

FREE CA LIFE & HEALTH PRACTICE EXAM

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1. Mary and Kate are 22 year old identical twins in good health who each have \$250 a year to spend on life insurance. Mary elects to buy 10 year level term while Kate buys traditional whole life insurance. All of the following are true EXCEPT:
 - A. Mary's premium will increase in 10 years
 - B. Mary's policy will not develop any cash value
 - C. Kate's premium will remain level
 - D. Kate's policy will have a higher death benefit

2. A movie production company is concerned about the possibility that their star might become disabled due to illness and become incapable of completing the picture. What type of insurance should they buy:
 - A. Workers compensation
 - B. Credit
 - C. Miscellaneous
 - D. Surety

3. All of the following are types of Ordinary life insurance EXCEPT:
 - A. 20 pay-life
 - B. Group life
 - C. Life paid-up at 65
 - D. Endowment

4. The 'black-out' period under Social Security starts when the youngest child is age:
 - A. 16
 - B. 18
 - C. 21
 - D. 25

5. Jim has a Whole life policy with a face amount of \$50,000 and a cash value of \$10,000. If the policy lapses and goes into the automatic Non-Forfeiture option, Jim will receive:
 - A. A check in the amount of \$10,000 from his insurance company
 - B. A paid-up Whole life policy with a face amount of \$50,000
 - C. A term policy with a face amount of \$50,000 for a specified period of time
 - D. Nothing, since the policy has lapsed

6. An applicant for Life insurance who has a history of driving too fast is:
- A. A morale hazard
 - B. Negligent
 - C. A moral hazard
 - D. A physical hazard
7. An applicant for Life insurance is told that his coverage will cost \$5.00 per unit per year based upon his present age, health and hobbies. If he buys a policy with a face amount of \$75,000, his annual premium will be:
- A. \$75
 - B. \$250
 - C. \$375
 - D. \$500
8. All of the following are underwriting risk classifications EXCEPT:
- A. Standard
 - B. Adverse
 - C. Preferred
 - D. Sub-standard
9. Insurance contracts are considered to be 'aleatory', which means that they:
- A. Are one sided (unilateral)
 - B. Are based upon the Doctrine of Utmost Good Faith
 - C. Are subject to the Doctrine of Adhesion
 - D. Have an unequal exchange
10. On Disability Income insurance, the period of time between the onset of a disability and the time benefits start is known as the:
- A. Waiting period
 - B. Probationary period
 - C. Underwriting period
 - D. Enrollment period
11. The primary purposes of state insurance regulation include all of the following EXCEPT:
- A. Determine insurer solvency
 - B. Interpret policy provisions
 - C. Rate regulation
 - D. Prevent unfair discrimination

12. Twelve months ago, a 39 year tourist broke his neck in a swimming pool accident while on vacation and suffered paralysis, from which he is not expected to recover. He may be eligible to receive disability income benefits from:
- A. Medicare
 - B. Long Term Care (LTC)
 - C. Social Security
 - D. Workers Compensation
13. An insurance company 'admitted' to do business in California is also known as an:
- A. Domestic insurer
 - B. Foreign insurer
 - C. Authorized insurer
 - D. Alien insurer
14. When does a 'contingent beneficiary' receive the proceeds of a Life insurance policy:
- A. Only in the event of a Common Disaster, where both the insured and the primary beneficiary die as a result of the same accident
 - B. When the primary beneficiary has died before the insured dies and no new primary beneficiary has been appointed
 - C. When the primary beneficiary is under the legal age of 18
 - D. When the insured dies before the primary beneficiary dies
15. The person upon whose life a Life insurance policy is based is the:
- A. Policyholder
 - B. Owner
 - C. Beneficiary
 - D. Insured
16. If an annuitant buys an immediate Life annuity with a 10 year period certain, the insurer will pay monthly payments for:
- A. A maximum of 10 years
 - B. 10 years or for life, whichever is less
 - C. A minimum of 10 years, maximum of life
 - D. For the life of the annuitant and 10 years to the beneficiary
17. Which type of qualified retirement plan is designed for public school teachers:
- A. 401K
 - B. IRA
 - C. Keogh
 - D. TSA

18. A policy that will pay the insured a flat daily rate for each day they are hospitalized is known as:
- A. Medical Expense
 - B. Hospital Confinement Indemnity
 - C. Long Term Care
 - D. Accidental Death and Dismemberment
19. Which of the following is true if the Cost of Living rider is attached to a Life insurance policy:
- A. The rider costs extra but increases in coverage are free
 - B. The policy limit will automatically go up or down based upon the rate of inflation
 - C. The rider causes the policy limit to increase, but the premium increases as well
 - D. Any increase in policy limit is subject to proof of insurability
20. On a Universal Life (UL) insurance policy, when the insured pays a premium the insurer will do all EXCEPT:
- A. Add it to the cash value account
 - B. Credit interest to the account
 - C. Subtract expenses
 - D. Apply it towards future surrender charges
21. The Social Security 'black-out' period ends when a surviving spouse reaches age:
- A. 55
 - B. 60
 - C. 62
 - D. 65
22. On Health insurance, the actuarial table used by insurers to determine product benefits and pricing is known as the:
- A. Mortality table
 - B. Medical information table
 - C. Morbidity table
 - D. Medical classification table
23. Medicare Part B covers all of the following EXCEPT:
- A. Physicians services
 - B. Clinical Laboratory services
 - C. Home Health care
 - D. Hospitalization

24. Which of the following is true about Long Term Care (LTC) insurance:
- A. Medi-Cal writes most LTC insurance sold in this state in order to protect middle class Californians
 - B. Coverage is provided by Medicare
 - C. It is not needed by the very rich or the very poor
 - D. It is provided by Medicare Supplement (Medi-Gap) insurance
25. When reading his new Medical Expense policy, an insured discovers that he has no coverage for pre-existing sicknesses that reoccur during a specified period of time after his new policy was issued. He is reading the:
- A. Waiting period
 - B. Probationary period
 - C. Elimination period
 - D. Eligibility period

ANSWERS & RATIONALES

1. **D** Term insurance is less expensive than whole life at issue because it is pure protection and has no cash value. On level term, both the face amount (death benefit) and the premium remain level for the term of the policy, which may be 5, 10, 15 or even 20 years. However, since the premium is based upon the insured's average age during the term, it will increase upon renewal.

Whole life is more expensive since it based upon the 'level premium concept', which states that since the level premiums paid are higher than needed to provide pure protection, a cash value (a savings account that belongs to the policy owner) will develop over a period of time. Since whole life premiums are higher than term insurance premiums, for the same amount of premium, less coverage could be purchased.

2. **C** The California Insurance Code (CIC) identifies 20 different 'classes' of insurance, including Miscellaneous insurance, which includes insurance written to indemnify the producer of any motion picture, television, theatrical, sporting event or exhibition against loss by reason of interruption, postponement, or cancellation due to death, accidental injury, or sickness that prevents a performer from commencing or continuing their performance or duties.
3. **B** Ordinary life insurance includes Whole life, Term and Endowment, all of which base their rates and benefits upon the Commissioner's Standard Ordinary Mortality Table, which predicts how long individuals will live on the average. Group life is not considered to be Ordinary life, since rates and benefits are based upon the characteristics of the group rather than the population in general.
4. **A** Widows or Widowers of any age who have dependent children in their care are entitled to a monthly benefit after their spouse dies until their youngest child reaches age 16. At that time, the widow/widower receives no benefit from Social Security until they are eligible for retirement, which may be as early as age 60. This is referred to as the 'black-out' period.
5. **C** By law, all cash value policy must contain Non-Forfeiture options or provisions, which are Cash, Reduced Paid-Up and Extended Term, which is the automatic option. After a policy lapses, the policy owner may select whichever option they want. If they don't select an option with a certain period of time, the insurer must automatically give them the Extended Term option, where the cash value is used to buy a new term life policy for the same face amount as the prior policy for a specified period of time, which depends upon the insured's age, the amount of cash value available and the face amount.
6. **A** A hazard is defined as something that increases the risk. A morale hazard is presented by a careless or reckless person, such as one who drives too fast. A moral hazard is presented by a dishonest person, such as one who turns in a fraudulent claim. An example of a physical hazard would be smoking. A driver cannot be negligent unless they injure someone or damage someone's property.

7. **C** One unit of life insurance is \$1,000 of coverage. To find the annual premium, multiply the cost per unit (or 'rate' per unit) X the number of units purchased. The cost per unit is \$5.00 multiplied by 75 units equals an annual premium of \$375.00. While rates are based primarily on age, an applicant's gender, health, dangerous hobby or occupation are also rating factors. Remember, on Whole Life, the rate is determined based on the applicant's original age and will never change.
8. **B** Underwriters protect insurers by selecting business that will be profitable at the premium rate charged. A standard risk is presented by the average person with no health problem, dangerous hobby or occupation. A sub-standard risk presents more risk than average and will pay a higher premium. A preferred risk presents less risk than average and will receive a discount. If an applicant presents too much risk, the underwriter may surcharge (rate-up) the policy, add an exclusion or reject the applicant entirely. Most people are insurable as standard risks.
9. **D** While all of the above are true about insurance contracts, an 'aleatory' contract is one that has an unequal exchange due to its uncertain outcome. For example, your client buys medical expense insurance, but never has a claim, while another client buys a policy today and has a large claim tomorrow. The outcome depends on chance. Remember, consideration is defined as the exchange of value, and need not be equal.
10. **A** Disability Income policies have a time deductible, instead of a dollar deductible. The period of time between the onset of a disability due to sickness or accident is the Waiting period, which is also known as the Elimination period, which is selected by the insured when they buy the policy. The longer it is, the lower the premium, and vice-versa. The probationary period limits coverage on new policies for pre-existing conditions.
11. **B** Insurance policies are legal contracts and their provisions are subject to interpretation by the courts, not the state Insurance Department.
12. **C** After a 5 month waiting period, Social Security provides disability income benefits for those whose disability is expected to last at least 12 months or result in their death and are incapable of performing the duties of any occupation. Medicare covers medical expenses, not disability income. LTC covers custodial care in a nursing home. Workers Compensation only covers occupational, job-related injury or sickness.
13. **C** All insurers, except for Surplus Lines insurers, must be 'admitted' or 'authorized' by the Insurance Commissioner before they can transact business in this state, whether they are domiciled in this state (domestic), another state (foreign) or in another country (alien).
14. **B** Under Common Disaster, the proceeds of a Life insurance policy will still go to the primary beneficiary if they outlive the insured by a specified number of days, often 30. However, if there is no primary beneficiary designated on a Life insurance policy at the time of an insured's death, the proceeds will go to the contingent beneficiary. Underage children may be designated as primary beneficiaries, although they cannot sign a release.
15. **D** If a person buys a Life insurance policy upon themselves, they would be considered to be both the policyholder/owner and the insured. However, if you buy a policy on someone else, such as your spouse, you are the policyholder/owner and your spouse is the insured person. The policyholder/owner of the policy has all the rights of ownership, such as the right to take a loan, take cash surrender and to name the beneficiary. Of course, you can't

buy a policy on another person unless you have an 'insurable interest' in that person at the time of application.

16. **C** Immediate annuities have no accumulation period and are usually purchased by clients with money they have been saving for retirement. If the annuitant selects a life payout with a 10 year period certain, payments are guaranteed to be made for at least 10 years, either to the annuitant or to a beneficiary if the client dies within the 10 year period. However, after 10 years there is no beneficiary, but payments will continue to the annuitant until they die. The period certain eliminates some of the risk.
17. **D** Tax Sheltered Annuities (also known as 403b plans) are tax qualified plans that allow employees of public educational institutions and certain other employees of non-profit, religious or charitable organizations to contribute before tax dollars up to certain limits on a payroll deduction basis. Since account earnings are tax deferred, upon withdrawal both the contributions and the earnings are taxable as ordinary income. TSA's are similar to 401k plans in that employers may make matching contributions.
18. **B** A Hospital Confinement Indemnity policy will pay the insured a flat daily rate, such as \$200 a day, for each day they are hospitalized, regardless of cause. This type of policy pays in addition to any other type of health insurance the insured may have, including Medical Expense. Since Hospital Confinement policies do not follow the Principle of Indemnity, it is possible for the insured to collect more than they actually lost.
19. **C** The Cost of Living rider is designed make sure that the insured's policy limit keeps pace with inflation. The rider costs extra as do future increases in coverage, although increases are not subject to insurability, meaning no physical exam is required.
20. **D** Although UL is a type of Whole Life insurance, the protection features of the policy are separate from the cash value account. Premiums paid are credited to the cash value where they earn tax deferred interest at the current rate. From this, the insurer subtracts their expenses, such as administrative expenses and the cost of mortality or death. While UL policies may contain surrender charges that apply in the early years of the policy, they cannot be offset by premium payments.
21. **B** Widows or Widowers of any age who have dependent children in their care are entitled to a monthly benefit after their spouse dies until their youngest child reaches age 16. At that time, the widow/widower's benefits are 'blacked-out' until they become eligible for Social Security retirement benefits, which may be as early as age 60 for surviving spouses.

For example, a woman whose youngest child is age 6 becomes a widow at age 40. The widow will receive monthly benefits from Social Security until that child reaches age 16. At that time, the woman's Social Security benefits will stop (she is now age 50) and she won't receive anything further from Social Security until she reaches her earliest retirement age of 60. So, in this case, her benefits are 'blacked-out' for 10 years. It is during this time she needs to utilize the proceeds of her late husband's life insurance policy.

22. **C** Morbidity tables are to Health insurance, as mortality tables are to Life insurance. Morbidity tables measure the frequency of illness, sickness and disease at each age, and

the actual number of individuals who incurred an illness, sickness or disease at each age. Morbidity tables are based upon the Law of Large numbers.

23. **D** Medicare is part of Social Security and beneficiaries are eligible for enrollment in Part A Hospital Insurance at age 65 at no premium charge. However, Part B of Medicare is designed to cover Physicians and related services for an additional premium charge.
24. **C** LTC insurance covers custodial nursing, which is not covered by either Medicare or a Medicare Supplement insurance policy. However, low income Californians may obtain custodial care through Medi-Cal if they fail an income/asset test. Wealthy Californians might not need to purchase LTC insurance, since they can afford to pay for their own custodial care if need be. Medi-Cal is California's version of Medicaid. Medi-Cal is a taxpayer funded public assistance program. It does not sell insurance.
25. **B** Most new Medical Expense policies contain a probationary period that states that there is no coverage if a pre-existing sickness that the insured was treated for during a specified time prior to the new policy's effective date reoccurs within a specified time after the new policy was issued. Also known as the pre-existing condition clause, the probationary period protects the insurer against adverse selection.