounts must be determined by a formula related to factors such as salary, position, or length of service. This prevents individual selection (adverse selection) by not allowing specific individuals to choose disproportionately high coverage.
20. **B** — Variable life insurance subaccounts are typically managed by professional investment management companies (such as mutual fund companies) under contract with the insurance company. The insurer offers a menu of subaccounts with different investment objectives and managers. The policyowner selects their preferred allocation but does not manage the investments directly.
21. **C** — A single premium whole life (SPWL) policy is funded with one large, lump-sum premium at the time of purchase. The policy is instantly paid-up and provides a death benefit and tax-deferred cash value growth for the insured's entire life.

22. D — Policy dividends are not guaranteed and are considered a return of an overpayment of premium. As such, they are not taxable income to the policyowner. However, if dividends are left to accumulate at interest, the interest earned is taxable.

23. C — The COLA rider automatically increases the death benefit or disability income benefit periodically — often tied to changes in the Consumer Price Index (CPI) — to help the coverage keep pace with inflation. This rider is especially important for long-term disability income policies where benefits are paid for years and could lose purchasing power.

24. B — Consideration is the value that each party gives in the contractual agreement. The insured's consideration is the premium paid and the statements on the application; the insurer's is the promise to pay claims.

25. C — A fraternal benefit society is a nonprofit organization with a lodge or ritualistic structure that provides insurance and social benefits only to its members. Membership is usually based on a common bond such as religion, ethnicity, or profession.

26. A — 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.

27. B — During the annuitization (distribution) phase, accumulation units are converted to annuity units. The number of annuity units remains fixed throughout the payout phase, but the dollar value of each unit fluctuates with the performance of the underlying subaccounts — causing variable income payments.

28. A — When an employee's group life coverage terminates (for any qualifying reason — termination, retirement, reduced hours), the employer or insurer must notify the employee of their conversion rights. The employee has 31 days to exercise the conversion right. Failure to provide notice may extend the time for conversion.

29. B — Under Idaho Code § 41-1904, individual life insurance policies must contain a grace period provision of thirty (30) days or one month for the payment of overdue premiums.

30. D — Temporary licenses are issued to preserve the value of an insurance business or permit orderly winding down; they are not intended as a vehicle for soliciting or producing new business.

31. D — Churning is the abusive practice of replacing existing policies within the same company repeatedly for the primary purpose of generating new first-year commissions for the producer.

32. A — Apparent authority is created when an insurer's actions lead the public to reasonably believe that a person is authorized to act on the insurer's behalf. Providing company materials and office space to an individual creates the appearance of an agency relationship, even if no formal authority was granted.

33. D — Fixed-indexed annuities are regulated as insurance products by state insurance departments — they are NOT securities. The SEC and FINRA do not have jurisdiction over fixed-indexed annuities. Producers need only a state life insurance license to sell them. This contrasts with variable annuities, which are both insurance products and securities.

34. B — A rider is an add-on to a base annuity contract that provides supplemental benefits. Common annuity riders include Guaranteed Lifetime Withdrawal Benefits (GLWB) or enhanced death benefits.

35. A — Most group life insurance is written as yearly renewable term (YRT) insurance, providing one year of death benefit coverage that automatically renews each year. The employer pays all or part of the premium. Coverage amounts are typically tied to salary multiples.

36. B — A Paid-Up at 65 (or Paid-Up at 70) policy requires premiums to be paid until the specified age, after which the policy is fully paid-up and no further premiums are required — but coverage continues for the insured's entire lifetime. Higher premiums during the working years fund the policy completely by the target age.

37. D — 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.

38. B — Per stirpes (Latin for 'by the roots') is a beneficiary designation method where each branch of the family receives an equal share. If a primary beneficiary predeceases the insured, that beneficiary's children inherit their parent's share. This differs from per capita, where only surviving named beneficiaries share equally.

39. D — Producers must document their recommendations and the reasons why a particular product was deemed suitable. This record-keeping is a key part of complying with suitability rules and protects both the consumer and the producer.

40. C — A late enrollee is an employee who does not sign up for group coverage during their initial eligibility period. Because late enrollment raises adverse selection concerns, the insurer typically requires the late enrollee to provide evidence of insurability (proof of good health) before coverage is granted.

41. B — A conditional receipt provides coverage starting on the date of application or medical exam, whichever is later, provided the applicant is found to be insurable at the risk classification applied for on that date.

42. A — An MVA provision adjusts the surrender value of a fixed annuity based on changes in interest rates since the contract was issued. If rates have risen since purchase, an early surrender may result in a downward adjustment (penalty). If rates have fallen, the adjustment may be positive. MVAs reflect the insurer's ability to reinvest at different rates.

43. C — 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.

44. B — 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.

45. C — 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.

46. A — The mortality and expense (M&E) charge is a percentage assessed annually against the variable annuity's subaccount assets. It compensates the insurer for: (1) mortality risk (guaranteeing the death benefit regardless of investment performance) and (2) general expense and profit charges. M&E charges typically range from 0.5% to 1.5% annually and are disclosed in the prospectus.

47. A — Risk avoidance involves eliminating the risk entirely by avoiding the activity that creates it. Deciding not to skydive eliminates the risk of skydiving-related injury. This differs from risk reduction (installing sprinklers), risk transfer (insurance), or risk retention (self-funding).

48. A — The net single premium is a theoretical calculation representing the lump sum needed at policy inception to fund all projected death benefit payments, using assumed interest rates and mortality tables (without expense loading). It forms the actuarial basis for pricing life insurance. In practice, policyowners typically pay premiums in periodic installments rather than a single lump sum.

49. B — Unlike qualified retirement accounts (like IRAs) which have required minimum distributions (RMDs), non-qualified annuities generally do not have a required age at which annuitization must begin. However, many contracts have a maximum annuity commencement date, often around age 95 or 100.

50. A — A survivorship life policy insures two or more lives and pays the death benefit upon the death of the last insured. These policies are often used for estate planning purposes to pay federal estate taxes.

51. B — Under Idaho Code § 41-1021, a producer must report to the Director any criminal prosecution taken against them in any jurisdiction within thirty (30) days of the initial pretrial hearing date.

52. C — 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.

53. D — Under IRS Section 1035, annuities can be exchanged for other annuities on a tax-free basis. However, an annuity CANNOT be exchanged for a life insurance policy on a tax-free basis. Section 1035 permits: life insurance to life insurance, life insurance to annuity, annuity to annuity, and endowment to annuity — but NOT annuity to life insurance.

54. C — The reasonable expectations doctrine holds that an insured is entitled to coverage they would reasonably expect, based on the policy's plain language and representations made at sale — especially where the policy language is ambiguous. Courts often apply this doctrine in favor of the insured when there is a coverage dispute.

55. A — Under HIPAA, accelerated death benefits paid to a terminally or chronically ill insured are generally received income tax-free, just like a regular death benefit. This allows individuals to access their benefits without a significant tax burden.

56. D — Under Idaho Code § 41-1017, an insurer or producer may pay or assign commissions only to a person who is properly licensed in the same line of insurance.

57. A — Straight Life Income (Life Only) provides the highest monthly income per dollar of proceeds because the insurer is only obligated to pay as long as the beneficiary lives — there is no guarantee period or survivor benefits. The risk to the beneficiary is dying shortly after payments begin.

58. C — UL policies have internal cost of insurance (COI) charges that increase with the insured's age. If the premium being paid is insufficient to cover the increasing COI charges and the cash value is depleted, the policy will lapse — even if the policyowner is making premium payments. Annual statements should be monitored to ensure adequacy of premiums.

59. D — Insurable interest in life insurance means the applicant/policyowner has a legitimate financial stake in the continued life of the insured — typically a close family relationship (spouse, child, parent) or a business relationship (key employee, business partner). Without insurable interest, the policy would be a wagering contract.

60. B — Group life insurance waiver of premium requires the employee to be totally and permanently disabled for a waiting period (typically 6 months) before premiums are waived. The waiver keeps the group life coverage in force without premium payments for the duration of the disability (or until recovery).

61. A — A deferred annuity is purchased with either a single premium or flexible premiums over time. The income payments are deferred until a future date chosen by the owner, allowing the funds to accumulate on a tax-deferred basis.

62. B — Variable annuity subaccounts are investment portfolios that function similarly to mutual funds. They can range from conservative (money market, bond) to aggressive (growth stock, international). The owner bears investment risk and can typically reallocate among subaccounts as investment objectives or market conditions change.

63. B — If no initial premium is collected with the application, no receipt is issued and the insurance does not take effect until the policy is delivered AND the first premium is paid in good health. A conditional receipt provides coverage from the date of the application or exam, whichever is later, IF the applicant is found insurable.

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

65. D — 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.

66. B — 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.

67. D — The Accidental Death Benefit (ADB) rider, sometimes called 'double indemnity, ' pays an additional amount, often equal to the face amount of the policy, if the insured's death is the result of an accident and occurs within a specified time (e.g., 90 days) of that accident.

68. D — If a UL policy's cash value is insufficient to cover the monthly cost of insurance deductions and no additional premium is received, the policy will lapse. Policyowners receive advance notice and can prevent lapse by making additional premium payments, reducing the face amount (to lower the COI), or adjusting the policy.

69. B — Surplus lines coverage is written by non-admitted (unlicensed) insurers when the coverage cannot be placed with admitted insurers. It must be placed through a licensed surplus lines broker. Surplus lines policies are not covered by state guaranty funds.

70. A — Using lead generation cards or advertisements that simulate government notices or conceal their commercial insurance purpose is deceptive and illegal under Idaho advertising rules.

71. B — Individual group members do not receive the actual policy. Instead, they receive a certificate of insurance that summarizes their coverage, benefits, and conversion rights.

72. C — A Statement of Good Health is typically required when the applicant did not submit the initial premium with the application. At policy delivery, the agent must collect the premium and have the applicant sign this statement confirming their health status has remained the same.

73. C — 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.

74. B — Variable annuities do not offer a guaranteed rate of return. The contract's value is directly tied to the performance of the underlying investments in the separate account, which can fluctuate.

75. A — The cash refund option guarantees that, at a minimum, the total amount paid into the annuity (the principal) will be paid out. If the annuitant dies before this happens, their beneficiary receives the difference in a single cash payment.

Health Insurance Section — Answers

1. C — 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. C — If an insurer cannot complete its claim investigation within the standard timeframe, it must provide the claimant written notice explaining the reasons additional time is needed.

3. B — The ceding insurer is the primary insurer that transfers or 'cedes' a portion of its risk to another company, the reinsurer.

4. B — In a contributory plan, where employees share the cost of the premium, insurers typically require that at least 75% of eligible employees enroll. This helps to prevent adverse selection.

5. A — The out-of-pocket maximum (or stop-loss) caps the total annual cost-sharing (deductibles + copays + coinsurance) an insured must pay. Once reached, the insurer covers 100% of covered expenses for the rest of the plan year. This protects insureds from catastrophic out-of-pocket expenses.

6. D — To be eligible for an HSA, an individual must be covered under a qualifying High Deductible Health Plan (HDHP) and cannot be enrolled in Medicare or claimed as a dependent on another person's tax return.

7. A — Under federal COBRA, terminated employees of firms with 20 or more employees can continue their group health coverage for up to 18 months. The employer can charge them up to 102% of the total premium (including the employer's share) to cover administrative costs.

8. B — A residual disability rider provides benefits when the insured is able to return to work but at a reduced capacity, resulting in a loss of income. The benefit paid is proportional to the percentage of income lost. For example, a 30% loss of income might result in a 30% disability benefit.

9. A — The primary purpose of health insurance is to protect individuals and families from the potentially catastrophic financial costs of illness, injury, or disability. It covers medical expenses and, in some products, provides income replacement during periods of disability.

10. C — Under Idaho Code § 41-2140, notification of birth and payment of any required premium must be given to the insurer within 60 days (or 31 days under certain group contracts) to continue coverage.

11. B — A morale hazard (also called attitudinal hazard) is carelessness or indifference to potential loss because the person knows they are insured. For example, leaving valuables unsecured because 'insurance will cover it.' This differs from a moral hazard, which involves intentional dishonesty or fraud.

12. C — 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.

13. B — The employer has 30 days to notify the plan administrator of a qualifying event. The plan administrator then has 14 days to send the COBRA election notice to the qualified beneficiary. The beneficiary then has 60 days to elect continuation coverage.

14. A — FSAs are subject to a use-it-or-lose-it rule, meaning any unused funds remaining at the end of the plan year are forfeited unless the employer offers a carryover option (up to $640) or a grace period of up to 2.5 months.

15. A — 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.

16. A — Under Idaho Code § 41-1016, providing materially incorrect, misleading, or untruthful information in a license application is grounds for refusal, suspension, or revocation of a license.

17. A — 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.

18. D — Medicare Advantage plans are required to cover all services covered by Original Medicare (Parts A and B). They are NOT required to cover long-term custodial (non-skilled) nursing home care beyond what Medicare covers. Long-term care (custodial care) is not a Medicare benefit — it must be covered by private LTC insurance or Medicaid.

19. A — Respite care is a common benefit in LTC policies. It pays for a temporary stay in a nursing facility or for a home health aide to come in, allowing the regular, often unpaid, family caregiver to get a much-needed break.

20. B — Medicare Part A provides 90 inpatient days per benefit period. After 90 days, beneficiaries can tap their 60 lifetime reserve days (LRDs) for additional inpatient coverage — but with higher cost-sharing. Once the 60 LRDs are used, they are gone permanently. If hospitalization continues beyond LRDs, the beneficiary bears all costs.

21. B — If the insured changes to a more hazardous occupation, the insurer may reduce the benefits to the amount the premium would have purchased for the new occupation. Conversely, if the insured changes to a less hazardous occupation, the insurer will reduce the premium accordingly.

22. A — 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).

23. B — Assisted living facilities are residential settings that provide housing, meals, and assistance with personal care and medication management. They are for people who need help with ADLs but not the intensive level of care provided in a nursing home.

24. C — In a POS plan, members pay lower cost-sharing when they use in-network providers and follow the HMO-like requirement of getting referrals from their PCP for specialist visits. If they go out-of-network or see a specialist without a referral, they pay significantly higher cost-sharing (similar to a PPO's out-of-network rate).

25. D — Legal delivery is not just the physical delivery of the policy. It is a constructive process that occurs when the policy is delivered to the applicant by the producer and the first premium is paid, assuming there has been no change in the applicant's health.

26. A — A preexisting condition exclusion limits coverage for conditions that existed (or for which care was received or recommended) within a specified period before the policy's effective date. Under HIPAA, the lookback period is 6 months before enrollment. The ACA eliminated preexisting condition exclusions for most health insurance plans.

27. D — The ACA employer mandate requires ALEs (50+ FTEs) to offer minimum essential coverage that is affordable and meets minimum value to all full-time employees (those working 30+ hours/week) and their dependents (not spouses). Employers who fail to offer coverage (or offer unaffordable/insufficient coverage) and have at least one FT employee receive a premium tax credit may owe an employer shared responsibility payment.

28. D — The six standard ADLs are the basic activities of self-care. The inability to perform a certain number of these (typically two or three) is a common trigger for benefits under an LTC policy.

29. D — 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.

30. A — The eligibility period (or open enrollment period for new hires) is the window of time, typically 30 or 31 days, after the probationary period, during which a new employee can sign up for the group health plan. If they enroll during this time, they cannot be asked for evidence of insurability.

31. B — The deductible is a specified dollar amount that the insured must pay out-of-pocket for covered services before the insurance company begins paying benefits. Higher deductibles result in lower premiums and vice versa. Most health plans have calendar-year deductibles that reset on January 1.

32. D — An employer with a self-funded plan will purchase stop-loss insurance from a commercial insurer. This policy protects the employer from unexpectedly high claims by reimbursing the employer for claims that exceed a certain dollar amount (either on an individual or aggregate basis).

33. D — An EPO (Exclusive Provider Organization) requires members to use providers within the plan's network. Unlike a PPO, there is generally no coverage for out-of-network services except true emergencies. EPOs typically do not require a primary care physician or referrals (like an HMO does). They are essentially a restricted-network PPO.

34. C — For a loss to be insurable, it must be: pure (not speculative), accidental and unintentional, definite and measurable, not catastrophic to the insurer, and the premium must be economically feasible. Accidental fire loss to a home meets all these criteria, while intentional acts, speculative losses, and illegal activities do not.

35. C — 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.

36. C — Under Idaho Code § 41-1016, a license is deemed to be used primarily for controlled business if during any 12-month period the aggregate premiums or commissions on controlled business exceed 50% of the aggregate total.

37. B — This rider pays an additional monthly benefit to the insured during the 5-month Social Security waiting period or if their claim for Social Security benefits is denied. If Social Security benefits are approved, the rider benefit usually stops or is reduced.

38. B — Under IDAPA 18.04.11, producers must complete an initial 8-hour training course on Long-Term Care policies before soliciting LTC Partnership products, followed by 4 hours of ongoing CE every 24 months.

39. C — Under Idaho Code § 41-4319, it is an unfair trade practice for any insurer or producer to use the existence of the Idaho Life and Health Insurance Guaranty Association in sales, solicitations, or advertisements.

40. B — 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.

41. A — The employer can charge the former employee up to 102% of the total premium (the employee's share plus the employer's share). The extra 2% is to cover administrative costs.

42. B — An aleatory contract involves the exchange of unequal values dependent on an uncertain event. The insured pays a small premium while the insurer may pay a much larger benefit — or nothing — depending on whether a loss occurs.

43. D — SNPs are a special type of Medicare Advantage plan that tailor their benefits, provider choices, and drug formularies to best meet the specific needs of the groups they serve, such as dual eligibles (I-SNP), those with certain chronic conditions (C-SNP), or those in institutions (I-SNP).

44. C — Prescription medications are qualified medical expenses under IRS Section 213(d). Cosmetic surgery for purely aesthetic reasons, gym memberships, and most health insurance premiums (with exceptions like COBRA and Medicare) are not qualified expenses.

45. A — Aleatory contracts involve an unequal exchange of value between the parties. The insured may pay premiums for years and never file a claim, or they may pay a small premium and receive a large claim payment.

46. A — The entire contract provision stipulates that the written policy, along with a copy of the signed application, forms the complete contract between the policyowner and the insurer. This prevents either party from claiming that other verbal or written agreements exist.

47. A — Apparent authority is the perception by a third party that an agent has authority to act on behalf of the insurer, even if that authority has not been granted. This perception is created by the actions of the insurer (e.g., providing logos and application forms).

48. C — Prior authorization (also called precertification or prospective review) is a utilization review process that requires the plan to approve a proposed medical service before it is delivered. This helps control costs by ensuring that services are medically necessary.

49. C — The return of premium rider is an expensive option that provides a refund of a large percentage (e.g., 80%) of the premiums paid over a period (e.g., 10 years), minus any claims paid out during that time. It is a benefit for those who stay healthy and do not use their policy.

50. C — The four essential elements of a valid contract are: offer and acceptance, consideration, competent parties, and legal purpose. A licensed agent is not a legal requirement for contract validity, though agents are required for soliciting insurance.

51. C — If an insurer requires an applicant to undergo medical examinations, such as an HIV test or a paramedical exam, the insurer must bear the cost of these exams.

52. D — The ACA requires non-grandfathered health plans to cover recommended preventive services—such as immunizations, screenings, and wellness visits—without imposing deductibles, copayments, or coinsurance when provided by in-network providers.

53. D — Medicare Part A (Hospital Insurance) covers inpatient hospital care, care in a skilled nursing facility (following a 3-day qualifying hospital stay), hospice care, and some home health services. Part A is premium-free for most beneficiaries (those with 40+ work credits).

54. C — A representation is a statement that the applicant believes to be true to the best of their knowledge but does not warrant or guarantee as absolutely true. A warranty, by contrast, is a statement guaranteed to be true — breach of warranty can void the contract.

55. A — 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.

56. B — Eligibility for another group health plan or Medicare will typically terminate an individual's COBRA coverage. The new coverage becomes the primary payer.

57. C — Large group health insurers must spend at least 85% of premium revenue on medical claims and quality improvement, leaving no more than 15% for administrative costs and profit. This 85/15 standard is stricter than the 80/20 rule applied to individual and small group plans.

58. B — Estoppel is a legal doctrine that prevents a party from taking a position inconsistent with a prior statement or action that another party has relied upon to their detriment. If an insurer's agent misleads an insured about coverage, the insurer may be estopped from denying that coverage.

59. D — An individual who is covered by a general-purpose health FSA or any non-HDHP health plan that provides first-dollar coverage is not eligible to contribute to an HSA. However, limited-purpose FSAs for dental and vision do not affect HSA eligibility.

60. B — Subrogation transfers the insured's right of recovery against a negligent third party to the insurer after a loss is paid. This prevents the insured from collecting twice for the same loss (violating indemnity).

61. D — A noncancellable long-term care policy guarantees both the right to renew and the premium rate — the insurer cannot increase premiums. Guaranteed renewable policies guarantee the right to renew but allow premium increases for an entire class. Noncancellable provides the most protection and is generally most expensive.

62. B — Under 'own occupation, ' the insured is considered totally disabled if they cannot perform the material duties of their own specific occupation, even if they could work in another field. Under 'any occupation, ' the insured must be unable to perform any gainful occupation for which they are reasonably suited. 'Own occ' is broader and more favorable to the insured.

63. C — Long-term care insurance covers custodial care in a variety of settings: skilled nursing facilities, assisted living facilities, adult day care, and home health care. It does NOT typically cover acute medical care in hospitals or emergency rooms, which is covered by health insurance and Medicare.

64. B — Under Idaho Code § 41-1308, making or circulating any false, malicious, or derogatory statement regarding the financial condition or stability of an insurer or producer is illegal defamation.

65. A — A copayment (or copay) is a set fee paid by the insured at the time of service. For example, a plan might require a $30 copay for each office visit.

66. C — The six standard ADLs used as LTC benefit triggers are: bathing, dressing, eating, continence, toileting, and transferring. 'Working' (the ability to perform job functions) is NOT an ADL. The inability to perform at least 2 of the 6 ADLs is the most common benefit trigger for tax-qualified LTC policies.

67. A — The producer must present and obtain the applicant signature on the official Notice Regarding Replacement of Life Insurance or Annuity before taking the application.

68. B — In a noncontributory plan, the employer pays 100% of the premiums. Because it is fully paid by the employer, 100% of eligible employees must be covered.

69. C — Under Idaho Code § 41-117, a willful violation of Title 41 without a specific statutory penalty is a misdemeanor punishable by a fine of up to $1,000, imprisonment for up to 6 months, or both.

70. C — 'Own occupation' disability definitions are typically found in individual disability income policies for high-income professionals (physicians, dentists, attorneys, etc.) who want maximum protection for their specific occupation's income. Most group LTD policies use a hybrid definition (own occ for the first 24 months, then any occ thereafter), which is less protective.

71. A — An optionally renewable policy can be cancelled by the insurer at any policy anniversary date. The insurer has the option — but not the obligation — to renew the policy. This provides the least protection for the insured and is rarely used for individual health insurance today.

72. B — A MET is a legal entity that allows multiple small employers in the same industry to join forces to obtain group health benefits. This gives them access to the lower rates and more favorable underwriting that are typically available only to large groups.

73. D — Under Idaho Code § 41-2110, reinstated health policies cover accidental injuries immediately, but cover sickness only if it begins more than 10 days after the reinstatement date.

74. B — 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.

75. A — 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.

PRACTICE TEST 3

Life Insurance Section

75 Questions • 3 Hours Time Limit • 60% Passing Score

Simulates the official state licensing exam. Do not view answer key until finished.

1. To prevent a universal life policy from becoming a MEC (Modified Endowment Contract):

A. The policyowner must keep cash value below the net amount at risk
B. No single premium payment can exceed the face amount
C. The policyowner must take a policy loan each year to reduce the cash value below MEC limits
D. Total premiums paid must not exceed the 7-pay limit — the amount needed to fully fund the policy in 7 level annual payments

2. A client age 35 wants to save for retirement, has a high risk tolerance, and wants the potential for high growth. Which annuity would be most suitable?

A. Variable annuity
B. Fixed annuity
C. Annuity certain
D. Immediate annuity

3. A life insurance policy that endows at age 100 (or 121 in modern policies) means that:

A. The premiums must be paid until age 100.
B. The policy expires at age 100.
C. The death benefit doubles at age 100.
D. The cash value equals the face amount at age 100, and the amount is paid to the policyowner.

4. 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

5. 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

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6. If a producer in Idaho surrenders their license while under investigation for fraud, what is the effect on the Director regulatory authority?

A. The Director loses all jurisdiction immediately upon license surrender
B. The Director retains full authority to proceed with disciplinary action, hearings, and fines against the licensee
C. The producer is granted automatic immunity from all civil fines
D. The investigation must be permanently transferred to the NAIC

7. What is the significance of the policy's effective date?

A. It is the date from which the policy's coverage begins.
B. It is the date the agent submitted the application.
C. It is the date the policy was mailed by the insurer.
D. It is the date the first claim can be filed.

8. Supplemental Security Income (SSI) differs from Social Security Disability Insurance (SSDI) primarily in that SSI is:

A. Based on the worker's earnings history and FICA contributions
B. A needs-based program for aged, blind, or disabled individuals with limited income and resources
C. Only available to workers who are fully insured
D. Funded entirely by state governments

9. The settlement option that pays a specified amount to the beneficiary each month until the funds are exhausted is called:

A. Fixed Period
B. Interest Only
C. Life Income
D. Fixed Amount

10. 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.

11. 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

12. Credit life insurance is designed to do which of the following?

A. Insure the lender against investment losses
B. Pay off the remaining balance of a debtor's loan if the debtor dies
C. Replace the borrower's income for their family
D. Provide retirement income to the borrower

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

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

14. Group underwriting differs from individual underwriting primarily because the underwriter evaluates which of the following?

A. Each individual member's health history in detail
B. The financial status of each member's beneficiary
C. The characteristics of the group as a whole rather than individual members
D. Only the youngest members of the group

15. Which of the following statements about Key Person life insurance is CORRECT?

A. The employer deducts premium payments as a business expense
B. The death benefit is paid to the key employee's family
C. The key employee owns the policy
D. The business is both the policyowner and beneficiary; death proceeds are received income-tax free

16. What is the main purpose of the insurer's separate account?

A. To pay agent commissions.
B. To hold the funds for variable life and variable annuity products.
C. To fund fixed annuities.
D. To comply with state solvency requirements.

17. Under Social Security, a fully insured deceased worker's unmarried child under age 18 is entitled to a survivor benefit equal to what percentage of the worker's PIA?

A. 75%
B. 100%
C. 50%
D. 60%

18. What distinguishes a mutual insurance company from a stock insurance company?

A. A mutual company is owned by shareholders
B. A mutual company must be organized as a for-profit corporation
C. A mutual company cannot write life insurance
D. A mutual company is owned by its policyholders who may receive policy dividends

19. The 'net amount at risk' in a life insurance policy is:

A. The insurer's total risk exposure on all policies
B. The total death benefit minus any unpaid loans
C. The premium amount at risk of not being paid
D. The difference between the face amount and the policy's cash value

20. If a corporation owns a non-qualified annuity, how is the growth taxed?

A. It is tax-free.
B. It is taxed annually as ordinary income.
C. It grows tax-deferred.
D. It is taxed at corporate capital gains rates.

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21. Credit Life Insurance is typically issued as:

A. Individual whole life
B. Group universal life
C. Group decreasing term
D. Individual level term

22. In an Interest-Sensitive Whole Life policy, the cash value can grow at a rate that is:

A. Fixed and guaranteed for the life of the policy.
B. Determined by the policyowner's choice of subaccounts.
C. Tied directly to the stock market.
D. Greater than the guaranteed minimum rate if the insurer's investments perform well.

23. Group life insurance typically has a 'certificate of coverage' for each employee. This certificate:

A. Must be signed by both the insurer and the employee to be valid
B. Is evidence of coverage summarizing the employee's benefits under the master group policy held by the employer
C. Replaces the need for a beneficiary designation form
D. Is the actual insurance contract that the employee can enforce against the insurer

24. A life insurance policy that is 'issued on a rated basis' means:

A. The policy was issued at standard rates without any modification
B. The policy was issued only after passing a rigorous medical review
C. The policy was rated as the best value in the marketplace
D. The policy was issued with a higher than standard premium or limited benefits due to the insured's elevated risk

25. The three primary components used to calculate a life insurance premium are:

A. Death benefit, policy term, and agent commission
B. Mortality cost, interest (investment earnings), and expense loading
C. Risk classification, reinsurance cost, and taxes
D. Age, gender, and health status

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26. An annuity is designed primarily to provide:
- A. A death benefit
- B. Coverage for medical expenses
- C. Protection against outliving one's income
- D. Short-term savings

27. Which scenario BEST demonstrates a suitable annuity recommendation?
- A. Recommending an annuity to fund a client's short-term emergency fund
- B. Recommending a fixed immediate annuity to a 65-year-old retiree who wants guaranteed lifetime income and has adequate liquid emergency reserves
- C. Recommending a complex variable annuity with high fees to a risk-averse conservative investor
- D. Recommending a 15-year surrender annuity to a 70-year-old with limited liquid assets

28. 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.

29. In an independent agency system, the agent:
- A. Can only sell surplus lines insurance
- B. Is a salaried employee of the insurance company
- C. Represents multiple insurers and typically owns the book of business (policy expirations)
- D. Represents only one insurer and the insurer owns the policy renewals

30. If a life insurance application is approved and a policy is issued, but the applicant's health has deteriorated since the application date and no premium was paid, what is the insurer's obligation?
- A. The policy is not in effect until it is delivered and a statement of good health is signed.
- B. The insurer must deliver the policy as issued.
- C. The policy is in effect, but at a higher premium.
- D. The insurer can cancel the policy immediately.

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31. An insurer formed under the state laws of Oregon is licensed to conduct insurance business in Idaho. Under Idaho law, this company is classified as a:
- A. Domestic insurer
- B. Foreign insurer
- C. Alien insurer
- D. Reciprocal exchange

32. Variable annuity 'mortality and expense risk charges' (M&E fees) compensate the insurer for:
- A. State premium taxes on annuity premiums
- B. The cost of crediting interest to the fixed account option
- C. Investment management expenses for the separate account funds
- D. The risk of paying guaranteed death benefits and income guarantees, and for general administrative expenses

33. What is a primary characteristic of a Straight Life (or Continuous Premium) whole life policy?
- A. Premiums are paid for a limited number of years.
- B. Premiums are paid for the entire duration of the insured's life.
- C. A single, large premium is paid at inception.
- D. The death benefit is flexible.

34. In a participating whole life policy, the 'premium reduction' dividend option uses dividends to:
- A. Offset the premium due, reducing the out-of-pocket premium payment
- B. Accelerate the policy to paid-up status by a specific year
- C. Purchase one-year term insurance equal to the cash value
- D. Build additional cash value without purchasing new insurance

35. An agent's written observations of an applicant, including their financial standing and character, are recorded in the:

A. Application Part I
B. Agent's Report
C. MIB Report
D. Application Part II

36. A 'return of premium' (ROP) term life rider returns premiums to the insured if they survive the term. These returned premiums are:

A. Tax-deferred until withdrawal
B. Not taxable because they represent a return of already-taxed premium dollars
C. Taxable as capital gains
D. Taxable as ordinary income

37. The SEC regulates variable life insurance products because:

A. Variable life is issued only by federally chartered insurance companies
B. The SEC regulates all life insurance sold across state lines
C. Variable life involves the FDIC-insured separate account
D. The policyowner bears investment risk and the separate account is considered a security

38. The person who receives any remaining benefits from an annuity if the owner or annuitant dies is the:

A. Annuitant
B. Owner
C. Trustee
D. Beneficiary

39. In a fixed annuity, the interest crediting rate is:

A. Guaranteed at a fixed minimum rate with a current rate that may be higher
B. Determined solely by the owner's investment selections
C. Tied directly to stock market index performance
D. Equal to U.S. Treasury bond rates

40. A 'two-tiered annuity' (or multi-tier annuity) is one that:

A. Requires two separate premium payments before it becomes effective
B. Has two separate accumulation funds with different interest rates
C. Credits a higher interest rate if the contract is annuitized but a lower rate if surrendered
D. Is available in two different risk tiers — aggressive and conservative

41. Statements made by an applicant on an insurance application that are believed to be true to the best of their knowledge are called:

A. Warranties
B. Guarantees
C. Concealments
D. Representations

42. A policyowner who stops paying premiums on a whole life policy and chooses the Cash Surrender option will receive:

A. A paid-up term policy.
B. The total premiums paid back.
C. The accumulated cash value, less any outstanding loans.
D. A reduced paid-up whole life policy.

43. An insurer organized and headquartered under the laws of Idaho is classified under Idaho statutes as a:

A. Foreign insurer
B. Alien insurer
C. Domestic insurer
D. Mutual holding entity

44. A 1035 exchange allows a policyowner to:

A. Exchange a life insurance policy for an annuity contract without triggering taxes.
B. Transfer policy ownership to a family member without gift tax.
C. Exchange a life insurance policy for stocks and bonds tax-free.
D. Receive the cash value of a policy tax-free.

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

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

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46. An insurer refuses to issue a health insurance policy to an applicant solely because the applicant has a genetic predisposition to a condition that has not yet manifested. What violation is this?

A. Sound underwriting judgment
B. Risk retention
C. Unfair discrimination based on genetic testing
D. Twisting

47. A policy's Cost of Living (COLA) rider is designed to:

A. Provide a source of income during retirement.
B. Allow for the purchase of additional insurance without evidence of insurability.
C. Waive premiums in the event of disability.
D. Automatically increase the death benefit to align with inflation, typically tied to the Consumer Price Index (CPI).

48. Under Idaho Code § 41-2140, from what moment must an individual or group health policy provide coverage for a newborn child of the insured?

A. 30 days after birth
B. From the moment of birth, including congenital defects
C. Only after the child is discharged from the hospital
D. From the first day of the next calendar month

49. Karen, age 45, withdraws $10,000 from her non-qualified deferred annuity to buy a car. The annuity's total value is $50,000, which includes $15,000 of accumulated interest and $35,000 of principal. How is this withdrawal treated for tax purposes?

A. The entire $10,000 is tax-free return of principal
B. The entire $10,000 is taxed as ordinary income and subject to a 10% penalty
C. $7,000 is taxable and $3,000 is tax-free
D. The entire $10,000 is taxed as a capital gain

50. The 'common disaster' clause in a life insurance policy is designed to address the situation where:

A. The insured and the primary beneficiary die in the same accident.
B. The policyowner and the insured are different people.
C. The insured dies in a natural disaster.
D. The beneficiary dies before the insured.

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51. Under Idaho Code § 41-1911, within how many years from the date of premium default may a lapsed life insurance policy be REINSTATED?

A. Within 1 year
B. Within 3 years
C. Within 5 years
D. Within 10 years

52. 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

53. What are 'accumulation units' in a variable annuity?
A. The number of income payments the annuitant will receive.
B. Accounting units used to measure the owner's interest in the separate account during the pay-in phase.
C. The fees charged by the insurer.
D. The guaranteed value of the contract.

54. An aggrieved producer in Idaho Falls demands an official hearing in writing regarding a licensing sanction. Within how many days after receiving the demand must the Director hold the hearing?
A. Within 10 days
B. Within 30 days
C. Within 60 days
D. Within 90 days

55. When converting a term policy to a whole life policy under the conversion privilege:
A. The new whole life premium is based on the insured's original issue age on the term policy
B. The death benefit on the new policy must be lower than the term policy's face amount
C. The insurer can choose not to issue whole life if the insured is in poor health
D. The new whole life premium is based on the insured's attained age at conversion

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56. Under Social Security, the blackout period refers to:
A. The 5-month waiting period for SSDI
B. The period when a surviving spouse receives no benefits between the youngest child turning 16 and the spouse reaching age 60
C. The gap between early and full retirement age
D. The time between application and approval for disability benefits

57. A client is considering replacing their current annuity with a new one. The agent must ensure that the replacement is not a 'churning' transaction, which means:
A. The client is over age 65.
B. The new annuity has a higher interest rate.
C. The replacement is done without considering the client's best interest, often just to generate a new commission.
D. The replacement involves a 1035 exchange.

58. In a fixed-indexed annuity, the 'annual reset' (ratchet) feature means:
A. The owner must reconfirm their investment selections each year
B. Each year's interest is locked in and the new starting index value is reset at the year-end level, protecting gains from future market declines
C. The index value resets to zero each year and starts fresh
D. The insurer resets the cap rate and participation rate annually based on market conditions

59. In a universal life policy, the interest credited to the cash value:
A. Is fixed and guaranteed at inception
B. Mirrors the S&P 500 index performance
C. May vary based on current market rates but has a guaranteed minimum interest rate
D. Is declared annually and cannot change during the year

60. The 'assumed interest rate' (AIR) in a variable annuity's payout phase:
A. Is the guaranteed minimum interest rate for all variable annuity subaccounts
B. Is the benchmark interest rate used to calculate variable annuity income payments; if actual performance exceeds the AIR, payments increase
C. Is the rate the IRS uses to determine the exclusion ratio
D. Is the rate used to determine surrender charges

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61. Because the insurer writes the policy and the insured has no say in its wording, an insurance policy is considered a(n):

A. Unilateral contract
B. Contract of indemnity
C. Contract of adhesion
D. Aleatory contract

62. In a whole life policy, the relationship between cash value and death benefit is:

A. Directly proportional — both increase together at the same rate
B. Inverse — as cash value grows, the death benefit decreases by the same amount
C. There is no relationship between cash value and death benefit
D. The total death benefit is level; as cash value grows within the total, the net amount at risk decreases

63. A risk retention group is a liability insurance company that is:

A. Owned by its members, who are exposed to similar liability risks
B. A federal program that insures against catastrophic losses
C. A reinsurance company that assumes risk from primary insurers
D. Owned by the state government

64. A client wants permanent life insurance with a premium that will be fully paid after 15 years. Which policy would be most suitable?

A. Term to Age 65
B. Straight Life
C. 20-Pay Life
D. 15-Pay Life

65. 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

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66. Walter purchases a single premium deferred annuity. Five years later, he needs to withdraw $20,000 from the account. The policy has a 7-year surrender charge schedule starting at 7% and decreasing by 1% each year. What will the surrender penalty be on his withdrawal?

A. 7%
B. 3%
C. 2%
D. 0%

67. During the accumulation phase of a variable annuity, the contract owner's contributions purchase:

A. Annuity units
B. Fixed units
C. Accumulation units
D. Guaranteed interest credits

68. An insurer in Idaho publishes financial figures that exaggerate its surplus and assets while omitting substantial policy liabilities. What violation is this?

A. Sliding
B. False financial statements under Idaho Code § 41-1310
C. Churning
D. Twisting

69. A statement made by an applicant that is guaranteed to be true is a(n):

A. Warranty
B. Aleatory statement
C. Representation
D. Estoppel

70. What is the default nonforfeiture option that the insurer will select if the policyowner does not choose one?

A. Extended Term
B. Reduced Paid-Up
C. Automatic Premium Loan
D. Cash Surrender

71. When interest rates rise after an annuity is purchased, an annuity with an MVA provision may:

A. Terminate the contract and return all premiums
B. Increase the surrender value by applying a positive market value adjustment
C. Automatically increase the credited rate to match market rates
D. Reduce the surrender value by applying a negative market value adjustment if the contract is surrendered

72. The Waiver of Premium rider in life insurance provides that:

A. Premiums are waived during a grace period
B. The insurer waives the death benefit if the cause of death is excluded
C. If the insured becomes totally and permanently disabled, premium payments are waived while the policy remains in force
D. The policyowner can skip up to three premium payments per year

73. 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

74. The 'Secondary Guarantee' (no-lapse guarantee) feature in a universal life policy:

A. Guarantees a second beneficiary receives proceeds if the primary beneficiary predeceases the insured
B. Guarantees the policy will remain in force for a specified period or for life as long as a minimum premium is paid, even if the cash value is zero
C. Provides a second death benefit if the insured dies from a covered accident
D. Guarantees the cash value will never fall below zero

75. The 'large loss principle' suggests that insurance is most cost-effective when:

A. The potential loss is small relative to the premium
B. The insured has multiple policies on the same property
C. The potential loss is large and unpredictable relative to the insured's financial resources
D. The probability of loss is very high

PRACTICE TEST 3

Health Insurance Section

75 Questions • 3 Hours Time Limit • 60% Passing Score

Simulates the official state licensing exam. Do not view answer key until finished.

1. A mutual insurance company is owned by its:

A. Policyholders
B. Shareholders
C. Officers
D. Agents

2. What does it mean for a dental plan to cover services on a 'usual, customary, and reasonable' (UCR) basis?

A. The plan only covers preventative services.
B. The plan pays based on the typical amount charged by most dentists in a specific geographic area.
C. The plan pays a fixed dollar amount for each procedure.
D. The plan pays the full amount charged by the dentist.

3. Medicare Part A primarily provides coverage for:

A. Long-term custodial care
B. Hospitalization
C. Prescription drugs
D. Physician services

4. What is the waiting period for Social Security disability benefits?

A. 30 days
B. 5 months
C. 3 months
D. 12 months

5. Under a typical COB 'birthday rule,' if a child is covered by both parents' health plans, which parent's plan is considered primary?

A. The parent who has had their plan longer.
B. The parent who is older.
C. The mother's plan is always primary.
D. The parent whose birthday occurs earlier in the calendar year.

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6. An insurer's ability to take legal action against a responsible third party for a loss paid to an insured is known as:

A. Subrogation
B. Indemnification
C. Arbitration
D. Contribution

7. The 'birthday rule' applies to:

A. Determining when a policy renews
B. Establishing when Medicare eligibility begins
C. Setting premium rates based on the insured's age at each birthday
D. Determining which parent's plan is primary for a dependent child covered by both parents

8. Under the ACA, health insurers are prohibited from doing all of the following EXCEPT:

A. Charging higher premiums to older adults than young adults up to a 3:1 ratio
B. Setting annual or lifetime dollar limits on essential health benefits
C. Charging different premiums based on the insured's health status
D. Denying coverage based on pre-existing conditions (for non-grandfathered plans)

9. The ACA requires most health plans to cover a set of 'Essential Health Benefits' (EHBs). Which of the following is NOT typically considered an EHB?

A. Mental health services
B. Prescription drugs
C. Maternity and newborn care
D. Cosmetic surgery

10. What is the 'probationary period' in a group health plan?

A. The period during which an employee can be fired without cause.
B. The time a new employee must wait before they are eligible to enroll in the group health plan.
C. The time an employee must wait before they can file a claim.
D. The time an insurer has to investigate a claim.

11. In order to be insurable, a risk must NOT be:

A. Calculable
B. Part of a large group
C. Accidental
D. Catastrophic

12. The mandatory 'Time Limit on Certain Defenses' provision (similar to the incontestability clause in life insurance) states that after a policy has been in force for how many years the insurer cannot void it for misstatements in the application?

A. 1 year
B. 5 years
C. 3 years
D. 2 years

13. What is the payment model where an HMO pays a physician a set amount per member per month, regardless of the services provided?

A. Fee-for-service
B. Per-diem
C. Capitation
D. Cost-plus

14. What is custodial care?

A. Rehabilitative therapy.
B. Care to help an individual with personal needs like bathing, dressing, and eating.
C. 24-hour skilled nursing care.
D. Care provided by a licensed medical professional.

15. The Health Insurance Portability and Accountability Act (HIPAA) provides portability for group health plans. This means it:

A. Makes all group health plans portable across state lines.
B. Allows employees to take their health plan with them when they change jobs.
C. Requires employers to offer a portable savings account.
D. Limits the ability of a new group plan to exclude coverage for pre-existing conditions.

16. A disability that is presumed to be total and permanent, such as the loss of sight in both eyes or the loss of two limbs, is called a:

A. Recurrent disability
B. Residual disability
C. Partial disability
D. Presumptive disability

17. Which of the following events would qualify an individual for a Special Enrollment Period (SEP) under the ACA?

A. Deciding that their current plan is too expensive
B. Wanting to switch to a different metal tier plan
C. Reaching the age of 30
D. Losing minimum essential coverage due to job loss

18. A health insurance plan that provides coverage for dental care is known as:

A. An indemnity plan
B. A dental plan
C. A dread disease policy
D. A vision plan

19. Under Idaho Code § 41-2107, what is the grace period for an individual health insurance policy with a quarterly, semi-annual, or annual premium payment mode?

A. 10 days
B. 31 days
C. 20 days
D. 60 days

20. Which type of managed care plan allows members to see any provider within the network without a referral and reimburses providers on a discounted fee-for-service basis?

A. HMO
B. EPO
C. PPO
D. POS

21. What is insurable interest?

A. A financial interest in the life or property being insured
B. An interest in making a profit from insurance
C. A general interest in being safe
D. The insurance company's interest in collecting premiums

22. For small groups, insurers typically use which rating method?

A. Retrospective rating
B. Experience rating
C. Merit rating
D. Community rating

23. In insurance, the proximate cause of a loss refers to:

A. The most expensive cause of a loss
B. The dominant or effective cause that sets a chain of events in motion resulting in a loss
C. Any event that contributes to a loss
D. The last event in a chain of events leading to a loss

24. COBRA continuation coverage allows qualified beneficiaries to continue group health insurance for:

A. An unlimited period as long as premiums are paid
B. Up to 18 months for loss of coverage due to employment termination or reduction in hours
C. 6 months for voluntary resignation only
D. 12 months after any qualifying event

25. What is a 'Taft-Hartley Trust'?

A. A type of MET for non-profit organizations.
B. A trust established by a labor union and employers to provide health and welfare benefits to union members.
C. A trust used for estate planning.
D. A trust for funding executive retirement plans.

26. 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

27. In an employer-paid (noncontributory) group disability plan, how are the benefits received by an employee treated for tax purposes?
A. Taxation depends on the employee's age.
B. They are fully taxable as ordinary income.
C. They are received income tax-free.
D. They are partially taxable.

28. The ACA's 'essential health benefits' (EHBs) include all of the following EXCEPT:
A. Emergency services
B. Maternity and newborn care
C. Long-term care facility services
D. Pediatric services including oral and vision care

29. What is a 'formulary' in a Medicare Part D plan?
A. The list of network pharmacies.
B. The application for enrollment.
C. The schedule of benefits.
D. The list of covered prescription drugs.

30. A resident producer in Boise passes away unexpectedly. Under Idaho Code § 41-1014, the Director may issue a temporary license to the surviving spouse for a maximum period of:
A. 30 days
B. 90 days
C. 180 days
D. 365 days

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31. The period of time after a benefit trigger is met but before LTC benefits begin is called the:
A. Probationary period
B. Benefit period
C. Grace period
D. Elimination period

32. An insurance contract is conditional, which means:
A. The insurer's obligation to pay a claim depends on the insured performing certain duties.
B. The value exchanged is unequal.
C. Only one party makes an enforceable promise.
D. The contract terms are non-negotiable.

33. Under the ACA's modified community rating rules, the maximum age rating ratio that insurers may apply between the oldest and youngest adult policyholders is:
A. 3:1
B. 5:1
C. 2:1
D. 4:1

34. The National Association of Insurance Commissioners (NAIC) is best described as:
A. A trade association that lobbies for insurance companies
B. A voluntary organization of state insurance regulators that develops model laws and promotes uniformity
C. A consumer protection agency funded by the federal government
D. A federal agency that regulates all insurance companies

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

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

36. During an application for individual life insurance in Boise, what is the producer duty regarding replacement?

A. Never allow a replacement under any circumstances
B. File a lawsuit against the existing carrier
C. Keep all replacement discussions verbal without documentation
D. Have the applicant sign a statement indicating whether the new policy will replace an existing policy

37. The percentage of covered medical expenses that the insured is required to pay after the deductible has been met is known as:

A. The premium
B. The out-of-pocket maximum
C. Coinsurance
D. The copayment

38. An insurer charges significantly different disability premium rates to two individuals of the exact same age, occupation, and health risk class without actuarial justification. What violation has occurred?

A. Defamation
B. Unfair discrimination
C. Twisting
D. Redlining

39. 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

40. If a policyholder returns a newly delivered life insurance policy to the insurer within the 20-day free look period, what is the legal effect?

A. The insurer retains a 25% administrative fee
B. The policy continues in force for 30 more days
C. The premium is converted into nonforfeiture paid-up insurance
D. The policy is deemed void from the beginning, and all premiums paid must be refunded in full to the purchaser

41. A husband and wife are both covered by their respective employers' group health plans. The husband files a medical claim for himself. Under the Coordination of Benefits (COB) guidelines, which plan is primary?

A. The wife's plan
B. The plan that has been in force the longest
C. The husband's own plan
D. The plans share the cost 50/50

42. To be eligible for Medicare due to disability, an individual must have been receiving Social Security disability benefits for:

A. 12 months
B. 24 months
C. 6 months
D. 36 months

43. A producer tells an applicant that Idaho state law requires all purchasers of major medical insurance to also buy an optional accidental death rider. What unfair practice is this?

A. Sliding
B. Twisting
C. Defamation
D. Rebating

44. An insurance producer markets an ordinary whole life policy to senior citizens under the title Government-Approved Retirement Security Savings Account. What violation has occurred?

A. Misleading policy title and deceptive misrepresentation
B. Standard consumer marketing
C. Rebating
D. Boycott

45. A 'residual disability benefit' in a disability income policy:

A. Is paid to the insured's estate if they die while receiving benefits
B. Pays full disability benefits during a hospitalization
C. Pays a proportional benefit when the insured can work but earns less than before due to disability
D. Pays a fixed daily amount regardless of actual income loss

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

A. Subrogation
B. Waiver
C. Adhesion
D. Estoppel

47. 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. 30 days
B. 10 days
C. 20 days
D. 60 days

48. Under the principle of 'reasonable expectations,' courts may interpret insurance policy ambiguities in favor of:

A. The insurance company, as the drafter of the policy
B. Neither party — ambiguities void the entire policy
C. The state insurance commissioner
D. The insured, based on what a reasonable person would expect the policy to cover

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

A. 8
B. 14
C. 10
D. 12

50. The Medicare 'donut hole' (coverage gap) in Part D applies to:

A. The gap in coverage when a beneficiary switches plans
B. Hospital costs not covered by Original Medicare
C. The period between Part A and Part B coverage
D. Prescription drug costs between the initial coverage limit and the catastrophic threshold

51. The inflation protection benefit option in a long-term care policy:
- A. Automatically increases the daily or monthly benefit amount over time to keep pace with rising care costs
- B. Covers the difference between actual care costs and the policy benefit if costs exceed projections
- C. Guarantees premiums will never increase
- D. Protects the insured against inflation in the premium market

52. The elimination period in a long-term care insurance policy is:
- A. The period during which the insurer can cancel the policy for health reasons
- B. The number of days of qualifying care the insured must receive before benefits begin
- C. The age at which benefits automatically end
- D. The period after which premiums can no longer increase

53. Which of the following is NOT a common exclusion in a disability income policy?
- A. Losses from committing a felony
- B. Losses from war or acts of war
- C. Intentionally self-inflicted injuries
- D. Disabilities arising from a covered accident

54. A reciprocal insurance exchange is managed by a(n):
- A. Lead underwriter
- B. Attorney-in-fact
- C. Chief Executive Officer
- D. Board of Directors

55. The period of time an insured must be disabled before disability income benefits begin to be paid is the:
- A. Elimination period
- B. Grace period
- C. Probationary period
- D. Benefit period

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56. Which of the following is NOT a primary factor in underwriting a life insurance policy?
- A. Marital status
- B. Gender
- C. Age
- D. Health history

57. Under Social Security Disability Insurance (SSDI), a person qualifies for benefits if they:
- A. Have a disability expected to last at least 12 months or result in death, and meet work history requirements
- B. Are disabled for at least 30 days
- C. Are at least 62 years old and have a partial disability
- D. Are totally disabled for any reason for more than 90 days

58. How are premiums for an individual disability income policy treated for tax purposes?
- A. They are partially deductible.
- B. They are tax-deductible.
- C. They are not tax-deductible.
- D. They are a tax credit.

59. Arthur is 66 years old, retired, and enrolled in Medicare Parts A and B. He has group health coverage through his spouse's active employment at a large company (150 employees). If Arthur incurs a medical bill, how is the claim coordinated?
- A. Medicare is primary; the group plan is secondary
- B. The group plan is primary; Medicare is secondary
- C. Medicare pays 100% and the group plan pays nothing
- D. The plans split the cost evenly

60. Under health insurance, an 'in-network' provider is one that:
A. Is located within a specified geographic radius of the insured's home
B. Is a specialist who provides only inpatient care
C. Has contracted with the health plan to provide services at negotiated rates
D. Provides only emergency care services

61. 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

62. A 'creditable coverage' letter is important because it:
A. Proves an individual had prior health coverage, which was used to reduce pre-existing condition exclusion periods before the ACA.
B. Guarantees eligibility for Medicare.
C. Reduces the premium for a new health plan.
D. Acts as a certificate of insurance.

63. The 'any occupation' definition of total disability is more restrictive and means the insured is unable to perform the duties of:
A. Any occupation for which they are suited by education, training, or experience.
B. Their previous three occupations.
C. Any job whatsoever.
D. Their own occupation.

64. 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)

65. In group health insurance, the employer's role is generally to:
A. Underwrite each employee individually
B. Pay all medical claims directly to providers
C. Select the plan, contribute to premiums, and serve as the policyholder
D. Provide insurance without any employee contribution

66. Which type of insurer is organized to provide insurance benefits to members of a specific religious or social organization?
A. Stock insurer
B. Reciprocal exchange
C. Mutual insurer
D. Fraternal benefit society

67. Under Idaho law, which of the following is considered an unfair method of competition?
A. Publishing an accurate financial comparison of two insurance policies
B. Offering policies with varying deductible options
C. Explaining the differences between HMO and PPO plans
D. Entering into a combination or conspiracy to fix uniform premium rates without statutory authority

68. Under an HMO model, the 'gatekeeper' primary care physician (PCP) role is to:
A. Process HMO claims and approve payments to providers
B. Coordinate all aspects of the member's healthcare and provide referrals to specialists within the HMO network
C. Determine which services are covered under the HMO plan
D. Limit the number of claims filed by HMO members

69. A producer advises an applicant to falsely mark No to the replacement question on an application to avoid paperwork. What is this practice called?

A. Undisclosed replacement / fraudulent misrepresentation
B. Standard agency discretion
C. Permissible omission
D. Controlled business

70. What happens if an individual does not enroll in Medicare Part B when they first become eligible and does not have other creditable coverage?

A. They can enroll at any time without penalty.
B. They will be automatically enrolled by Social Security.
C. They can never enroll in Part B.
D. They may have to pay a late enrollment penalty for as long as they have Part B.

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71. Under Medicare Part A, after the initial deductible is paid, the beneficiary pays $0 coinsurance for days 1-60 of a hospital stay. For days 61-90, the beneficiary must pay:

A. A daily coinsurance amount
B. 20% of all charges
C. The full cost of care
D. Nothing — it is fully covered

72. The 'personal' nature of an insurance contract means:

A. Insurance contracts can be inherited by the insured's heirs automatically
B. Personal information disclosed on the application is kept strictly confidential
C. Only individuals, not businesses, can purchase insurance
D. The insurance contract is a personal agreement with the insured and generally cannot be assigned to another without insurer consent

73. Two independent insurance agencies in Coeur d Alene conspire together to refuse to sell policies from a particular health insurer in order to force higher commission rates. What is this illegal practice called?

A. Rebating
B. Boycott
C. Twisting
D. Commingling

74. The 'birthday rule' is used to determine which parent's plan is primary for a dependent child when:

A. Only for children under age 5
B. Only when the parents are divorced
C. Both parents have individual health insurance
D. The child is covered under both parents' employer-sponsored group plans

75. Which of the following best describes an 'Independent Practice Association' (IPA) model HMO?

A. An HMO that contracts with independent physicians in private practice who also see non-HMO patients
B. A network of hospitals that exclusively treats HMO members
C. HMO-employed physicians who practice only at HMO facilities
D. A health insurance cooperative owned by its physician members

Practice Test 3 Answer Key

Life Insurance Section — Answers

1. D — The IRS 7-pay test determines MEC status. If a policy is funded faster than a hypothetical 7-year level premium payment schedule allows, it becomes a MEC. Policyowners who want to maximize cash value while maintaining life insurance tax advantages (tax-free loans and withdrawals up to basis) must be careful not to over-fund beyond 7-pay limits.

2. A — A variable annuity would be the most suitable for this client. It allows them to invest directly in the market through subaccounts, offering the potential for higher returns that align with their high risk tolerance and long time horizon.

3. D — A traditional whole life policy is designed to 'endow' at a mature age (like 100 or 121). This means the guaranteed cash value accumulation will equal the policy's face amount at that age. If the insured is still alive, the face amount is paid to the policyowner.

4. D — 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.

5. A — 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.

6. B — Under Idaho Code § 41-1016, the surrender or lapse of a license does not deprive the Director of jurisdiction or authority to proceed with investigations and disciplinary actions against the licensee.

7. A — The effective date is the date on which insurance coverage officially begins. It is critical for establishing contestability and suicide clause periods.

8. B — SSDI is an earned benefit based on the worker's employment history and FICA contributions. SSI, by contrast, is a needs-based federal assistance program funded by general tax revenues. It provides cash assistance to aged, blind, or disabled individuals who have limited income and resources, regardless of their work history.

9. D — The Fixed Amount settlement option provides the beneficiary with regular, fixed-income payments of a chosen amount. The payments continue until both the principal and interest have been completely paid out.

10. A — 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.

11. C — 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.

12. 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.

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

14. C — Group underwriting focuses on the characteristics of the group itself, such as size, type of industry, turnover rate, and age distribution, rather than the health of each individual member. This is a fundamental principle of group insurance.

15. D — In Key Person insurance, the business is the policyowner, premium payer, and beneficiary. Premiums are NOT tax-deductible (because the employer is the beneficiary). Death proceeds are received by the business income-tax-free under IRC Section 101(a), providing funds to cover the financial loss caused by the key employee's death.

16. B — The separate account holds the funds for variable products. It is 'separate' because the funds are not commingled with the insurer's general assets, and the contract owners bear the investment risk. It is structured with various subaccounts that function like mutual funds.

17. A — Each eligible child of a deceased fully insured worker is entitled to receive 75% of the worker's Primary Insurance Amount. Eligible children include unmarried children under age 18 (or under 19 if still in secondary school) and disabled children whose disability began before age 22.

18. D — In a mutual insurance company, the policyholders are the owners. Surplus earnings may be returned to policyholders as non-taxable policy dividends, unlike stock company dividends which go to shareholders.

19. D — The net amount at risk is the portion of the death benefit that the insurer is actually 'at risk' for — calculated as the face amount minus the accumulated cash value. As cash value grows, the net amount at risk decreases. In term insurance, there is no cash value, so the entire face amount is the net amount at risk.

20. B — The tax-deferral benefit of annuities generally does not apply when the contract is owned by a non-natural person, such as a corporation. In this case, the annual growth in the contract is treated as taxable ordinary income to the corporation each year.

21. C — Credit life insurance is designed to pay off a specific loan or debt if the borrower dies. It is usually sold as group decreasing term insurance, where the financial institution is the master policyholder and beneficiary, and the death benefit decreases along with the loan balance.

22. D — 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.

23. B — The certificate of coverage (certificate of insurance) is given to each employee and summarizes their benefits, eligibility, and coverage details under the group plan. The certificate is NOT the insurance contract — the master policy held by the employer is the actual contract. However, employees can enforce their rights through the certificate.

24. D — A rated policy (also called substandard policy) is issued to an applicant who presents a higher than standard mortality risk due to health conditions, occupation, or lifestyle. The insurer may charge an additional premium (flat extra or table rating) or add exclusions to account for the elevated risk. Many substandard applicants can still obtain coverage — just at higher rates.

25. B — A life insurance premium is based on three factors: (1) mortality cost — the predicted cost of death claims based on mortality tables, (2) interest — the assumed investment earnings the insurer will make on premiums, which reduces the premium, and (3) expense loading — the insurer's operating costs such as salaries, commissions, and overhead.

26. C — Annuities are financial contracts issued by life insurance companies that are designed to protect against the risk of 'superannuation' or outliving your money. They provide a stream of income, typically during retirement.

27. B — The most suitable annuity recommendation matches the product's characteristics to the client's specific needs and situation. A 65-year-old retiree seeking guaranteed lifetime income with adequate liquid reserves is an ideal candidate for a fixed immediate annuity. The product provides what the client needs (lifetime income security) without the liquidity and surrender charge concerns that make annuities unsuitable for other clients.

28. C — 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.

29. C — Independent agents (also called American Agency system agents) represent multiple insurers. A key feature is that the independent agent generally owns the expirations and renewal rights to their book of business, giving them the ability to move policies between insurers.

30. A — When the premium is not paid with the application, coverage is not effective until the policy is delivered, the first premium is paid, and the applicant signs a statement of good health. The adverse change in health means a key condition for policy delivery has not been met.

31. B — Under Idaho Code § 41-106, a foreign insurer is an insurance company formed under the laws of any jurisdiction within the United States other than the state of Idaho.

32. D — M&E (mortality and expense risk) charges in a variable annuity compensate the insurer for: (1) the mortality risk — guaranteeing the minimum death benefit even if the account value has declined; (2) the expense risk — guaranteeing not to raise administrative charges; and (3) general administrative expenses. M&E charges are deducted daily from the separate account as a percentage of assets (typically 1.0–1.5% annually). They are separate from fund management fees.

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

34. A — The premium reduction dividend option applies the declared dividend directly against the next premium payment, reducing the amount the policyowner must pay out-of-pocket. This option requires no active management — dividends automatically reduce the next bill. It is one of the most commonly selected dividend options.

35. B — The Agent's Report (or Producer's Report) is a confidential section of the application where the agent provides their personal observations and knowledge about the proposed insured. It is an important underwriting tool but is not part of the 'entire contract'.

36. B — Returned premiums from an ROP term life rider are generally not taxable because they represent a return of after-tax premium dollars (your cost basis). You paid premiums with money you already paid tax on. There is no tax event when they are returned, just as health insurance premium reimbursements for amounts you paid are not taxable.

37. D — Variable life insurance is regulated by the SEC (Securities and Exchange Commission) as a security because the policyowner bears investment risk through the separate account. Variable life prospectuses must be registered with the SEC, and producers must be registered with FINRA. The insurance component is still regulated by state insurance departments.

38. D — The beneficiary is named by the owner to receive any death benefit or remaining payments from the annuity if the annuitant dies before all guaranteed payments have been made or during the accumulation phase.

39. A — Fixed annuities credit interest at a current rate that the insurer declares periodically, with a guaranteed minimum rate. The insurer bears all investment risk. This provides principal protection and predictable growth, making fixed annuities less risky than variable annuities.

40. C — A two-tiered annuity uses two different interest rates: a higher rate applies to the annuity value if the contract is annuitized (converted to income), and a lower rate (the surrender value) applies if the contract is surrendered for cash. This structure incentivizes annuitization but limits flexibility. They have been controversial and are less common today.

41. D — Representations are statements that are true to the best of the applicant's knowledge. They are the basis upon which the policy is issued. An insurer can void a policy if a representation is material and false.

42. C — The Cash Surrender Value nonforfeiture option allows the policyowner to terminate the policy and receive the net cash value (cash value minus any surrender charges and outstanding loans).

43. C — Under Idaho Code § 41-106, a domestic insurer is an insurance company formed under the laws of the state of Idaho.

44. A — Section 1035 of the tax code permits the tax-free exchange of certain insurance products. A life insurance policy can be exchanged for another life insurance policy, an endowment policy, or an annuity contract without any immediate tax consequences on the accumulated gain.

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

46. C — Under Idaho Code § 41-1313, it is unfair discrimination to refuse coverage or increase rates solely on the basis of genetic test results in the absence of a diagnosed medical condition.

47. D — 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.

48. B — Under Idaho Code § 41-2140, health insurance policies providing family coverage must cover newborn children from the moment of birth, including injury, sickness, and congenital defects.

49. B — Annuity withdrawals are taxed on a LIFO (Last-In, First-Out) basis. All growth/interest is withdrawn first and taxed as ordinary income. Since she has $15,000 of interest, the entire $10,000 withdrawal is taxable. Additionally, because she is under age 59 1/2, she faces a 10% IRS penalty for early distribution.

50. A — The Uniform Simultaneous Death Act (or a common disaster clause) addresses the issue of determining who died first when the insured and primary beneficiary die in the same accident. It typically stipulates that the primary beneficiary is presumed to have died first, allowing the death benefit to pass to the contingent beneficiary.

51. B — Under Idaho Code § 41-1911, a life policy may be reinstated within three (3) years from the default date upon evidence of insurability and payment of past-due premiums with interest.

52. B — 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.

53. B — During the accumulation period, premium payments purchase accumulation units. The value of these units fluctuates daily with the performance of the underlying investments in the separate account.

54. B — Under Idaho Code § 41-232, when a formal written demand for a hearing is made in accordance with the law, the Director must hold the hearing within thirty (30) days of receiving the demand.

55. D — When converting a term policy to permanent insurance, the new permanent policy's premium is typically based on the insured's attained age at the time of conversion (not the original issue age). The older the insured when converting, the higher the permanent policy premium. No medical exam is required, but the premium reflects the current age.

56. B — The blackout period is the time when a surviving spouse is not eligible for Social Security survivor benefits. It begins when the youngest child turns 16 (ending mother's/father's benefits) and lasts until the surviving spouse reaches age 60 (or 50 if disabled).

57. C — Churning is the unethical practice of repeatedly replacing insurance or annuity policies for the same client primarily to generate new commissions for the agent, often without any demonstrable benefit to the client and potentially causing harm through new surrender charge periods.

58. B — The annual reset (ratchet) feature locks in index-linked interest credits at the end of each year. The new starting value for the next crediting period is then set at the year-end index level. This means prior year gains are protected from future index declines — a key consumer benefit of indexed annuities over direct index investing.

59. C — Universal life credits interest at a current rate that can change over time based on market conditions. However, the insurer guarantees a minimum interest rate (often 2-4%), so the cash value will grow at least at that minimum rate regardless of how low market rates fall.

60. B — In the annuitization phase of a variable annuity, the AIR is the assumed performance rate built into the initial payment calculation. If the subaccounts perform above the AIR, payments increase; if below, payments decrease; if exactly equal to the AIR, payments stay level. A lower AIR leads to initially lower payments but greater potential for payment growth.

61. C — A contract of adhesion is a contract offered on a 'take-it-or-leave-it' basis by one party (the insurer) to the other (the insured). Any ambiguities in the contract are therefore interpreted in favor of the insured.

62. D — In a whole life policy with a level death benefit (most common structure), the policy's total value stays constant at the face amount. As the cash value component grows, the 'net amount at risk' (pure insurance) shrinks proportionally, since: face amount = cash value + net amount at risk.

63. A — 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.

64. D — A 'Limited-Pay' life policy is designed for this purpose. A 15-Pay Life policy is a whole life policy where the premiums are designed to be paid in full over a 15-year period, after which the policy is paid-up.

65. C — 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.

66. B — surrender charges typically decrease by 1% each year the policy is in force. For a schedule starting at 7% in Year 1, the charges are: Year 1 (7%), Year 2 (6%), Year 3 (5%), Year 4 (4%), Year 5 (3%). Thus, in the fifth year, a 3% penalty applies.

67. C — During the accumulation (pay-in) phase, premiums are used to purchase accumulation units in the selected subaccounts. The value of these units fluctuates with market performance. When the contract is annuitized (begins paying out), the accumulation units are converted into annuity units, which determine the amount of each periodic payment.

68. B — Under Idaho Code § 41-1310, publishing or circulating false financial statements or statements that misstate an insurer financial condition is an unfair trade practice.

69. A — A warranty is a statement that is guaranteed to be true in all respects. A breach of warranty can be grounds for voiding the policy, regardless of whether the breach was material.

70. A — If a policy with cash value lapses and the policyowner fails to select a nonforfeiture option, the insurer will automatically implement the Extended Term option. This ensures the insured maintains the maximum possible death benefit for a specific period.

71. D — If interest rates rise after a fixed annuity with an MVA is purchased and the owner surrenders early, a negative MVA may be applied — reducing the surrender value below the accumulation value. This reflects the insurer's loss from having to sell bonds at lower prices in a rising rate environment. Conversely, falling rates may produce a positive MVA.

72. C — The Waiver of Premium rider waives all future premium obligations if the insured becomes totally and permanently disabled (typically before age 60 or 65). The disability must last at least 6 months before the waiver takes effect. Premiums paid during the waiting period are usually refunded retroactively.

73. A — 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.

74. B — A Secondary Guarantee (also called a no-lapse guarantee or guaranteed death benefit provision) in a GUL (Guaranteed Universal Life) policy ensures the policy stays in force for a guaranteed period or for life — even if the cash value falls to zero — as long as the required minimum premium is paid. This provides death benefit security similar to term insurance but in a permanent policy.

75. C — Insurance is most valuable when the potential loss is large enough to cause financial hardship — the insured cannot afford to absorb the loss. Small, predictable losses are better retained. The large loss principle explains why catastrophic coverage (home, life, health) is more important than covering small routine expenses.

Health Insurance Section — Answers

1. A — A mutual insurance company is owned by its policyholders. Any profits or surplus may be returned to the policyholders in the form of non-taxable dividends.

2. B — UCR is a method of determining benefits by comparing the dentist's fee to the 'usual' fee charged by that dentist, the 'customary' fee charged by other dentists in the area, and the 'reasonable' fee for the service. The insurer pays based on this UCR amount, and the patient is responsible for any difference.

3. B — Medicare Part A is often called 'hospital insurance.' It helps cover inpatient care in hospitals, skilled nursing facility care (not long-term custodial care), hospice care, and home health care.

4. B — There is a 5-month waiting period for Social Security disability benefits. An individual is not eligible to receive payments until the beginning of the 6th full month after the disability began.

5. D — The birthday rule is the standard guideline for determining primary coverage for dependent children. The plan of the parent whose birthday (month and day, not year) comes first in the calendar year is the primary plan.

6. A — Subrogation allows the insurer, after paying a claim, to step into the shoes of the insured and sue the at-fault party to recover the amount it paid. This prevents the insured from collecting from both the insurer and the at-fault party.

7. D — The birthday rule is used in coordination of benefits when a dependent child is covered by both parents' health plans. The parent whose birthday (month and day) falls earlier in the calendar year has the primary plan. If both parents have the same birthday, the plan that has been in force longer is primary.

8. A — The ACA prohibits insurers from denying coverage or charging more based on health status (for non-grandfathered plans) and from imposing annual/lifetime dollar limits on EHBs. However, age rating IS permitted — insurers can charge older adults up to 3 times more than younger adults. This is an exception to the ACA's non-discrimination rules.

9. D — The ten EHBs include services like ambulatory patient services, emergency services, hospitalization, maternity care, mental health, prescription drugs, and preventive care. Elective cosmetic surgery is not an EHB and is generally not covered by health insurance.

10. B — The probationary period is a waiting period set by the employer that new employees must satisfy before they become eligible for benefits like health insurance. It is typically 1 to 3 months.

11. D — Insurers generally will not cover losses that are catastrophic, meaning they could impact a large portion of their policyholders at once, potentially bankrupting the insurer. Events like war or nuclear disasters are typically excluded.

12. C — After an individual A&H policy has been in force for 3 years, the insurer cannot use misstatements in the application to void the policy or deny a claim, except for fraudulent misstatements. This is analogous to the 2-year incontestability clause in life insurance but is 3 years for A&H.

13. C — Capitation is the primary way HMOs pay their network physicians. The provider receives a fixed monthly payment for each enrolled member assigned to them, creating an incentive to focus on preventative care and cost containment.

14. B — Custodial care is non-medical assistance with activities of daily living (ADLs). It can be provided by non-licensed individuals and is the most common type of care needed for long-term support.

15. D — A key feature of HIPAA was to improve the portability of health insurance. It limited the extent to which a new group health plan could impose pre-existing condition exclusions on a new employee who had creditable coverage from a previous plan. This role is now largely handled by the ACA.

16. D — Under a presumptive disability provision, the insured is automatically considered totally disabled, and benefits are paid, even if they can still work. It waives the usual requirements for proving disability for certain severe conditions like total blindness, deafness, or loss of limb.

17. D — A Special Enrollment Period is triggered by a qualifying life event such as loss of minimum essential coverage, marriage, birth or adoption of a child, or a permanent move to a new coverage area. Simply wanting a different plan or finding the current plan too expensive does not qualify.

18. B — Dental insurance is a specific type of health plan designed to pay for a portion of the costs associated with dental care, from preventive services like cleanings to major procedures like crowns and root canals.

19. B — Under Idaho Code § 41-2107, for all premium payment modes other than weekly or monthly (such as quarterly or annual), the grace period is not less than 31 days.

20. C — A Preferred Provider Organization (PPO) uses a discounted fee-for-service model and does not require referrals to see specialists. Members have the freedom to see any in-network provider and may also see out-of-network providers at a higher cost. PPOs operate as open panels.

21. A — Insurable interest means that the policyowner must face a demonstrable financial loss if the insured event occurs. It must exist at the time of application for life insurance and at the time of loss for property insurance.

22. D — Community rating is used for small groups and individual policies. The insurer sets premiums by taking into account the claims experience of all insureds in a specific geographic area (the 'community'). This spreads the risk over a larger population. The ACA requires a modified form of community rating.

23. B — Proximate cause is the dominant, effective, or direct cause that sets in motion an unbroken chain of events leading to a loss. It is used to determine whether a loss is covered under a policy.

24. B — COBRA allows qualified beneficiaries to continue group health coverage after a qualifying event. Coverage can last up to 18 months for employment termination or reduction in hours, 29 months for disability, or 36 months for events like divorce, legal separation, or a dependent aging off coverage. The qualified beneficiary pays the full premium plus a 2% admin fee.

25. B — Taft-Hartley trusts, or multi-employer plans, are formed through collective bargaining agreements between a labor union and multiple employers. They are managed by a board of trustees with equal representation from labor and management.

26. C — 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.

27. B — If the employer pays the entire premium for a group disability plan, the employer can deduct the premium as a business expense. Consequently, any benefits received by a disabled employee are considered taxable income.

28. C — The ACA's 10 essential health benefits include: ambulatory patient services, emergency services, hospitalization, maternity and newborn care, mental health and substance use disorder, prescription drugs, rehabilitative services, laboratory services, preventive and wellness services, and pediatric services. Long-term care facility services are NOT an EHB.

29. D — A formulary is the list of prescription drugs covered by a Part D plan. Each plan has its own formulary, and they are often organized into tiers, with drugs in lower tiers having lower copayments.

30. C — Under Idaho Code § 41-1014, the Director may issue a temporary insurance producer license for a period not exceeding 180 days to the surviving spouse, next of kin, or legal representative of a deceased or disabled producer.

31. D — Similar to a disability policy, an LTC policy has an elimination period (or waiting period). This is the number of days the insured must be receiving care before the policy will start paying benefits. Common periods are 30,60, or 90 days.

32. A — A conditional contract requires that certain conditions must be met before performance is required. For an insurer to pay a claim, the insured must satisfy conditions like paying premiums and providing proof of loss.

33. A — The ACA limits the age rating ratio to 3:1, meaning that the highest premium charged to the oldest adults in the individual and small group markets cannot exceed three times the premium charged to the youngest adults. This restriction prevents insurers from imposing excessively high premiums on older individuals.

34. 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.

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

36. D — Under Idaho replacement rules, the producer must submit a statement signed by both the applicant and producer as to whether the transaction involves a replacement.

37. C — Coinsurance is a cost-sharing arrangement where the insured pays a percentage of the bill (e.g., 20%), and the insurer pays the remaining percentage (e.g., 80%).

38. B — Under Idaho Code § 41-1313, charging different premium rates or providing unequal benefits to individuals of the same risk classification and life/health expectancy without actuarial justification is unfair discrimination.

39. D — 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.

40. D — Under Idaho Code § 41-1935, returning the policy during the free look period voids the contract from inception and entitles the purchaser to a full refund of all premiums paid.

41. C — Under Coordination of Benefits (COB) rules, the plan in which the individual is enrolled as an employee (main policyholder) is always primary for that individual's own claims. The spouse's plan acts as secondary coverage.

42. B — Individuals under age 65 can become eligible for Medicare if they have been entitled to Social Security disability benefits for 24 months. Medicare coverage starts in the 25th month of disability.

43. A — Sliding is the unfair trade practice of representing to an applicant that a specific optional coverage or rider is required by law or necessary for approval when it is not.

44. A — Under Idaho Code § 41-1303 and § 41-1304, using deceptive names, titles, or descriptions that conceal the true nature of an insurance contract is prohibited misrepresentation.

45. C — A residual (or partial) disability benefit pays a proportional benefit when the insured can return to work but earns less than their pre-disability income due to the disability. The benefit is typically calculated as: (income loss / pre-disability income) × total disability benefit. This incentivizes returning to work.

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

47. C — 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.

48. D — The reasonable expectations doctrine holds that when insurance policy language is ambiguous or unclear, courts will interpret the ambiguity in favor of the insured's reasonable expectations of coverage. Because insurance contracts are contracts of adhesion (drafted by the insurer), the insured has no ability to negotiate terms. Courts protect insureds by resolving ambiguities against the drafter (the insurer) and in favor of what a reasonable insured would expect to be covered.

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

50. D — The Medicare Part D coverage gap ('donut hole') is the range between the initial coverage limit and the catastrophic coverage threshold. In this gap, beneficiaries historically paid a higher percentage of drug costs. The ACA has been phasing out the donut hole by requiring manufacturer discounts on brand-name drugs and increased federal subsidies for generics.

51. A — LTC inflation protection increases the policy's benefit amount over time — typically by 3-5% annually — to help coverage keep pace with the rising cost of long-term care. Without inflation protection, a policy purchased today may provide insufficient benefits 20-30 years later when care is needed.

52. B — The elimination period (or waiting period) in an LTC policy is the number of days of qualifying care the insured must receive — and typically pay for out-of-pocket — before the insurer begins paying benefits. Common elimination periods are 30,60,90, or 180 days. Longer elimination periods reduce premiums.

53. D — Disability policies are designed to cover disabilities from accidents and sicknesses. Common exclusions include losses due to war, self-inflicted injuries, participation in a felony, aviation (other than as a commercial passenger), and sometimes pre-existing conditions.

54. B — A reciprocal insurance exchange is an unincorporated group of individuals or organizations (subscribers) that agree to share each other's losses. It is managed by an attorney-in-fact.

55. A — The elimination period (or waiting period) is a deductible measured in time rather than dollars. It is the length of time from the onset of a disability that the insured must wait before benefits are payable. Common elimination periods are 30,60, or 90 days.

56. A — Key underwriting factors for life insurance include age, gender, health history, occupation, hobbies, and habits (like smoking). Marital status is generally not a primary factor in determining risk or premium.

57. A — SSDI provides income benefits to workers who are disabled and meet the definition: a medically determinable physical or mental impairment that prevents substantial gainful activity (SGA) and is expected to last at least 12 continuous months or result in death. SSDI applicants must also meet work credit requirements based on their work history.

58. C — Premiums paid for a personally owned disability income policy are a personal expense and are not tax-deductible.

59. B — When an individual age 65 or older is covered by an employer group health plan through active employment (either their own or their spouse's) at an employer with 20 or more employees, the group health plan is the primary payer and Medicare is the secondary payer.

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

61. B — 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.

62. A — Before the ACA prohibited pre-existing condition exclusions, a certificate of creditable coverage was crucial. It proved that a person had continuous health coverage, which allowed them to reduce or eliminate any pre-existing condition waiting periods when they moved to a new group health plan.

63. A — The 'any occupation' definition requires the insured to be unable to work in any occupation for which they are reasonably qualified. This is a much stricter definition than 'own occupation' and makes it harder to qualify for benefits.

64. D — 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.

65. C — In group health insurance, the employer serves as the policyholder and typically selects the plan(s), negotiates with the insurer, and contributes a portion (or all) of the premium. Employees receive certificates of coverage and may contribute to premiums through payroll deductions. The employer does not personally pay claims.

66. D — 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.

67. D — Conspiring with other agencies or companies to fix rates or restrain trade violates state antitrust and unfair competition laws under Idaho Code § 41-1309.

68. B — In an HMO, the Primary Care Physician (PCP) serves as the gatekeeper who coordinates the member's care and, in traditional HMO models, must authorize referrals to specialists. This gatekeeping function is designed to reduce unnecessary specialty care and manage healthcare costs through coordinated primary care.

69. A — Falsifying replacement disclosures or facilitating an undisclosed replacement is fraudulent misrepresentation and grounds for license revocation and administrative fines.

70. D — If an individual delays enrollment in Part B without having creditable coverage (like from an employer plan), they will face a life-long late enrollment penalty. The penalty is an increase in the monthly Part B premium.

71. A — Medicare Part A covers inpatient hospital stays with cost-sharing that increases over time. Days 1-60 are fully covered after the deductible. Days 61-90 require a daily coinsurance payment. Beyond day 90, the beneficiary must use lifetime reserve days (with an even higher daily coinsurance) or pay the full cost.

72. D — Insurance contracts are personal in nature — they are agreements between the insurer and the specific individual or entity based on the unique characteristics of that person or entity. Most insurance contracts (especially life and health) cannot be transferred to another party without the insurer's consent because the insurer accepted the original insured's specific risk profile.

73. B — Under Idaho Code § 41-1309, entering into an agreement to commit any act of boycott, coercion, or intimidation resulting in unreasonable restraint of the business of insurance is prohibited.

74. D — The birthday rule determines primary coverage for a dependent child covered under both parents' group health plans. The parent whose birthday (month and day only, not year) falls earlier in the calendar year has the primary plan. If birthdays are the same day, the plan in force longer is primary.

75. A — In an IPA model HMO, the HMO contracts with an association (IPA) of independent physicians who practice in their own private offices and see both HMO and non-HMO patients. The IPA negotiates with the HMO on behalf of its member physicians. This is one of the most common HMO structures because it allows the HMO to build a broad network without employing physicians directly.