

California Life, Accident, and Health Insurance

Solution key

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1. For an insurance contract to be valid, which of the following elements is NOT required?

- A. Offer and acceptance
- B. Legal purpose
- C (correct). A written document signed by both parties**
- D. Consideration

Rationale: A written document is not required for an insurance contract to be valid. The essential elements are offer and acceptance, consideration, legal purpose, and competent parties.

2. Which of the following BEST describes a Health Maintenance Organization (HMO)?

- A. Has no deductibles or copayments for any service
- B. Allows members to see any specialist without a referral
- C. Provides the most flexibility of all managed care plans
- D (correct). Requires members to use network providers and typically requires PCP referrals for specialist visits**

Rationale: An HMO requires members to use a network of providers and typically requires a referral from a primary care physician (PCP) to see a specialist. In exchange for these restrictions, HMOs generally offer lower out-of-pocket costs. Out-of-network care is not covered except in emergencies.

3. A life insurance policy that allows the policyowner to skip premium payments if the cash value is sufficient to cover the cost of insurance is called:

- A. Flexible premium provision
- B. Extended term option
- C. Premium waiver clause
- D (correct). Automatic premium loan provision**

Rationale: Under the automatic premium loan provision, if a premium is not paid by the end of the grace period, the insurer automatically takes a policy loan from the cash value to pay the premium.

4. An agent who binds coverage beyond the scope of her written agency agreement may still create insurer liability under which doctrine?

- A. Expressed authority
- B. Fiduciary authority
- C (correct). Apparent authority**
- D. Implied authority

Rationale: Apparent authority arises when the insurer's conduct leads a reasonable third party to

believe the agent has authority to act. The insurer may be bound even if the agent exceeded actual authority.

5. The incontestability clause generally prevents the insurer from denying a claim due to material misstatements on the application after the policy has been in force for:

- A. 1 year
- B. 30 days
- C. 5 years
- D (correct). 2 years**

Rationale: The incontestability clause states that after a policy has been in force for a specific period (usually 2 years), the insurer cannot contest the policy's validity or deny a claim based on application misstatements.

6. Medicare Part D provides coverage for:

- A. Dental and vision care
- B. Long-term care
- C (correct). Prescription drug benefits**
- D. Inpatient hospital care

Rationale: Medicare Part D is the voluntary prescription drug benefit. Beneficiaries pay a separate monthly premium and must enroll through private insurers offering Part D plans.

7. What feature of a PPO makes it distinct from an HMO?

- A (correct). PPOs provide coverage for out-of-network services, though usually at a higher cost to the insured.**
- B. PPOs only offer coverage for hospital stays and surgical procedures.
- C. PPOs operate exclusively on a capitation basis for provider compensation.
- D. PPOs strictly require a referral from a primary care physician for all specialist visits.

Rationale: A Preferred Provider Organization (PPO) provides financial incentives for members to use network providers but allows them to seek care outside the network at a higher out-of-pocket cost, unlike an HMO which generally does not cover out-of-network care except in emergencies.

8. The incontestability clause in a life insurance policy prevents the insurer from voiding the policy due to misrepresentation after:

- A. 5 years from policy issue
- B. 10 years from policy issue
- C (correct). 2 years from policy issue**
- D. 6 months

Rationale: California law (and standard policy provisions) requires life policies to become incontestable after 2 years from policy issue, except for fraudulent misstatements or nonpayment of premiums.
Code: CA Ins. Code §10113.5

9. A pure risk is characterized by:

- A. A guaranteed return on investment
- B. The combination of hazard and peril
- C (correct). The possibility of loss or no loss, but no chance of gain**
- D. The chance of gaining a significant profit

Rationale: Pure risk involves only the possibility of loss or no loss, without any potential for financial gain. Only pure risks are insurable.

10. The ACA's essential health benefits requirement mandates that qualified health plans cover all of the following EXCEPT:

- A. Maternity and newborn care
- B. Mental health and substance abuse treatment
- C. Emergency services

D (correct). Elective cosmetic surgery

Rationale: The ACA requires 10 categories of essential health benefits. Cosmetic surgery (elective, non-medically necessary) is not included; the required categories include emergency services, maternity, mental health, and prescription drugs.

11. A policy that provides a specified daily, weekly, or monthly benefit amount if the insured is confined to a hospital, regardless of actual medical expenses incurred, is called a:

- A. Major Medical policy
- B. Accidental Death and Dismemberment (AD&D) policy
- C. Critical Illness policy

D (correct). Hospital Indemnity policy

Rationale: Hospital Indemnity (or Hospital Income) policies pay a fixed, stated amount per day (or week/month) of hospitalization. The payment is made directly to the insured and is not based on the actual medical costs.

12. The concept of "reasonable expectations" in insurance contract interpretation holds that:

- A (correct). Courts honor the objectively reasonable expectations of policyholders even when strict policy language might support a different result**
- B. Ambiguous policy language is always interpreted in favor of the insurer
- C. Insurance contracts must be interpreted literally with no exceptions
- D. Policyholders can demand any coverage they expect regardless of policy terms

Rationale: Courts apply the reasonable expectations doctrine to honor the objectively reasonable expectations of policyholders, even if strict policy language might support a different result.

13. If a life insurance policy is surrendered for its cash value, the policyowner will receive:

- A (correct). The cash surrender value minus surrender charges and outstanding loans**
- B. Nothing, as surrendering forfeits all value
- C. Only the premiums paid into the policy
- D. The full face amount of the policy

Rationale: Upon surrender, the policyowner receives the cash surrender value, which is the cash value minus any surrender charges and outstanding policy loans. The death benefit terminates.

14. The California Insurance Guarantee Association (CIGA) protects policyholders when a member insurer:

- A (correct). Becomes insolvent and cannot pay claims**
- B. Withdraws from the California market voluntarily
- C. Raises premiums beyond regulatory limits
- D. Denies a claim the policyholder believes is valid

Rationale: CIGA is a state-mandated safety net that pays covered claims up to statutory limits when a licensed California insurer becomes insolvent and unable to pay its obligations.

Code: CA Ins. Code §1063

15. The suicide clause in a life insurance policy typically provides that if the insured commits suicide within the first two years of the policy:

- A. The full death benefit is paid to the beneficiary
- B. The policy is voided and no refund is given
- C. The cash value is paid but not the death benefit
- D (correct). Only the premiums paid are returned; the death benefit is denied**

Rationale: The standard suicide exclusion denies the death benefit if suicide occurs within the first 2 years of the policy's issue date, returning only the premiums paid to protect against adverse selection.

16. Which document is used to modify or add to the terms of an existing insurance policy?

- A (correct). Endorsement**
- B. Binder
- C. Certificate of insurance
- D. Declarations page

Rationale: An endorsement (also called a rider on life/health policies) is a written amendment to the policy that changes, adds to, or restricts the original coverage.

17. Under the California Insurance Code, a Medicare Supplement insurer MUST offer a standardized open enrollment period to individuals who are at least age 65 and first enrolled in Medicare Part B. During this 6-month window, the insurer:

- A. May charge higher premiums based on the applicant's health history
- B (correct). Cannot deny coverage, charge extra, or impose waiting periods based on health status**
- C. May deny coverage based on pre-existing conditions
- D. Is required to provide coverage only if the applicant has no pre-existing conditions

Rationale: Under Cal. Ins. Code § 10192.12 and federal rules, during the 6-month Medigap open enrollment period starting when the applicant is both 65+ and enrolled in Part B, the insurer cannot deny coverage, charge higher premiums based on health status, or impose waiting periods for pre-existing conditions. Guaranteed issue applies.

Code: Cal. Ins. Code § 10192.12

18. A waiver in insurance is best defined as:

- A. An endorsement that removes a covered peril from the policy
- B. The insurer refusing to pay a claim
- C. A court order preventing a party from asserting a right
- D (correct). The voluntary relinquishment of a known right by one party**

Rationale: A waiver is the voluntary relinquishment of a known right. Estoppel prevents a party from asserting a right inconsistent with a prior position that another relied upon to their detriment.

19. Which of the following BEST describes the tax treatment of the inside buildup in a deferred annuity during the accumulation phase?

- A. Earnings are taxed as capital gains each year
- B. Earnings are taxed as ordinary income each year
- C. Earnings are permanently tax-exempt
- D (correct). Earnings accumulate tax-deferred until withdrawal**

Rationale: Interest, dividends, and capital gains credited to a deferred annuity accumulate on a tax-deferred basis — they are not subject to income tax until withdrawn. This is one of the primary advantages of annuities over taxable investment accounts.

20. Who has the legal right to name or change the beneficiary of a life insurance policy?

- A (correct). The policyowner**
- B. The insurance company
- C. The insured
- D. The primary beneficiary

Rationale: The policyowner controls the policy, which includes the right to name or change the beneficiary, unless the beneficiary is designated as irrevocable.

21. An insurer cancels a policy mid-term without a valid reason. Under California law, the insurer must:

- A. Keep the full premium earned through the cancellation date
- B (correct). Provide advance written notice and a pro-rata refund of unearned premium**
- C. Only notify the insured after the cancellation takes effect
- D. No notice is required if the insurer returns the premium

Rationale: California law requires advance notice (typically 20–45 days depending on policy type) for mid-term cancellations and mandates a pro-rata refund of unearned premium.

22. The Coordination of Benefits (COB) provision in health insurance prevents:

- A (correct). The insured from collecting more than 100% of actual covered expenses**
- B. Insurers from denying pre-existing conditions
- C. Employers from offering more than one health plan
- D. Providers from billing both plans simultaneously

Rationale: COB provisions ensure that when an insured has coverage under more than one health plan, the total benefits paid do not exceed 100% of the actual covered expenses, preventing double recovery.

23. The intentional withholding of a material fact from the insurer by an applicant is known as:

- A. Fraud
- B. Estoppel
- C (correct). Concealment**
- D. Misrepresentation

Rationale: Concealment is the failure to disclose known material facts. In California, concealment, whether intentional or unintentional, allows the injured party to rescind the contract.

24. The law of large numbers supports insurance operations by:

- A. Eliminating the need for underwriting
- B. Guaranteeing that no insurer will ever have a loss
- C. Requiring all insurers to charge the same premium
- D (correct). Making actual losses more predictable as the number of exposure units increases**

Rationale: As the number of similar exposure units increases, the actual loss experience more closely approximates the expected (predicted) loss, allowing insurers to set accurate premiums.

25. A variable annuity's subaccounts most closely resemble which financial instrument?

- A. Certificates of deposit
- B (correct). Mutual funds**
- C. Treasury bonds
- D. Fixed annuities

Rationale: Variable annuity subaccounts function similarly to mutual funds — the contract owner selects among investment options (equity, bond, money market), and the account value fluctuates based on market performance. Unlike mutual funds, they grow tax-deferred inside the annuity wrapper.

26. Under the ACA, which of the following is considered an "Essential Health Benefit" that all individual and small group health plans sold in California must cover?

- A. Long-term custodial care
- B. Gym membership and fitness programs
- C. Elective cosmetic surgery
- D (correct). Mental health and substance use disorder services**

Rationale: The Affordable Care Act requires all individual and small-group plans to cover 10 categories of essential health benefits (EHBs), including preventive and wellness services, mental health and substance use disorder services, maternity care, prescription drugs, and emergency services, among others. Cosmetic surgery and gym memberships are not EHBs.

27. Which nonforfeiture option uses the policy's cash value to purchase a new policy with the same face amount as the original policy?

- A (correct). Extended Term**
- B. Paid-Up Additions
- C. Cash Surrender Value
- D. Reduced Paid-Up

Rationale: The Extended Term option uses the cash value to purchase a term life policy with the same face amount as the original whole life policy, but for a shorter duration.

28. Which settlement option pays a guaranteed income for the life of the beneficiary, with payments ceasing at death regardless of how much has been paid out?

- A. Life with period certain option
- B. Fixed-amount option
- C (correct). Straight life (life-only) annuity option**
- D. Fixed-period option

Rationale: The straight life (life-only) annuity option pays income for life but stops at death with no further payments, even if the total payments received are less than the policy proceeds.

29. Which type of insurer is owned by its policyholders, who may receive dividends based on company performance?

- A. Stock insurer
- B. Lloyd's of London syndicate
- C (correct). Mutual insurer**
- D. Reciprocal exchange

Rationale: A mutual insurer is owned by its policyholders rather than stockholders. Policyholders may receive dividends when the company performs well, representing a return of excess premiums.

30. Which of the following is an example of a pure risk, as opposed to a speculative risk?

- A (correct). A fire destroying a warehouse**
- B. Starting a new business venture
- C. Buying cryptocurrency
- D. Investing in the stock market

Rationale: Pure risks involve only the possibility of loss or no loss (e.g., fire destroying a home). Speculative risks also include the possibility of gain (e.g., investing in stocks). Only pure risks are insurable.

31. Which section of an insurance policy specifically defines covered perils and the insurer's promise to pay?

- A (correct). Insuring agreement**
- B. Conditions section
- C. Exclusions section
- D. Declarations page

Rationale: The insuring agreement is the core promise of the policy where the insurer agrees to pay for covered losses. The declarations page identifies the parties; conditions list obligations; exclusions carve out coverage.

32. The guaranteed insurability rider allows the policyowner to:

- A. Receive cash value tax-free at retirement
- B. Guarantee the policy will never lapse
- C (correct). Purchase additional coverage at specified events without evidence of insurability**
- D. Convert term insurance to permanent without any premium increase

Rationale: The guaranteed insurability (or guaranteed purchase option) rider lets the policyowner buy additional coverage at specified ages or events without evidence of insurability, regardless of health changes.

33. A qualified annuity held inside an IRA differs from a non-qualified annuity primarily in that:

- A. Only the earnings portion is taxable, since basis exists
- B. Distributions are tax-free after age 70½
- C. Capital gains rates apply to the investment gains

D (correct). The entire distribution is taxable as ordinary income

Rationale: A qualified annuity is funded with pre-tax (or deductible) dollars inside a tax-advantaged account like an IRA or 401(k). When distributions are taken, the ENTIRE amount is subject to ordinary income tax because no after-tax basis exists. A non-qualified annuity is funded with after-tax dollars, so only the earnings are taxable.

34. Medicare Part A primarily covers:

A. Outpatient physician visits

B (correct). Inpatient hospital stays, skilled nursing facility care, and hospice

C. Dental and vision care

D. Prescription drugs

Rationale: Medicare Part A is the hospital insurance component, covering inpatient hospital stays, skilled nursing facility care following a qualifying hospital stay, hospice, and some home health care.

35. The principle of indemnity is best described as:

A. Replacing a lost item with a brand new, upgraded version

B. Paying the maximum face value of the policy for any loss

C. Providing a financial reward for experiencing a loss

D (correct). Restoring the insured to their original financial position

Rationale: The principle of indemnity states that insurance should restore the insured to the same financial condition as before the loss, without allowing them to profit.

36. Under the birthday rule used in coordination of benefits, the primary carrier for a dependent child is:

A (correct). The plan of the parent whose birthday falls earlier in the calendar year

B. The plan that has been in effect the longest

C. The older parent's plan is always primary

D. The plan with the higher benefit limits

Rationale: The birthday rule states that the plan of the parent whose birthday falls earlier in the calendar year (month and day, not year) is primary for a dependent child.

37. Under California law, a newly licensed life insurance agent must complete how many hours of continuing education every two years to maintain their license?

A (correct). 24 hours

B. 12 hours

C. 20 hours

D. 30 hours

Rationale: California requires 24 hours of continuing education (CE) every two-year license period for life-only and accident & health agents, including at least 3 hours of ethics. This is governed by Cal. Ins. Code § 1749.3.

Code: Cal. Ins. Code § 1749.3

38. A homeowner whose house burns down collects the exact replacement cost from the insurer, with no profit. This reflects which insurance principle?

A. Principle of subrogation

B. Principle of utmost good faith

C (correct). Principle of indemnity

D. Principle of insurable interest

Rationale: The principle of indemnity states that insurance should restore the insured to the same financial position as before the loss, but not allow a profit from insurance.

39. Which California Insurance Code section broadly prohibits unfair methods of competition and unfair or deceptive acts in the business of insurance?

- A. Cal. Ins. Code § 1749
- B. Cal. Ins. Code § 750
- C (correct). Cal. Ins. Code § 790**
- D. Cal. Ins. Code § 780

Rationale: Cal. Ins. Code § 790 (the Unfair Insurance Practices Act) prohibits unfair methods of competition and unfair or deceptive acts. Section 790.03 enumerates specific prohibited acts. Agents must know this section as it is the foundation of California's market conduct rules.

Code: Cal. Ins. Code § 790

40. Under a Point-of-Service (POS) plan, members may seek care outside the network if they:

- A. Are denied care by the in-network provider
- B. Get prior approval from the CDI
- C (correct). Accept higher cost-sharing and typically obtain a PCP referral**
- D. Enroll in Medicare first

Rationale: POS plans blend HMO and PPO features — members can go out-of-network (like a PPO) but pay higher costs and typically need a referral from their PCP, unlike a pure PPO.

41. Which of the following annuity features provides a guaranteed minimum death benefit equal to at least the total premiums paid, regardless of investment performance?

- A. Annuitization privilege
- B (correct). Guaranteed minimum death benefit (GMDB)**
- C. Free withdrawal provision
- D. Cost of living adjustment (COLA) rider

Rationale: Most variable annuities offer a guaranteed minimum death benefit (GMDB) that ensures the beneficiary receives at least the total premiums paid (return of premium GMDB), even if market losses reduced the account value below that amount. This is a key consumer protection feature of variable annuities.

42. In order to qualify for a Long-Term Care (LTC) policy benefit, an individual must typically be unable to perform a certain number of Activities of Daily Living (ADLs). Which of the following is considered a standard ADL?

- A. Cooking meals
- B. Driving a vehicle
- C (correct). Bathing**
- D. Managing personal finances

Rationale: Standard Activities of Daily Living (ADLs) include bathing, dressing, eating, transferring, toileting, and continence. Driving is an instrumental activity, not a basic ADL for triggering LTC benefits.

43. The standard Medicare enrollment period for Part B begins when an individual:

- A. Retires from employment
- B. Turns 62
- C (correct). Turns 65 (with a 7-month Initial Enrollment Period)**
- D. Applies for Social Security disability benefits

Rationale: The Initial Enrollment Period for Medicare begins 3 months before the month of turning 65 and extends 3 months after, for a total of 7 months. Late enrollment results in premium penalties.

44. An insurer that routinely delays settlement of claims without a reasonable basis for doing so is engaging in:

- A. A licensing violation only
- B. Twisting
- C (correct). An unfair claims settlement practice**
- D. Insurance fraud

Rationale: Under Cal. Ins. Code § 790.03(h), failing to effectuate prompt, fair, and equitable settlements of claims in which liability has become reasonably clear is a specific unfair claims settlement practice. This is distinct from general misrepresentation or fraud.

Code: Cal. Ins. Code § 790.03

45. An insurance contract is considered aleatory because:

- A. It relies on the absolute honesty of both parties
- B. It is drafted by one party and accepted as-is by the other
- C (correct). There is an unequal exchange of value between the parties**
- D. Only one party is legally bound to perform under the contract

Rationale: Aleatory contracts involve an unequal exchange of value. The premium paid by the insured is typically much less than the potential benefit paid by the insurer.

46. An insurance company's responsibility to pay legitimate claims promptly and fairly is known as:

- A (correct). The duty of good faith and fair dealing**
- B. The principle of indemnity
- C. The doctrine of subrogation
- D. The parol evidence rule

Rationale: Good faith and fair dealing (also called the duty of good faith) requires insurers to handle claims honestly and promptly. Violations can give rise to bad faith claims and punitive damages in California.

Code: CA Ins. Code §790.03

47. Which legal doctrine requires an insurance applicant to disclose all material facts that might influence the insurer's decision to issue a policy?

- A (correct). Doctrine of utmost good faith**
- B. Doctrine of waiver and estoppel
- C. Principle of insurable interest
- D. Principle of indemnity

Rationale: The doctrine of utmost good faith (uberrimae fidei) requires both parties to an insurance contract to disclose all material facts. Failure to do so can render the policy voidable.

Code: CA Ins. Code §330

48. The out-of-pocket maximum under a major medical policy is the point at which:

- A (correct). The insurer pays 100% of covered expenses for the remainder of the benefit period**
- B. The insurer stops paying benefits
- C. The policy automatically renews
- D. The insured must find alternative coverage

Rationale: Once the insured's out-of-pocket costs (deductibles + coinsurance) reach the stop-loss limit, the insurer pays 100% of covered expenses for the remainder of the benefit period.

49. Under California Insurance Code § 10127.13, an individual health insurance policy delivered in California must provide a free-look period of at least:

- A (correct). 10 days**
- B. 30 days
- C. 20 days
- D. 5 days

Rationale: Cal. Ins. Code § 10127.13 requires individual health insurance policies to provide a free-look period of at least 10 days after delivery. During this time, the policyholder may return the policy for a full refund of premium if not satisfied.

Code: Cal. Ins. Code § 10127.13

50. A California life insurance producer acting in a fiduciary capacity receives premium funds from a client. These funds must be:

- A. Deposited into the producer's business operating account until forwarded
- B. Invested in short-term instruments to earn interest for the producer
- C (correct). Promptly remitted to the insurer and not commingled with personal funds**
- D. Held for 30 days before forwarding to allow for policy cancellations

Rationale: A producer acting as a fiduciary must promptly remit premiums to the insurer and may not commingle client funds with personal funds. Misappropriation of premium funds is both a criminal violation and grounds for license revocation under Cal. Ins. Code § 1733.

Code: Cal. Ins. Code § 1733

51. A 20-pay whole life policy differs from a straight whole life policy in that:

- A. The cash value stops accumulating after 20 years
- B. Coverage ends after 20 years
- C (correct). Premiums are paid for only 20 years; then the policy is paid-up for life**
- D. The death benefit decreases each year after 20 years

Rationale: A 20-pay whole life policy requires premium payments for only 20 years, after which the policy is paid-up for life. Premiums are higher than straight whole life but the premium-paying period is shorter.

52. Moral hazard is best described as:

- A. The risk of physical loss due to the nature of the insured property
- B. Carelessness resulting from indifference to loss
- C. The chance that the insurer will become insolvent
- D (correct). Increased recklessness or dishonesty because one is protected by insurance**

Rationale: Moral hazard refers to the increased tendency to behave recklessly or dishonestly because one is protected by insurance. It is distinct from morale hazard, which involves carelessness due to indifference.

53. The difference between a Health Savings Account (HSA) and a Flexible Spending Account (FSA) is that an HSA:

- A. Is funded exclusively by the employer
- B. Is only available to retirees on Medicare
- C (correct). Rolls over year to year and requires enrollment in an HDHP**
- D. Must be used by year-end or the funds are forfeited

Rationale: HSA funds roll over indefinitely and are owned by the individual; FSA funds are use-it-or-lose-it (with limited grace periods). HSAs require enrollment in a High-Deductible Health Plan (HDHP).

54. Medicare Part B primarily covers:

- A. Skilled nursing facility care
- B. Inpatient hospital stays
- C. Prescription drugs
- D (correct). Outpatient medical services including physician visits and preventive care**

Rationale: Medicare Part B covers outpatient medical services including physician visits, preventive care, durable medical equipment, lab tests, and outpatient hospital care. Most beneficiaries pay a monthly premium.

55. The primary purpose of reinsurance is to:

- A (correct). Transfer a portion of risk from the primary insurer to another company**
- B. Allow policyholders to share premiums with each other
- C. Guarantee that all claims will be paid by the government
- D. Sell insurance directly to consumers at lower rates

Rationale: Reinsurance allows insurers to transfer a portion of their risk to another company, protecting against catastrophic losses and enabling them to write larger policies than their capital would otherwise allow.

56. What key feature of universal life insurance provides the policyowner with significant flexibility?

- A. A rigid payment schedule that cannot be altered
- B (correct). Flexible premiums and an adjustable death benefit**
- C. A fixed, guaranteed rate of return
- D. The requirement to invest in mutual funds

Rationale: Universal life insurance is characterized by its flexibility, allowing the policyowner to adjust premiums and the death benefit as their needs change.

57. Field underwriting refers to the role of:

- A (correct). The producer screening applicants and submitting accurate applications**
- B. The CDI auditing insurer underwriting practices
- C. The claims adjuster verifying policy coverage at the time of loss
- D. The home office actuary setting premium rates

Rationale: Field underwriting is the producer's responsibility to initially screen applicants — collecting accurate information, identifying obvious uninsurable risks, and submitting complete applications.

58. Under a fixed-period settlement option, the insurance proceeds are paid:

- A. Only for the life of the beneficiary
- B. In a single lump sum at the beneficiary's request
- C. In a lump sum after a waiting period
- D (correct). In equal installments over a specified number of years**

Rationale: The fixed-period option pays out the proceeds (principal plus interest) in equal installments over a specified period. Payments end when the period ends, regardless of whether the beneficiary is still living.

59. California's Medi-Cal program is the state's implementation of the federal:

- A. Veterans Affairs health benefits
- B (correct). Medicaid**
- C. CHIP (Children's Health Insurance Program)
- D. Medicare

Rationale: Medi-Cal is California's Medicaid program, a joint federal-state program providing health coverage to low-income individuals, families, seniors, and people with disabilities.

60. Which of the following best describes "adverse selection" in insurance?

- A (correct). Higher-risk individuals being more likely to seek insurance than lower-risk individuals**
- B. The insurer selecting only low-risk applicants
- C. An insurer refusing to cover certain geographic areas
- D. The tendency to take greater risks because one is insured

Rationale: Adverse selection occurs when individuals with higher-than-average risk are more likely to seek insurance than those with lower risk, leading to a skewed risk pool for the insurer.

61. An accidental death benefit rider doubles the face amount if death occurs due to an accident. This feature is also known as:

- A. Guaranteed insurability rider
- B. Cost-of-living rider
- C (correct). Double indemnity**
- D. Return-of-premium rider

Rationale: The accidental death benefit rider is commonly called "double indemnity" because it pays double (or sometimes triple) the policy face amount when death results from a qualifying accident.

62. Vision insurance typically covers which of the following as a core benefit?

- A (correct). Annual routine eye exam plus allowance for eyewear
- B. Unlimited eye exams at any ophthalmologist nationwide
- C. Coverage for LASIK surgery at no additional cost
- D. Coverage for treatment of glaucoma and diabetic retinopathy

Rationale: Core vision insurance benefits typically include one routine eye exam per year plus an allowance toward frames, lenses, or contact lenses. Vision plans generally do NOT cover surgical procedures like LASIK (though some add-ons may), nor do they cover medical eye conditions (which fall under medical insurance).

63. The cash value in a whole life insurance policy can be accessed in all of the following ways EXCEPT:

- A. Surrendering the policy for its cash surrender value
- B (correct). Receiving a tax-free lump sum while keeping the full death benefit
- C. Taking a policy loan against the cash value
- D. Making a partial withdrawal from the cash value

Rationale: Cash value can be accessed via policy loans, withdrawals, or surrendering the policy. Receiving a tax-free lump sum payment while keeping the death benefit in full is not a cash value access method.

64. Which ACA provision requires health plans to cover children up to age 26 on a parent's plan?

- A. Pre-existing condition exclusion provision
- B. HIPAA portability provision
- C. COBRA continuation provision
- D (correct). Dependent coverage extension to age 26

Rationale: The ACA mandates that non-grandfathered health plans allow adult children to remain on a parent's plan until age 26, regardless of student, marital, or tax-dependent status.

65. A Health Maintenance Organization (HMO) that employs physicians directly and provides services at its own facilities is called a:

Rationale: A staff model HMO employs physicians directly who work exclusively for the HMO at HMO-owned facilities. In contrast, an IPA model contracts with independent physicians.

66. Which of the following would be classified as a hazard rather than a peril?

- A. A lightning strike that starts a fire
- B (correct). Defective wiring in a building
- C. A theft of personal property
- D. A flood that destroys a home

Rationale: A peril is the direct cause of loss (e.g., fire, theft). A hazard is a condition that increases the likelihood or severity of a loss. Defective wiring increases the chance of fire (a peril).

67. In California, which entity has primary regulatory authority over the business of insurance and the licensing of insurance producers?

- A. The Federal Insurance Office (FIO)
- B. The National Association of Insurance Commissioners (NAIC)
- C (correct). The California Department of Insurance (CDI)
- D. The California Department of Financial Protection and Innovation (DFPI)

Rationale: The California Department of Insurance (CDI), led by the Insurance Commissioner, is the primary regulatory body for insurance in California. The Commissioner is elected by voters, not appointed, distinguishing California from most other states.

Code: Cal. Ins. Code § 12900

68. An immediate annuity differs from a deferred annuity primarily in that an immediate annuity:

- A. Can only be purchased inside a qualified retirement plan
- B. Has a longer surrender charge period than a deferred annuity
- C (correct). Begins making income payments almost immediately after purchase

D. Always earns a higher interest rate than a deferred annuity

Rationale: An immediate annuity is purchased with a single premium and begins making income payments within one payment period (usually within 30 days to one year). A deferred annuity has an accumulation phase before payouts begin. This is the fundamental structural difference.

69. Traditional whole life insurance policies are designed to mature or endow at what age?

A (correct). Age 100

B. Age 120

C. Age 65

D. Age 80

Rationale: Traditional whole life policies are designed to endow at age 100. At this point, the cash value equals the face amount of the policy.

70. Under California law, an insurance agent who willfully makes a false statement in an application for insurance on behalf of a client may be subject to which of the following penalties?

A. Mandatory continuing education with no further penalties

B. A written warning from the CDI for a first offense

C (correct). Criminal prosecution, fines, and license revocation

D. Only policy rescission — the insurer's remedy is limited to voiding the contract

Rationale: Willful misrepresentation on insurance applications is insurance fraud under Cal. Ins. Code § 1871. Penalties include criminal prosecution, fines, and license revocation. Civil liability to the insurer is also possible. Simply rescinding the policy is not the only consequence.

Code: Cal. Ins. Code § 1871

71. Under the spendthrift clause in a life insurance policy, the beneficiary:

A. Forfeits the right to name a contingent beneficiary

B. Must receive all proceeds in a single lump sum

C. Can assign their interest in the proceeds to creditors

D (correct). Cannot assign or pledge the proceeds before receiving them, protecting the funds from creditors

Rationale: A spendthrift clause prevents the beneficiary from assigning, pledging, or otherwise transferring their interest in policy proceeds before receiving them, protecting the funds from creditors.

72. A variable life insurance policy differs from whole life in that the death benefit and cash value:

A. Are determined by the CDI each year

B. Are guaranteed and fixed for the life of the policy

C (correct). Fluctuate based on the performance of separate account investments

D. Are based on a fixed interest rate set by the insurer

Rationale: Variable life policies invest cash value in separate account sub-accounts (stocks, bonds, etc.). Both the death benefit and cash value fluctuate based on investment performance, shifting investment risk to the policyowner.

73. During the accumulation phase of a non-qualified annuity, how are the earnings taxed?

A. They are entirely tax-free.

B (correct). They grow tax-deferred until withdrawn.

C. They are taxed annually as ordinary income.

D. They are subject to capital gains taxes each year.

Rationale: Earnings within a non-qualified annuity grow on a tax-deferred basis. Taxes on the earnings are not paid until they are withdrawn or distributed.

74. According to the California Insurance Code, anyone who acts as an insurance agent without a valid license is guilty of a:

- A. Infraction
- B. Felony
- C. Federal offense
- D (correct). Misdemeanor**

Rationale: Acting as an insurance agent, broker, or solicitor without a valid license from the Department of Insurance is a misdemeanor in California and can result in fines and imprisonment.

75. When a beneficiary receives the death benefit from a life insurance policy in a lump sum, what is the income tax consequence?

- A. It is fully taxable as ordinary income.
- B (correct). It is generally received income tax-free.**
- C. It is taxed at capital gains rates.
- D. Only the death benefit amount exceeding premiums paid is taxable.

Rationale: Lump-sum death benefits paid from a life insurance policy are generally received income tax-free by the beneficiary.

76. A dental plan that allows insureds to see any licensed dentist but pays higher benefits when an in-network dentist is used is BEST classified as a:

- A (correct). Dental PPO**
- B. Dental Indemnity plan
- C. Dental HMO (DHMO)
- D. Dental direct reimbursement plan

Rationale: A dental PPO (Preferred Provider Organization) allows members to use any licensed dentist. Higher benefits are paid when the member uses an in-network provider, who has agreed to discounted fees. This differs from a dental HMO (DHMO), which restricts members to network providers only.

77. A surrender charge on a deferred annuity is BEST described as:

- A. The annual mortality and expense charge inside a variable annuity
- B (correct). A fee for early full or partial surrender during the surrender period**
- C. A one-time administrative fee charged at contract issue
- D. A penalty for not annuitizing the contract at retirement

Rationale: A surrender charge (also called a contingent deferred sales charge) is a fee imposed if the contract owner withdraws more than the free withdrawal amount or fully surrenders the annuity before the surrender period ends (typically 5–10 years). It compensates the insurer for early termination and decreases over time.

78. A reciprocal insurance exchange differs from a stock or mutual company in that:

- A. It only insures commercial properties
- B. It is owned by an attorney-in-fact who bears all financial risk
- C. Premiums are tax-deductible for all members
- D (correct). Policyholders exchange promises of insurance with each other through an attorney-in-fact**

Rationale: In a reciprocal exchange, policyholders (called subscribers) exchange promises of insurance with each other, managed by an attorney-in-fact. Each subscriber is both insurer and insured.

79. Under a major medical health insurance policy, the "stop-loss" or "out-of-pocket maximum" provision means that:

- A. The insurer stops paying benefits once the annual benefit maximum is reached
- B. The insured pays 100% of costs above the stop-loss limit
- C (correct). After reaching the out-of-pocket maximum, the insurer pays 100% of covered expenses**
- D. Premiums are waived for the remainder of the policy year

Rationale: Once an insured reaches the out-of-pocket maximum (stop-loss), the insurer pays 100% of covered expenses for the remainder of the policy year. This provision protects insureds from catastrophic medical costs. The ACA requires all non-grandfathered plans to have an annual out-of-pocket maximum.

80. Under a PPO, if an insured chooses to receive care from an out-of-network provider, the insured will typically:

- A. Receive the same benefits as in-network care
- B. Be denied all coverage for that visit
- C. Need approval from the state insurance commissioner
- D (correct). Pay higher out-of-pocket costs with lower insurer reimbursement**

Rationale: PPOs allow out-of-network care but at higher out-of-pocket costs (lower reimbursement, higher deductibles). HMOs generally exclude out-of-network care except in emergencies.

81. In an HMO, the primary care physician (PCP) who manages and coordinates all of a member's care is called the:

- A (correct). Gatekeeper**
- B. Case manager
- C. Utilization reviewer
- D. Specialist physician

Rationale: The gatekeeper is the PCP in an HMO model who controls specialist referrals and coordinates care. Without a referral from the gatekeeper, specialist visits are typically not covered.

82. Which nonforfeiture option converts the whole life policy to a paid-up policy with a reduced face amount?

- A. Cash surrender option
- B (correct). Reduced paid-up option**
- C. Extended term option
- D. Automatic premium loan

Rationale: The reduced paid-up option uses the cash surrender value to purchase a paid-up whole life policy for a smaller face amount — no further premiums are due and coverage remains for life.

83. Which of the following scenarios would most likely be considered uninsurable due to a lack of insurable interest?

- A. A creditor insuring the life of a debtor to the extent of the debt
- B. A spouse insuring the life of their partner
- C. A business owner insuring key employees
- D (correct). Purchasing a life insurance policy on a complete stranger with no financial relationship**

Rationale: Insurable interest requires that the policyholder would suffer a financial loss if the insured event occurs. Purchasing life insurance on a stranger with no financial connection violates this requirement.

Code: CA Ins. Code §280

84. An irrevocable beneficiary designation means:

- A. The beneficiary is automatically the insured's estate
- B. The policy cannot be surrendered under any circumstances
- C. The policyowner can change the beneficiary at any time for any reason
- D (correct). The policyowner cannot change the beneficiary without the beneficiary's written consent**

Rationale: With an irrevocable beneficiary, the policyowner cannot change the beneficiary, take a policy loan, assign the policy, or surrender it without the beneficiary's written consent.

Code: CA Ins. Code §10172

85. A producer who represents multiple insurers and legally acts as an agent of the applicant/insured is called a(n):

- A (correct). An insurance broker**
- B. A captive agent
- C. A surplus lines agent
- D. A managing general agent

Rationale: An insurance broker represents the insured, not the insurer, and may place coverage with multiple companies. An agent has a contractual relationship with a specific insurer and acts on its behalf.

Code: CA Ins. Code §33

86. The amount an insured must pay out-of-pocket before the insurance company begins paying benefits under a major medical policy is called the:

- A. Premium
- B (correct). Deductible**
- C. Out-of-pocket maximum
- D. Copayment

Rationale: The deductible is the initial amount the insured pays before the insurer's coverage begins. After the deductible, costs are shared between insurer and insured through coinsurance.

87. A 45-year-old annuity owner withdraws \$15,000 from a deferred annuity that has \$10,000 in accumulated earnings and \$5,000 in cost basis. Under IRS rules, which portion is subject to ordinary income tax AND the 10% early withdrawal penalty?

- A. \$15,000 taxable, \$15,000 subject to penalty
- B. \$10,000 taxable, no penalty applies
- C. \$5,000 taxable, \$5,000 subject to penalty
- D (correct). \$10,000 taxable, \$10,000 subject to penalty**

Rationale: Annuity withdrawals are taxed on a LIFO (last-in, first-out) basis — earnings come out first. The full \$15,000 withdrawal includes \$10,000 in earnings (taxable) plus \$5,000 return of basis (not taxable). The 10% penalty applies to the \$10,000 in earnings since the owner is under 59½.

88. Under the California Insurance Code, a producer is required to disclose to an applicant all of the following EXCEPT:

- A. The insurer(s) they represent
- B. Whether they are acting as an agent or a broker
- C. Any material conflict of interest in the transaction
- D (correct). Their total annual income from all sources unrelated to the transaction**

Rationale: Producers must disclose their license status, the insurer they represent, and any material conflicts of interest. However, a producer's total annual income from all sources unrelated to the transaction is not a required disclosure. The focus is on compensation that may influence the specific transaction.

Code: Cal. Ins. Code § 1725.5

89. Which of the following qualifies as a Special Enrollment Period (SEP) under the ACA?

- A. Turning 30 years old
- B. Moving to a higher-income tax bracket
- C. Choosing to voluntarily cancel your current plan
- D (correct). Losing employer-sponsored coverage, getting married, or having a child**

Rationale: Special Enrollment Periods allow enrollment outside Open Enrollment for qualifying life events: losing other coverage, getting married, having a child, or moving to a new coverage area.

90. According to the California Insurance Code, a representation in an insurance contract qualifies as:

- A. A binding policy exclusion
- B. An absolute guarantee of truth
- C (correct). An implied warranty**
- D. A non-binding statement of opinion

Rationale: Under the California Insurance Code, a representation is considered an implied warranty. It can be made orally or in writing.

91. Because an insurance contract is drafted by the insurer and the insured must accept it as written, it is called a:

- A. Aleatory contract
- B. Unilateral contract
- C (correct). Contract of adhesion**
- D. Conditional contract

Rationale: A Contract of Adhesion is prepared by one party (the insurer) and offered on a "take-it-or-leave-it" basis. Ambiguities are usually resolved in favor of the insured.

92. Under COBRA, the maximum premium the plan may charge a qualified beneficiary is:

- A. The same as active employees pay
- B. 110% of the group premium
- C (correct). 102% of the full group premium cost**
- D. 50% of the group premium

Rationale: COBRA allows the plan to charge up to 102% of the full group premium (100% cost + 2% administrative fee). There is no employer subsidy unless the employer voluntarily provides one.

93. When must an insurable interest exist in a life insurance policy?

- A. Only at the time of death
- B (correct). Only at the time of application**
- C. Both at the time of application and at death
- D. Continuously throughout the policy term

Rationale: In life insurance, insurable interest must exist at the time of application (inception), but it is not required at the time of the insured's death.

94. Under California replacement regulations, when a life insurance agent proposes replacing an existing policy, the agent must provide the applicant with a Notice Regarding Replacement at least:

- A. Within 10 days after the policy is delivered
- B. 30 days before the policy is issued
- C (correct). At the time of application**
- D. Only if the applicant requests it

Rationale: California replacement regulations require the agent to provide a Notice Regarding Replacement to the applicant at the time of application for the new policy (i.e., before or at the point of sale). This ensures the consumer has information to make an informed comparison.

Code: Cal. Ins. Code § 10509.4

95. The Medicare Advantage program (Medicare Part C) differs from Original Medicare in that:

- A. Beneficiaries can use any provider in the country
- B. It is administered directly by the federal government
- C. It only covers hospital inpatient stays
- D (correct). It is offered by private insurers and often includes extra benefits like dental and vision**

Rationale: Medicare Advantage (Part C) plans are offered by private insurers and must cover all Original Medicare benefits, often adding dental, vision, and drug coverage. Beneficiaries generally use plan networks.

96. A "limited benefit" health plan that provides a fixed dollar amount per day of hospital confinement, regardless of actual charges, is known as a:

- A. Disability income policy
- B. Critical illness policy
- C. Major medical policy

D (correct). Hospital indemnity policy

Rationale: Hospital indemnity (or hospital confinement indemnity) policies pay a fixed cash benefit per day of hospitalization regardless of actual costs. They are supplemental — not substitutes for major medical coverage. The benefit goes directly to the insured, who can use it for any purpose.

97. What is the primary purpose of a Medicare Supplement policy (Medigap)?

- A. To solely provide prescription drug coverage (Part D).
- B. To provide coverage for long-term custodial care in a nursing facility.
- C. To replace Original Medicare and provide all benefits through a private network.

D (correct). To cover gaps in Original Medicare coverage, such as deductibles and coinsurance.

Rationale: Medicare Supplement (Medigap) policies are designed to pay for some of the health care costs (the "gaps") that Original Medicare does not cover, such as copayments, coinsurance, and deductibles.

98. The pre-existing condition exclusion provision was eliminated for most health plans under the:

A (correct). The Affordable Care Act (ACA)

- B. HIPAA
- C. COBRA
- D. Medicare Modernization Act

Rationale: The ACA (Affordable Care Act) prohibited health insurers from denying coverage or charging higher premiums due to pre-existing conditions for non-grandfathered individual and group plans.

99. An insurer that is formed and licensed in another state but authorized to do business in California is called a(n):

A (correct). Foreign insurer

- B. Surplus lines carrier
- C. Domestic insurer
- D. Alien insurer

Rationale: A domestic insurer is formed in California; a foreign insurer is formed in another U.S. state but licensed in California; an alien insurer is formed in another country.

Code: CA Ins. Code §1580

100. In insurance terms, a hazard is defined as:

A. The actual cause of a loss

B (correct). A condition that increases the chance of a loss

- C. The uncertainty or chance of a loss
- D. A guarantee against potential financial ruin

Rationale: A hazard is a condition or situation that increases the probability or severity of a loss occurring (e.g., a wet floor).

101. A term life insurance policy with the option to convert to a permanent policy without evidence of insurability is described as:

A. Renewable term

B (correct). Convertible term

- C. Level term
- D. Decreasing term

Rationale: A convertible term policy allows the insured to exchange the term coverage for a permanent policy (whole life or universal life) within a specified period without proving insurability.

102. The waiver of premium rider provides that if the insured becomes totally disabled, the insurer will:

- A. Increase the death benefit by 50%
- B. The insurer will pay the insured a monthly disability benefit
- C. Cancel the policy and refund all premiums paid
- D (correct). Waive future premium payments, keeping the policy in force**

Rationale: The waiver of premium rider waives (excuses) future premium payments during total disability after a waiting period (usually 6 months), keeping the policy in force without cost to the insured.

103. Which annuity payout option guarantees income for the annuitant's lifetime but also ensures a minimum number of payments will be made to a beneficiary if the annuitant dies early?

- A. Straight life annuity
- B. Joint and survivor annuity
- C (correct). Life with period certain annuity**
- D. Cash refund annuity

Rationale: The "life with period certain" option guarantees payments for life, but if the annuitant dies before the period (e.g., 10 or 20 years) expires, payments continue to the beneficiary for the remainder of the period. This protects against the "early death" risk of straight life annuities.

104. Which of the following is an example of risk transfer?

- A. Refusing to drive to avoid a car accident
- B (correct). Purchasing insurance to shift financial risk to an insurer**
- C. Setting aside funds to cover potential losses
- D. Installing a sprinkler system to reduce fire damage

Rationale: Purchasing insurance transfers the financial consequences of a risk from the insured to the insurer in exchange for premium. The other options represent risk avoidance, retention, and reduction.

105. What is the purpose of the grace period in a life insurance policy?

- A. To give the policyowner time to return the policy for a full refund
- B (correct). To prevent the policy from lapsing immediately if a premium is late**
- C. To allow the insurer time to investigate a suspicious claim
- D. To delay the effective date of the policy's coverage

Rationale: The grace period protects the policyowner from an unintentional lapse of the policy by providing extra time (usually 31 days) to pay an overdue premium while coverage remains in force.

106. After paying a health insurance claim, the insurer pursues the negligent third party who caused the insured's injury. This right is called:

- A (correct). Subrogation**
- B. Contribution
- C. Reinsurance
- D. Indemnity

Rationale: Subrogation gives the insurer the right to step into the insured's shoes and recover from the responsible third party after paying a claim, preventing double recovery by the insured.

Code: CA Ins. Code §11580.1

107. What penalty generally applies to early withdrawals from an annuity prior to age 59 ½?

- A. A 50% excise tax on the total withdrawal amount.
- B (correct). A 10% IRS penalty on the taxable interest or earnings withdrawn.**
- C. Complete forfeiture of all accumulated interest.
- D. A 20% mandatory withholding by the insurance company.

Rationale: To discourage using annuities as short-term investment vehicles, the IRS imposes a 10% penalty tax on the taxable portion of withdrawals made before the annuitant reaches age 59 ½, in addition to ordinary income tax.

Exam page: californiacerts.com/exams/ca-life-health-insurance

Online practice: californiacerts.com/exams/ca-life-health-insurance/...

108. Which of the following statements about stock insurers is CORRECT?

- A (correct). Shareholders own the company and receive dividends; policyholders are customers**
- B. Policyholders are co-owners and share in profits
- C. Stock insurers cannot operate in California without a mutual charter
- D. Stock insurers are nonprofit organizations

Rationale: Stock insurers are owned by shareholders who bear the financial risk and receive dividends. Policyholders are customers, not owners, and do not receive policy dividends (unlike in mutual companies).

109. A fraternal benefit society differs from a traditional insurer in that it:

- A (correct). It provides insurance benefits to members sharing a common bond and operates as a nonprofit**
- B. It only provides property and casualty insurance
- C. It operates for profit and distributes earnings to shareholders
- D. It is not subject to any state regulation

Rationale: Fraternal benefit societies are nonprofit organizations that provide insurance benefits to members who share a common bond (religious, ethnic, or social). They are regulated under a separate chapter of the Insurance Code.

Code: CA Ins. Code §10970

110. COBRA continuation coverage allows a qualified beneficiary to continue group health coverage after a qualifying event for up to:

- A (correct). 18 months (36 months for some qualifying events)**
- B. 12 months
- C. 6 months
- D. 5 years

Rationale: COBRA (Consolidated Omnibus Budget Reconciliation Act) generally provides up to 18 months of continuation coverage for employees; 36 months for dependents in certain qualifying events.

111. The exclusion ratio for an annuity is used to determine:

- A. The surrender charge percentage in the early years of the contract
- B. The percentage of premium invested in equity subaccounts
- C. The insurer's profit margin on the annuity contract
- D (correct). The portion of each annuity payment that is a tax-free return of cost basis**

Rationale: The exclusion ratio calculates what portion of each annuity payment represents a tax-free return of the owner's cost basis (premium paid with after-tax dollars). The remainder of each payment is taxable as ordinary income. The ratio = investment in contract ÷ expected return.

112. A fixed annuity owner annuitizes using the straight life option. The owner receives payments for 14 years and then dies. Which of the following is true?

- A. Payments continue to a named beneficiary for 10 years
- B. The insurer must refund the remaining premium to the estate
- C. A lump-sum death benefit equal to the original premium is paid
- D (correct). Payments stop and no further benefits are paid**

Rationale: A straight life (life only) annuity pays income for the annuitant's lifetime with no guarantees. When the annuitant dies, payments stop — regardless of how much was paid in. If the annuitant dies early, the insurer retains any remaining value. This is the risk of the life-only payout.

113. Under the per stirpes beneficiary designation, if a primary beneficiary predeceases the insured:

- A. The share is divided equally among surviving primary beneficiaries only
- B. The proceeds revert to the insured's estate
- C (correct). The deceased beneficiary's share passes to their descendants**

D. The contingent beneficiary receives 100% of the proceeds

Rationale: Per stirpes (Latin: "by the branch") means the deceased beneficiary's share passes to their descendants. If a child predeceases the insured, that child's children receive their parent's share.

114. If an insured misstates their age on a life insurance application, what action will the insurer take upon the insured's death?

- A. Pay the full original face amount with a penalty fee deducted
- B (correct). Adjust the death benefit to match what the premium would have purchased at the correct age**
- C. Deny the claim entirely due to material misrepresentation
- D. Cancel the policy entirely and refund all premiums paid

Rationale: Under the misstatement of age provision, the insurer will adjust the death benefit to the amount the premiums paid would have purchased at the correct age.

115. An individual's California life insurance producer license automatically expires if the producer fails to complete continuing education requirements by the license expiration date. To reinstate the license within one year of expiration, the producer must:

- A (correct). Complete the outstanding CE requirements and pay a reinstatement fee**
- B. Pay a reinstatement fee only — no CE is required retroactively
- C. Retake and pass the state licensing examination
- D. Apply for a new license from scratch with a new background check

Rationale: Under Cal. Ins. Code § 1749.8, an expired license may be reinstated within one year by completing outstanding CE and paying a reinstatement fee. After one year, the individual must retake the licensing examination. Simply paying the renewal fee without completing CE is insufficient.

Code: Cal. Ins. Code § 1749.8

116. A Preferred Provider Organization (PPO) differs from an HMO primarily in that a PPO:

- A (correct). Allows members to see out-of-network providers, though at higher out-of-pocket cost**
- B. Only covers in-network providers at no cost-share to the member
- C. Has no annual deductible
- D. Requires referrals from a primary care physician for all specialist visits

Rationale: A PPO allows members to see any provider — in-network or out-of-network — without a referral. Out-of-network care is covered but at a higher cost-share. This flexibility is the PPO's main advantage over an HMO, though premiums and deductibles are typically higher.

117. Critical illness insurance provides a benefit in which of the following ways?

- A. Reimburses the insured's physicians and hospitals directly for covered services
- B. Pays a fixed daily benefit for each day spent in the hospital
- C. Covers only the portion of medical bills not paid by primary insurance
- D (correct). Pays a lump-sum cash benefit directly to the insured upon diagnosis of a covered condition**

Rationale: Critical illness policies pay a lump-sum cash benefit upon diagnosis of a covered condition (e.g., heart attack, stroke, cancer). The benefit is paid regardless of actual medical costs and can be used for any purpose — medical bills, mortgage, lost income, etc. This distinguishes it from traditional health insurance, which reimburses providers.

118. An accident-only policy would cover which of the following losses?

- A. A heart attack requiring emergency surgery
- B. A cancer diagnosis resulting in chemotherapy costs
- C (correct). A broken arm sustained in a slip-and-fall accident**
- D. A viral illness requiring hospitalization

Rationale: Accident-only policies cover losses resulting exclusively from accidental bodily injury. A broken arm from a fall is an accidental injury. Heart attacks, cancer, and viral illnesses are sickness (not accident) claims and would NOT be covered under an accident-only policy.

119. A California insurance producer who offers a client a portion of their commission as an incentive to purchase a policy is guilty of:

- A. Churning
- B (correct). Rebating**
- C. Misrepresentation
- D. Twisting

Rationale: Rebating — offering anything of value not specified in the policy as an inducement to purchase insurance — is prohibited under Cal. Ins. Code § 750. It is an unfair trade practice regardless of whether the client accepts the offer.

Code: Cal. Ins. Code § 750

120. Under the IRS 72(t) rule, an annuity owner under age 59½ can avoid the 10% early withdrawal penalty by taking:

- A (correct). Substantially equal periodic payments based on life expectancy**
- B. Any distribution taken after a 5-year holding period
- C. Annual withdrawals of up to 10% of the account value
- D. A single lump-sum distribution equal to the account value

Rationale: IRS Section 72(t) allows penalty-free withdrawals before age 59½ if the owner takes "substantially equal periodic payments" (SEPPs) based on their life expectancy. These payments must continue for at least 5 years or until age 59½, whichever is later.

Modifying the payments triggers retroactive penalties.

121. An agent tells a prospective client that a competitor's policy has a higher lapse rate and weaker financial ratings than is actually true. This conduct is best classified as:

- A. Twisting
- B. Rebating
- C. Churning
- D (correct). Defamation / misrepresentation of a competitor**

Rationale: Making false or misleading statements about a competitor's financial condition, policies, or business is 'defamation' or 'misrepresentation,' specifically prohibited as an unfair trade practice under Cal. Ins. Code § 790.03(a). It is distinct from twisting, which involves inducing a policyholder to replace their own existing policy.

Code: Cal. Ins. Code § 790.03

122. Which of the following is NOT a required element of a legal insurance contract?

- A. Competent parties
- B (correct). Equal consideration**
- C. Legal purpose
- D. Offer and acceptance

Rationale: A legal contract requires offer and acceptance, competent parties, legal purpose, and consideration. It does not require equal consideration, as insurance contracts are aleatory.

123. Which type of life insurance provides temporary coverage for a specified period and does not build cash value?

- A. Universal life insurance
- B (correct). Term life insurance**
- C. Variable life insurance
- D. Whole life insurance

Rationale: Term life insurance provides pure death protection for a specific period of time (term) and does not accumulate cash value.

124. When an applicant provides false information on an insurance application that increases the risk, this is called:

- A (correct). Misrepresentation**
- B. Concealment
- C. Twisting
- D. Estoppel

Rationale: Misrepresentation is a false statement of a material fact on an insurance application. If material and relied upon by the insurer, it can void the policy. Concealment is withholding a known material fact.

Code: CA Ins. Code §330

125. Which type of term life insurance has a death benefit that decreases over the policy period, often used to cover a mortgage?

- A (correct). Decreasing term insurance**
- B. Increasing term insurance
- C. Level term insurance
- D. Return-of-premium term insurance

Rationale: Decreasing term insurance has a death benefit that declines over time while premiums typically remain level. It is commonly used to cover decreasing liabilities like a mortgage balance.

126. A term life insurance policy that can be renewed at the end of the term without evidence of insurability is called:

- A. Level term
- B. Group term
- C. Convertible term
- D (correct). Renewable term**

Rationale: A renewable term policy guarantees the right to renew coverage at the end of each term regardless of health status, though premiums increase to reflect the insured's older age.

127. A California insurance license applicant has been convicted of a felony involving dishonesty. Under the California Insurance Code, the Commissioner:

- A. Has no authority to consider criminal history in licensing decisions
- B. Must automatically grant the license if 10 years have passed since conviction
- C (correct). May deny the license application based on the conviction**
- D. Must grant a provisional license subject to supervision

Rationale: Under Cal. Ins. Code § 1668, the Commissioner may deny a license application if the applicant has been convicted of a crime involving dishonesty, fraud, or moral turpitude. A felony conviction related to dishonesty is a strong basis for denial, though the applicant may request a hearing.

Code: Cal. Ins. Code § 1668

128. Which of the following statements about group life insurance is CORRECT?

- A (correct). A master contract is issued to the employer; employees receive certificates of coverage**
- B. Each insured receives an individual policy from the insurer
- C. Premiums are always paid entirely by the employer
- D. All group life policies require individual evidence of insurability

Rationale: Group life insurance uses a master contract issued to the employer (or association); individual certificates are issued to covered employees. Employees generally do not need to provide evidence of insurability.

129. In California, the period during which a policyowner can return a newly issued life insurance policy for a full refund is called the:

- A. Elimination period
- B (correct). Free look period**
- C. Incontestability period

D. Grace period

Rationale: The "free look" or "right to return" period allows the policyowner to review the policy and return it for a full refund of premiums paid. In California, this is generally 10 to 30 days.

130. Which of the following is NOT one of the four basic requirements for a risk to be insurable?

- A (correct). The risk must be capable of generating profit for the insurer**
- B. The loss must be accidental from the insured's perspective
- C. The premium must be affordable
- D. The loss must be definite and measurable

Rationale: An insurable risk must be definite and measurable, accidental, large enough to be significant, calculable, and affordable. The ability to generate profit for the insurer is not a requirement.

131. An indexed universal life (IUL) policy credits interest based on:

- A (correct). The performance of a market index subject to a floor and cap**
- B. Direct investment in mutual funds held in separate accounts
- C. The federal prime interest rate
- D. A fixed rate guaranteed by the insurer annually

Rationale: IUL policies credit interest linked to the performance of a market index (e.g., S&P 500), subject to a floor (minimum, often 0%) and a cap or participation rate. The cash value is not directly invested in the market.

132. The extended term nonforfeiture option uses the policy's cash value to purchase:

- A (correct). Term insurance for the original face amount for a period funded by the cash value**
- B. Paid-up whole life at a reduced face amount
- C. A new universal life policy with no further premiums
- D. An annuity that provides lifetime income

Rationale: Extended term uses the cash surrender value as a single premium to buy term insurance for the same face amount as the original policy for as long as the cash value will sustain.

133. Which type of authority is NOT expressly stated in the agent's contract but is reasonably necessary to carry out express authority?

- A (correct). Implied authority**
- B. Fiduciary authority
- C. Apparent authority
- D. Expressed authority

Rationale: Implied authority covers actions not explicitly listed in the agency contract but reasonably necessary to fulfill the agent's expressed duties, such as accepting premium payments.

134. The method by which HMOs pay physicians a fixed monthly amount per enrolled member, regardless of services actually provided, is called:

- A. Fee-for-service
- B. Indemnity payment
- C (correct). Capitation**
- D. Coinsurance

Rationale: Capitation is a per-member, per-month payment to providers regardless of the volume of services rendered, creating financial incentives for preventive care and efficiency.

135. An insurance policy is considered a contract of adhesion because:

- A. Both parties negotiate all terms equally
- B (correct). It is drafted by the insurer and offered on a take-it-or-leave-it basis**
- C. It requires a large financial premium from the insured
- D. It must be witnessed by a notary to be valid

Rationale: A contract of adhesion is drafted entirely by one party (the insurer) and offered to the other (the insured) on a take-it-or-leave-it basis. Ambiguities are therefore interpreted in favor of the insured.

136. An insured's annual deductible under a major medical policy resets:

- A. After each claim is paid
- B. Once the lifetime maximum is reached
- C (correct). At the beginning of each policy year**
- D. When the insured changes their plan

Rationale: Major medical deductibles typically reset at the beginning of each policy year (calendar year or policy anniversary year), meaning the insured must meet the deductible again each year.

137. Under the California Insurance Code, which of the following acts by a licensed agent constitutes 'twisting'?

- A. Advising a client to increase their life insurance coverage as their income grows
- B. Recommending a new policy after a client moves to a different state
- C (correct). Using misrepresentations about an existing policy to induce a policyholder to replace it**
- D. Selling a client two different policies from the same insurer

Rationale: Twisting is the use of misrepresentation or incomplete comparison to induce a policyholder to lapse, surrender, or convert an existing policy. It is prohibited under Cal. Ins. Code § 780. Replacing a policy with a better one for legitimate reasons, or simply recommending a new policy, does not constitute twisting.
Code: Cal. Ins. Code § 780

138. Premium in an insurance contract represents the insured's:

- A. Subrogation right
- B (correct). Consideration**
- C. Policy declarations
- D. Insuring agreement

Rationale: Consideration is what each party provides to make the contract binding. The insured provides the premium (and application statements); the insurer provides the promise to pay covered losses.

139. What is the primary purpose of insurance?

- A. To prevent physical losses from occurring
- B. To provide an investment vehicle with high returns
- C (correct). To transfer risk from an individual to an insurer**
- D. To eliminate all risks completely

Rationale: The primary purpose of insurance is the transfer of pure risk from an individual to an insurer, spreading the financial impact of a loss.

140. Which risk management technique involves purchasing an insurance policy?

- A. Reduction
- B. Retention
- C (correct). Transfer**
- D. Avoidance

Rationale: Purchasing insurance is the most common method of risk transfer, where the financial burden of a loss is passed to the insurance company.

141. A California employer with 50 or more full-time equivalent employees that does NOT offer minimum essential health coverage to its full-time employees may be subject to which penalty under the ACA?

- A. A fine equal to 10% of annual payroll
- B. No penalty applies — the ACA employer mandate was fully repealed
- C. A mandatory enrollment in Covered California for all employees
- D (correct). An Employer Shared Responsibility Payment (pay or play penalty)**

Rationale: Under ACA Section 4980H (the "employer mandate"), applicable large employers (ALEs) with 50+ FTEs that fail to offer minimum essential coverage to full-time employees face an Employer Shared Responsibility Payment (ESRP) — also called the "pay or play" penalty — if at least one employee obtains a subsidized plan through Covered California.

142. Under the California Insurance Code, making misleading representations or fraudulent comparisons to induce a person to lapse, forfeit, or surrender their insurance policy is known as what?

- A (correct). Twisting**
- B. Churning
- C. Rebating
- D. Coercion

Rationale: Twisting is a prohibited and unethical practice where an agent misrepresents or makes incomplete comparisons of policies to convince a client to drop an existing policy and buy a new one, usually to the client's detriment.

143. What is the primary difference between a preferred provider organization (PPO) and an exclusive provider organization (EPO)?

- A. PPOs require a referral; EPOs do not
- B. EPOs are only available to large employers; PPOs are available to individuals
- C. There is no difference; PPO and EPO are interchangeable terms
- D (correct). PPOs cover out-of-network care at reduced rates; EPOs provide no out-of-network coverage except emergencies**

Rationale: A PPO reimburses out-of-network care at a reduced rate; an EPO provides no coverage for out-of-network care except emergencies, making it more restrictive but often less expensive.

144. Which of the following best describes 'churning' as it applies to a California life insurance producer?

- A. Replacing a client's policy with a policy from a different insurer using misrepresentation
- B. Offering a rebate to the client equal to the first year's premium
- C (correct). Using a policy's existing cash value to fund an unnecessary replacement policy with the same insurer to generate new commissions**
- D. Selling multiple policies to the same client from different insurers

Rationale: Churning occurs when a producer uses a policy's cash value to replace the same insurer's existing policy, primarily to generate new commissions rather than benefit the client. Unlike twisting (which involves a different insurer), churning occurs within the same company.

Code: Cal. Ins. Code § 780

145. In California, how long is the "free look" period for an individual life insurance policy purchased by a person who is 60 years of age or older?

- A (correct). 30 days**
- B. 60 days
- C. 10 days
- D. 20 days

Rationale: In California, senior citizens (age 60 or older) are granted a mandatory 30-day "free look" period for life insurance and annuities, allowing them to cancel the policy for a full refund of premiums.

146. A Medicare Supplement (Medigap) policy sold in California is PRIMARILY designed to:

- A. Cover dental and vision benefits not included in Medicare
- B. Replace Original Medicare Parts A and B entirely
- C (correct). Cover the deductibles, copayments, and coinsurance gaps in Original Medicare**
- D. Provide prescription drug (Part D) coverage

Rationale: Medigap policies supplement Original Medicare (Parts A and B) by covering cost-sharing gaps such as deductibles, copayments, and coinsurance. They do NOT provide prescription drug coverage (Part D) or cover services Medicare excludes. Standardized plans are labeled A through N.

Code: Cal. Ins. Code § 10192.10

147. Which type of health plan generally requires the use of a primary care physician (PCP) to coordinate care and provide referrals to specialists?

- A. Preferred Provider Organization (PPO)
- B. Point of Service (POS) plan only
- C (correct). Health Maintenance Organization (HMO)**
- D. Fee-For-Service Plan

Rationale: A Health Maintenance Organization (HMO) typically requires members to select a Primary Care Physician (PCP) who acts as a gatekeeper, coordinating care and providing referrals to specialists within the network.

148. Under a group health plan, the continuation of coverage provision known as Cal-COBRA extends COBRA coverage in California for small employers for a total maximum continuation period of:

- A (correct). 36 months**
- B. 60 months
- C. 18 months
- D. 12 months

Rationale: Cal-COBRA applies to employers with 2–19 employees and provides up to 36 months of continuation coverage, longer than the federal COBRA maximum of 18 months for the same qualifying events.

Code: CA Ins. Code §10128.50

149. An indexed annuity credits interest based on which of the following?

- A. The prime lending rate published by the Federal Reserve
- B. The policyholder's choice of mutual fund subaccounts
- C. A fixed interest rate declared annually by the insurer
- D (correct). The performance of an external market index, subject to caps and floors**

Rationale: An equity-indexed (or fixed-indexed) annuity credits interest based on the performance of an external market index (such as the S&P 500), subject to a cap, floor, and participation rate. The owner does not directly invest in the market — principal is protected from market losses while still allowing some upside participation.

150. Under a universal life insurance policy, the flexible premium feature allows the policyowner to:

- A (correct). Vary premium amounts and timing as long as cash value covers the monthly cost of insurance**
- B. Pay a fixed premium amount every month without variation
- C. Skip all premium payments indefinitely without any consequences
- D. Invest premiums directly in the stock market

Rationale: Universal life's key feature is premium flexibility — the policyowner can vary premium amounts and timing as long as the policy's cash value is sufficient to cover the monthly cost of insurance.