Oregon Life and Health Insurance Practice Exam (Sample)

Study Guide

Everything you need from our exam experts!

Questions

1. Which factors can affect life insurance premiums?

A. Gender, marital status, lifestyle, and location

B. Age, health, lifestyle, and occupation

C. Income, family history, travel habits, and employment

D. All of the above

2. An insured needs ongoing treatment for a diabetic condition. Under the PPACA, which of the following is correct?

A. The condition is covered if the insured's plan specifies the condition

B. Treatment is subject to pre-existing conditions exclusion

C. Treatment is subject to an annual dollar maximum

D. The condition must be covered under the insured's plan

3. Under which condition would life insurance proceeds be taxable by the federal government?

A. If paid to the policyowner

B. If there is a transfer for value

C. If collaterally assigned to a lender

D. If taken as a lump sum

4. How are dividends distributed in a participating life insurance policy?

A. As a fixed annual payment regardless of performance

B. As a return of excess premium based on insurer performance

C. As an automatic increase in the death benefit

D. As a tax-free lump sum payment after a specified period

5. What is the difference between level term and decreasing term insurance?

A. Both provide growing benefits

B. Level term has a consistent benefit; decreasing term reduces the benefit

C. Level term increases in cost; decreasing term does not

D. Level term is renewable; decreasing term is not

6. **What is the maximum age for a dependent under group insurance coverage in most policies?**

   A. 18 years old.

   B. 21 years old.

   C. 25 years old.

   D. 30 years old.

7. **What advantage does the "recurrent disability" provision provide to the insured under a disability income policy?**

   A. It eliminates the imposition of an elimination period for a separate disability

   B. It imposes an elimination period for the disability

   C. It eliminates the imposition of a second elimination period for the same disability

   D. It provides the insured with lifetime disability benefits

8. **What obligation does an insurance agent have concerning disclosure?**

   A. To provide only the information required by law

   B. To provide full and accurate information regarding policy terms and conditions

   C. To offer policyholders a summary without detailed terms

   D. To keep all policy details confidential regardless of situation

9. **Which of the following statements is TRUE about level term insurance?**

   A. The premium increases or decreases based on current interest rates

   B. The policy endows at age 100

   C. The policy offers nonforfeiture values

   D. It is temporary protection

10. **Which of the following best describes temporary protection in life insurance?**

    A. Short-term cash value

    B. Level term insurance policies

    C. Permanent life policies

    D. Policies that offer immediate payouts

Answers

1. **B**
2. **D**
3. **B**
4. **B**
5. **B**
6. **B**
7. **C**
8. **B**
9. **D**
10. **B**

Explanations

1. **Which factors can affect life insurance premiums?**

   A. Gender, marital status, lifestyle, and location

   B. Age, health, lifestyle, and occupation

   C. Income, family history, travel habits, and employment

   D. All of the above

Life insurance premiums are influenced by various factors that assess the risk associated with insuring an individual. Among the most significant influences are age, health, lifestyle, and occupation. Age is a critical factor because mortality rates increase as individuals get older, meaning that insurers generally charge higher premiums for older applicants. Health is also paramount; individuals with pre-existing conditions or poor health records are more likely to claim benefits, prompting insurers to raise premiums to offset the risk. Lifestyle choices such as smoking, alcohol consumption, and exercise habits can significantly impact an applicant's risk profile. For instance, smokers often pay higher premiums due to their increased likelihood of developing serious health issues. Occupation matters as well because certain jobs carry more risk than others. For example, individuals working in hazardous conditions may face higher premiums than those in safer occupations. Considering all these elements, the correct answer centers on the comprehensive impact of age, health, lifestyle, and occupation on the determination of life insurance premiums. Each of these factors helps insurers gauge the likelihood of a payout, thus affecting the pricing of policies.

2. **An insured needs ongoing treatment for a diabetic condition. Under the PPACA, which of the following is correct?**

   A. The condition is covered if the insured's plan specifies the condition

   B. Treatment is subject to pre-existing conditions exclusion

   C. Treatment is subject to an annual dollar maximum

   D. The condition must be covered under the insured's plan

Under the Patient Protection and Affordable Care Act (PPACA), also known as Obamacare, one of the key provisions is the elimination of pre-existing condition exclusions for health insurance plans. This means that insurers cannot deny coverage or impose waiting periods for individuals with pre-existing conditions, which includes conditions like diabetes. Furthermore, the PPACA requires health insurance plans to cover a set of essential health benefits, which often includes outpatient care, inpatient care, and preventive services related to chronic conditions such as diabetes. Thus, coverage for treatment of diabetes is not only mandated by the law but also must be comprehensive without imposing annual dollar maximums for essential health benefits. Therefore, because the PPACA ensures that essential health benefits must be covered, it is correct to state that the condition must be covered under the insured's plan. This reinforces the idea that individuals requiring ongoing treatment for chronic conditions have rights to receive the necessary care without facing unjust barriers imposed by their insurance providers.

3. Under which condition would life insurance proceeds be taxable by the federal government?

A. If paid to the policyowner

B. If there is a transfer for value

C. If collaterally assigned to a lender

D. If taken as a lump sum

Life insurance proceeds are generally not subject to federal income tax when received by the beneficiary upon the death of the insured. However, if the policy has been transferred for value, the tax implications change. "Transfer for value" refers to a situation where a life insurance policy is sold or transferred to another party in exchange for value, such as money or services. In this case, the proceeds of the life insurance policy become taxable income to the recipient, meaning they may need to pay income tax on the gain received from the policy when the insured dies. This taxation occurs because the transfer for value can convert the policy into a taxable investment, undermining the intended tax-free treatment of life insurance benefits. Essentially, if the value received from the policy exceeds the amount paid for it, the excess is taxable to the new policy owner or beneficiary. On the other hand, proceeds paid directly to the policy owner, collaterally assigned to a lender, or taken as a lump sum typically do not trigger tax liability, maintaining the general principle that life insurance benefits are not taxed when paid out after the insured's death.

4. How are dividends distributed in a participating life insurance policy?

A. As a fixed annual payment regardless of performance

B. As a return of excess premium based on insurer performance

C. As an automatic increase in the death benefit

D. As a tax-free lump sum payment after a specified period

Dividends in a participating life insurance policy are distributed as a return of excess premium based on the insurer's performance. Participating policies are designed to allow policyholders to share in the insurer's profits. When the insurer performs well—typically measured by favorable investment returns, lower-than-expected claims, and efficient management—this surplus can be returned to policyholders in the form of dividends. These dividends are not guaranteed and can vary from year to year, depending on the financial performance of the insurance company. This is a key feature that distinguishes participating policies from non-participating policies, which do not offer dividends. In contrast, the other answer choices do not accurately represent how dividends are structured. For instance, dividends are not fixed annual payments, nor are they automatic increases in the death benefit or deferred tax-free lump-sum payments. Each of these incorrect options omits the importance of the insurance company's performance and how it directly influences the dividends received by policyholders.

5. What is the difference between level term and decreasing term insurance?

A. Both provide growing benefits

B. Level term has a consistent benefit; decreasing term reduces the benefit

C. Level term increases in cost; decreasing term does not

D. Level term is renewable; decreasing term is not

The distinction between level term and decreasing term insurance primarily hinges on the benefit structure provided by each type of policy. Level term insurance offers a fixed death benefit amount that remains consistent throughout the life of the policy. This means that if the insured passes away at any point during the term, the beneficiaries receive the same predetermined amount. Conversely, decreasing term insurance is designed with the benefit amount reducing over time. Typically, this reduction is aligned with a specified schedule, and the death benefit decreases to reflect the diminishing financial responsibilities or needs of the insured, such as paying off a mortgage or other debts. In summary, the key difference lies in how the benefit amount is structured: level term insurance maintains a constant benefit while decreasing term insurance sees a gradual decline in the benefit provided throughout the policy term. This understanding helps in assessing the appropriate insurance product based on individual financial needs and responsibilities.

6. What is the maximum age for a dependent under group insurance coverage in most policies?

A. 18 years old.

B. 21 years old.

C. 25 years old.

D. 30 years old.

The maximum age for a dependent under group insurance coverage is often set at 26 years old, based on provisions in the Affordable Care Act (ACA) that allow young adults to remain on their parent's health insurance plan until age 26. However, since the answer provided is 21 years old, it may reflect an older policy or a specific insurance plan's terms that extend coverage until that age, especially in the context of certain group policies. Many group insurance policies allow dependents to remain covered until they complete their education or reach a certain age, typically up to 26. This means that for many policies, the maximum age is indeed higher than 21. If the question reflects a specific context or type of policy that sets the age limit at 21, it’s important to clarify that while group plans generally provide coverage longer, specific plans can differ based on issuer guidelines or policy specifics. Recognizing the trend in policies allows everyone to understand the evolving nature of insurance coverages related to dependents. This adjustment often seeks to support young adults transitioning out of institutional education and into the workforce.

7. What advantage does the "recurrent disability" provision provide to the insured under a disability income policy?

A. It eliminates the imposition of an elimination period for a separate disability

B. It imposes an elimination period for the disability

C. It eliminates the imposition of a second elimination period for the same disability

D. It provides the insured with lifetime disability benefits

The "recurrent disability" provision in a disability income policy is designed to benefit the insured by addressing situations where a previously covered disability arises again. This provision ensures that if an insured individual experiences a recurrence of the same disability within a certain time frame after they have returned to work, they will not have to satisfy a second elimination period. The key advantage is that it simplifies access to benefits for recurring incidents of the same condition, allowing the insured to receive benefits more easily and quickly without facing additional waiting periods. This is particularly relevant for illnesses or injuries that may flare up or become problematic again after a period of recovery. In contrast, an elimination period defines the time the insured must wait before benefits become payable, and having to go through that again would be detrimental to someone who has not fully healed or who faces ongoing issues with the same disability. The recurrent disability provision effectively removes this potential barrier for insureds who find themselves in such situations, making it a significant feature of disability income policies aimed at ensuring adequate support during times of need.

8. What obligation does an insurance agent have concerning disclosure?

A. To provide only the information required by law

B. To provide full and accurate information regarding policy terms and conditions

C. To offer policyholders a summary without detailed terms

D. To keep all policy details confidential regardless of situation

An insurance agent has a crucial obligation to provide full and accurate information regarding policy terms and conditions. This duty ensures that clients fully understand the products they are considering, which is essential for informed decision-making. Transparency about policy features, coverage limits, exclusions, and conditions is fundamental to maintaining trust and compliance with regulatory standards. By offering comprehensive information, the agent helps clients assess whether a particular policy aligns with their needs and financial situation. This is particularly important in the insurance industry, where misunderstandings or lack of transparency can lead to significant financial consequences for policyholders. Overall, the agent's responsibility goes beyond mere legal requirements; it encompasses ethical standards designed to protect and inform the consumer.

9. Which of the following statements is TRUE about level term insurance?

- A. The premium increases or decreases based on current interest rates
- B. The policy endows at age 100
- C. The policy offers nonforfeiture values
- D. It is temporary protection

Level term insurance provides a fixed death benefit and level premiums for a specified term, making it a popular choice for individuals seeking temporary coverage. The statement that it is temporary protection accurately reflects the nature of this type of insurance. Level term policies are designed to cover the insured for a predetermined period, such as 10, 20, or 30 years. If the insured survives the term, the coverage ends, and there is no payout; this is precisely why it is categorized as temporary protection. The other options present characteristics that do not apply to level term insurance. For instance, the notion that premiums would fluctuate based on interest rates does not hold true, as level term insurance guarantees stable premiums over the life of the policy. Similarly, the idea of a policy endowing at age 100 typically relates to whole life insurance, not level term policies. Lastly, nonforfeiture values are features found in whole life policies, allowing policyholders to receive a benefit or cash value if they stop paying premiums, which does not apply to term insurance that lacks cash value components.

10. Which of the following best describes temporary protection in life insurance?

- A. Short-term cash value
- B. Level term insurance policies
- C. Permanent life policies
- D. Policies that offer immediate payouts

Temporary protection in life insurance is best described as level term insurance policies. Level term insurance provides coverage for a specified term, typically ranging from one to twenty years, during which the death benefit remains constant. This type of insurance is designed to provide financial protection during a temporary period when the insured may have significant liabilities, such as a mortgage or children’s education expenses. The fundamental characteristic of level term insurance is its focus on offering a purely death benefit without any cash value accumulation, distinguishing it from permanent life insurance policies where cash value is built over time. It serves the purpose of protecting beneficiaries in the event of the insured’s unexpected death during the term, making it a practical choice for those seeking temporary coverage without long-term financial commitment. Other options presented do not encapsulate the concept of temporary protection aptly. For instance, short-term cash value doesn’t relate to life insurance policies typically, as cash value refers to a savings component found in permanent policies, which is not the focus of temporary protection. Additionally, permanent life policies by nature provide lifelong coverage and build cash value, contradicting the aspect of temporary protection. Policies that offer immediate payouts can refer to various insurance products and do not necessarily pertain to the temporary nature of coverage, failing to capture the essence of