



Texas Life and Health Insurance

Solution key

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1. Which dividend option uses dividends to reduce the next premium payment due?

- A. Paid-up additions option
- B. One-year term dividend option
- C (correct). Reduction of premium dividend option**
- D. Cash dividend option

Rationale: The reduction of premium dividend option applies the policy dividend against the next premium due, reducing the out-of-pocket cost to the policyowner.

2. When an insurer issues a policy with a higher premium than the applied-for rate, this is considered:

- A. An automatic acceptance of the original application terms
- B. A denial of coverage that cannot be appealed
- C. A conditional approval pending further medical testing
- D (correct). A counter-offer that the applicant must accept for the contract to be binding**

Rationale: A counter-offer because the insurer is changing the terms of the original application. The applicant must accept the counter-offer (typically by paying the higher premium) for the contract to be binding.

3. The assignment clause allows the policyowner to transfer policy rights to:

- A. The beneficiary, to enable direct premium payment
- B. The state insurance department for regulatory oversight
- C (correct). Another party such as a lender (collateral) or new owner (absolute)**
- D. The insurance company, to reduce the policyowner's premium

Rationale: The assignment clause allows the policyowner to transfer some or all policy rights to another party (assignee), such as using the policy as collateral for a loan (collateral assignment) or transferring ownership (absolute assignment).

4. The Texas Insurance Code requires life insurers to send a policy summary to applicants for individual life policies. This summary must include:

- A. The insurer's financial ratings and claims payment history
- B (correct). Premium amounts, death benefits, cash values, and dividends at specified policy years**
- C. The agent's commission rate and any referral fees paid
- D. A comparison of at least three competing policies

Rationale: A policy summary must include information about premium amounts, death benefits, cash values, and dividends (if applicable) at specified policy years so applicants can make informed purchasing decisions.

5. Which nonforfeiture option allows a policyowner to use accumulated cash value to purchase paid-up insurance with a lower face amount?

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

6. A variable life insurance policy's death benefit and cash value fluctuate based on which of the following?

- A. Changes in the insured's age and health status
- B (correct). Performance of investment subaccounts in the separate account**
- C. The prime interest rate set by the Federal Reserve
- D. The insurer's general account investment returns

Rationale: In variable life insurance, both the death benefit and cash value are tied to the performance of separate account investment subaccounts chosen by the policyowner.

7. An agent who intentionally misrepresents a material fact on a life insurance application may be guilty of:

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

Rationale: Intentional misrepresentation of a material fact on an insurance application is fraud. Material misrepresentation — even if not intentional — can void the policy during the contestability period.

8. Which annuity settlement option provides the highest monthly income payment?

- A. Life with 20-year period certain
- B. Joint and 100% survivor
- C. Installment refund
- D (correct). Straight life (life only)**

Rationale: The straight life (life only) option provides the highest monthly payment because there is no guarantee period and payments simply stop at the annuitant's death.

9. The reinstatement provision allows a lapsed policy to be reinstated if the policyowner:

- A. File a new application and undergo full underwriting at current age
- B. Simply pay the next premium due with no additional requirements
- C. Pay a reinstatement penalty equal to three months of premiums
- D (correct). Pay all overdue premiums with interest and provide evidence of insurability**

Rationale: Reinstatement typically requires the policyowner to pay all overdue premiums with interest, provide evidence of insurability, and repay any outstanding policy loans within a specified period (usually 3–5 years of lapse).

10. An annuity that begins making payments immediately after a lump-sum premium is paid is called a:

- A (correct). Immediate annuity**
- B. Variable annuity
- C. Flexible premium annuity
- D. Deferred annuity

Rationale: An immediate annuity begins paying income within one payment period after the single premium is paid, in contrast to a deferred annuity which accumulates funds before income payments begin.

11. An accidental death benefit rider doubles the death benefit if death occurs as a result of:

- A (correct). An accident, independent of illness or other causes**
- B. A work-related injury only
- C. A terminal illness diagnosis
- D. Any cause of death listed in the policy

12. Under Texas law, an insurer that cancels a life insurance policy after it has been in force for more than two years may only do so for:

- A (correct). Nonpayment of premiums**
- B. Material misrepresentation on the application
- C. A change in the insured's occupation to a hazardous profession
- D. The insurer's decision to exit the Texas market

Rationale: After a life insurance policy has been in force for two years, the insurer's right to cancel or rescind is limited to cases of nonpayment of premiums. The incontestability clause prevents cancellation for misrepresentation after two years.

13. Which of the following would be an example of a moral hazard in life insurance underwriting?

- A (correct). A history of filing fraudulent insurance claims**
- B. Regularly engaging in skydiving as a hobby
- C. A diagnosis of Type 2 diabetes
- D. Working as a commercial fisherman

Rationale: Moral hazard refers to behavioral or character traits that increase the likelihood of a loss, such as dishonesty, financial distress, or a history of insurance fraud — not physical characteristics of the applicant.

14. The Medical Information Bureau (MIB) is used in underwriting to:

- A (correct). Check for undisclosed medical conditions or past application history**
- B. Verify the applicant's employment and income history
- C. Determine the current market value of the proposed policy
- D. Set premium rates for high-risk applicants

Rationale: The MIB is a cooperative database used by member insurers to share information about past insurance applications and medical conditions, helping underwriters identify misrepresentations or undisclosed health history.

15. Medicare Part D provides coverage for:

- A. Inpatient hospital stays and skilled nursing facility care
- B (correct). Outpatient prescription drug coverage through private insurers**
- C. Long-term custodial nursing home care
- D. Outpatient physician and preventive care services

Rationale: Medicare Part D is the voluntary outpatient prescription drug benefit program. It is offered by private insurers approved by Medicare and requires a monthly premium.

16. An endowment policy matures when:

- A. Only upon the insured's death, never at a set date
- B (correct). At the insured's death or the policy's maturity date, whichever comes first**
- C. Only when the insured reaches age 100
- D. When premiums paid equal the face amount

Rationale: An endowment policy pays the face amount either at the insured's death or when the policy reaches its maturity date, whichever comes first.

17. Medicare Part B covers which of the following?

- A. Inpatient hospital stays and skilled nursing facility care
- B (correct). Outpatient medical services, doctor visits, and preventive care**
- C. Prescription drug benefits
- D. Long-term custodial care in a nursing home

Rationale: Medicare Part B covers outpatient medical services, doctor visits, preventive services, durable medical equipment, and some home health services. It requires a monthly premium.

18. A level term life insurance policy is best described as providing:

- A (correct). A fixed death benefit and fixed premium for a defined period, with no cash value**
- B. A flexible-premium policy tied to investment performance
- C. A death benefit that increases each year to match inflation
- D. Permanent coverage with a savings component

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

- A. 60 days after lapse to reinstate the policy without evidence of insurability
- B. 10 days to review the policy and return it for a full refund
- C. 90 days to pay an overdue premium before coverage permanently terminates
- D (correct). 30 days after the premium due date to pay without the policy lapsing**

Rationale: The standard grace period gives the policyowner 30 or 31 days after a premium due date to pay the overdue premium before the policy lapses, with the death benefit remaining in force during this period.

20. When delivering a life insurance policy, the agent should obtain a delivery receipt to document:

- A. That the insured has read and understood all policy terms
- B. That the insured waives their right to a free-look period
- C (correct). The date the policy was delivered, starting the free-look period**
- D. That the first premium has been collected by the agent

Rationale: A delivery receipt documents the date the policy was delivered to the insured. This is important because the free-look period begins upon delivery, and delivery is required for the contract to be effective in some cases.

21. Which policy dividend option uses dividends to purchase small additional paid-up insurance each year?

- A (correct). Paid-up additions (PUA) dividend option**
- B. Accumulate at interest dividend option
- C. Cash dividend option
- D. One-year term dividend option

Rationale: The paid-up additions (PUA) dividend option uses each dividend to purchase a small amount of additional paid-up whole life insurance, increasing both the death benefit and cash value over time.

22. A major medical policy with a \$1,000 deductible and 80/20 coinsurance clause means the insurer pays:

- A. 80% of all expenses including the deductible
- B (correct). 80% of covered expenses after the deductible is met**
- C. 20% of covered expenses after the deductible is met
- D. 100% of expenses after the deductible

Rationale: After the insured meets the \$1,000 deductible, the insurer pays 80% of covered expenses and the insured pays the remaining 20% until the out-of-pocket maximum is reached.

23. Which of the following statements about continuing education requirements for Texas producers is correct?

- A (correct). 24 hours per two-year renewal period including at least 3 hours of ethics**
- B. 20 hours per year with 2 hours of ethics
- C. 12 hours per year with no ethics requirement
- D. 30 hours per two-year period with 5 hours of ethics

Rationale: Texas requires licensed producers to complete 24 hours of CE per two-year renewal period, including at least 3 hours of ethics. The CE must be completed before the license renewal date.

24. A life insurance policy must be delivered to the insured within how many days in Texas?

- A. 90 days
- B (correct). 30 days**
- C. 10 days
- D. 60 days

Rationale: In Texas, insurers are required to deliver the policy to the insured within 30 days of the application approval date. The agent is responsible for personal delivery when possible.

25. A PPO (Preferred Provider Organization) differs from an HMO in that it:

- A. Requires members to select a primary care physician and obtain referrals
- B. Charges lower premiums than HMOs due to less administrative oversight
- C (correct). Allows members to see any provider without a referral, though at higher cost out-of-network**
- D. Only covers care received within a defined network under any circumstance

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-sharing level than in-network services.

26. A misstatement of age clause in a life insurance policy states that:

- A. The insurer charges a penalty equal to twice the premium difference
- B. The death benefit is paid in full regardless of the misstatement
- C. The policy is voided and premiums are returned to the beneficiary
- D (correct). The death benefit is adjusted to what the premium would have purchased at the correct age**

Rationale: If the insured's age is misstated on a life insurance application, the insurer will adjust the death benefit to the amount that the paid premiums would have purchased at the correct age, rather than voiding the policy.

27. Under the "birthday rule" for coordination of benefits, when two parents cover a dependent child:

- A. The parent with the longer tenure at their employer is primary
- B. The older parent's plan is always primary
- C (correct). The parent whose birthday falls earliest in the calendar year is primary**
- D. The father's plan is always primary for dependent children

Rationale: The birthday rule states that the plan of the parent whose birthday falls earliest in the calendar year (not the oldest parent) is primary for the dependent child.

28. Which of the following is the standard dividend option that allows a policyowner to receive annual dividends as cash?

- A (correct). Cash dividend option**
- B. Reduction of premium option
- C. Paid-up additions option
- D. Accumulate at interest option

Rationale: The cash dividend option returns policy dividends directly to the policyowner as a cash payment, which reduces the cost of the insurance but does not increase coverage or cash value.

29. Under Texas law, the minimum age to obtain a life insurance producer license is:

- A. 25 years of age
- B (correct). 18 years of age**
- C. 21 years of age
- D. 16 years of age

Rationale: Texas requires applicants for an insurance producer license to be at least 18 years of age and a Texas resident (or eligible non-resident).

30. A key person life insurance policy is taken out by a business to cover:

- A. A key supplier whose loss would disrupt business operations
- B. All employees of a company under a group policy
- C. A business owner who is also the sole insured employee
- D (correct). An employee whose death would cause significant financial loss to the business**

Rationale: Key person (key man) insurance is purchased by a business on the life of an employee whose death would cause significant financial loss. The business is the policyowner and beneficiary.

31. The cash value in a whole life policy may be accessed by the policyowner through which of the following?

- A (correct). Policy loans or surrendering the policy for its cash surrender value**
- B. Filing a death benefit claim only
- C. Requesting a dividend from the insurer
- D. Converting to term insurance only

32. A 20-year term life insurance policy expires. What happens to the coverage?

- A. Coverage automatically converts to whole life
- B. The accumulated cash value is returned to the policyowner
- C (correct). Coverage ends with no cash value paid out**
- D. The insurer pays the face amount to the beneficiary

Rationale: Term life insurance provides coverage only for the specified term. When the term expires, coverage ends and there is no cash value or death benefit unless the policy is renewed.

33. A Medicare supplement (Medigap) policy is designed to:

- A (correct). Fill gaps in Original Medicare such as deductibles, copayments, and coinsurance**
- B. Cover long-term custodial care in a nursing home
- C. Provide prescription drug coverage not included in Medicare Part A or B
- D. Replace Medicare entirely with comprehensive private coverage

Rationale: Medigap policies are sold by private insurers to fill the gaps in Original Medicare (Parts A and B), such as deductibles, copayments, and coinsurance. They do not cover prescription drugs (Part D) or long-term custodial care.

34. In Texas, an insurance producer license must be renewed every:

- A. Every four years
- B. Every three years
- C. Every year
- D (correct). Every two years**

Rationale: Texas insurance producer licenses must be renewed every two years. The renewal period is tied to the licensee's birth month and requires completion of continuing education.

35. Under the doctrines of agency law, an agent's knowledge is considered to be the insurer's knowledge because of:

- A. The doctrine of estoppel
- B. The principle of indemnity
- C. The principle of utmost good faith
- D (correct). The doctrine of imputed knowledge**

Rationale: Under the legal doctrine of imputed knowledge, the principal (insurer) is legally presumed to know what its agent knows. This prevents the insurer from claiming ignorance of facts the agent was aware of during the application.

36. A health insurance policy that requires the insured to choose a primary care physician (PCP) and obtain referrals to see specialists is called:

- A. High-Deductible Health Plan (HDHP)
- B. Preferred Provider Organization (PPO)
- C (correct). Health Maintenance Organization (HMO)**
- D. Point of Service (POS) plan

Rationale: An HMO (Health Maintenance Organization) requires members to select a PCP who coordinates all care. Referrals are required to see specialists, and out-of-network care is generally not covered except in emergencies.

37. The free-look period for a newly issued life insurance policy in Texas is:

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

38. Which underwriting factor is considered a physical hazard?

- A. Financial instability or excessive debt
- B (correct). A dangerous occupation or pre-existing health condition**
- C. A history of filing fraudulent insurance claims
- D. A dishonest character or lack of integrity

Rationale: Physical hazards are characteristics of the insured that increase the probability of a loss, such as a dangerous occupation, poor health history, or physical impairments. These are objective, measurable risk factors.

39. A Texas producer who knowingly submits a false insurance application may be charged with:

- A. Misrepresentation — only grounds for policy rescission
- B (correct). Insurance fraud — a criminal offense with potential license revocation**
- C. A civil infraction resulting only in a fine
- D. Twisting — an unfair trade practice requiring a warning letter

Rationale: Knowingly submitting a false insurance application is insurance fraud under Texas law, a criminal offense that can result in both criminal prosecution and license revocation or suspension.

40. The Texas Insurance Code prohibits agents from engaging in which of the following practices?

- A (correct). Deceptive sales practices, false statements, rebating, and twisting**
- B. Offering multiple policy options from competing insurers
- C. Selling annuities to clients over age 65
- D. Recommending a policy with a higher premium than the client needs

Rationale: The Texas Insurance Code specifically prohibits agents from using deceptive sales practices, making false statements about policy benefits, and engaging in rebating or twisting — all considered unfair trade practices.

41. Texas requires that insurers pay valid life insurance claims within how many business days of receiving proof of loss?

- A. 60 days after receiving the death certificate
- B. 30 calendar days after the insured's death
- C (correct). 5 business days after receiving complete proof of loss**
- D. 15 business days after the claim is filed

Rationale: Texas Insurance Code requires insurers to pay valid claims within 5 business days after receiving all necessary proof of loss documentation.

42. The free-look period for a life insurance policy allows the policyowner to:

- A (correct). Return the policy for a full premium refund within 10 days**
- B. Borrow against the cash value without interest charges
- C. Change the beneficiary designation without insurer approval
- D. Increase the death benefit without a new medical examination

Rationale: The free-look period (10 days in Texas) allows a new policyowner to return the policy for a full premium refund if not satisfied, with no penalty.

43. Which of the following is a characteristic of term life insurance?

- A. Premiums increase each year based on the insured's age
- B. Provides lifetime coverage with level premiums
- C (correct). Provides pure death protection for a specified period with no cash value**
- D. Builds cash value that can be borrowed against

Rationale: Term life insurance provides pure death protection for a specified period with no cash value accumulation. It is the least expensive form of life insurance for a given death benefit.

44. A graded death benefit whole life policy is primarily designed for:

- A. Applicants seeking the highest possible death benefit
- B (correct). Applicants who cannot qualify for standard life insurance underwriting**
- C. Business owners seeking key person coverage
- D. Young, healthy applicants seeking the lowest possible premiums

Rationale: Graded benefit whole life policies target applicants who cannot qualify for standard underwriting. The death benefit is reduced in the first few policy years then increases to the full amount.

45. The concept of adhesion in an insurance contract means:

- A (correct). Prepared by one party and accepted or rejected as-is, with ambiguities resolved against the drafter**
- B. Requires both parties to negotiate each term individually
- C. Can only be enforced if both parties sign in the presence of a notary
- D. Gives the insurer the exclusive right to modify terms at renewal

Rationale: A contract of adhesion is prepared entirely by one party (the insurer) and accepted or rejected as a whole by the other party (the insured). Any ambiguities in the contract are therefore interpreted against the insurer.

46. A buy-sell agreement funded by life insurance is designed to:

- A. Pay the deceased partner's outstanding business debts
- B. Cover the business's operating expenses during a transition period
- C. Provide income replacement for the deceased partner's family
- D (correct). Fund the purchase of a deceased partner's business interest by surviving partners**

Rationale: A buy-sell (business continuation) agreement funded by life insurance ensures that surviving business partners or the company can purchase the deceased partner's business interest at a predetermined price.

47. What is the primary purpose of an annuity contract?

- A. To pay a lump-sum death benefit to beneficiaries
- B. To cover short-term medical expenses
- C. To replace property lost due to casualty
- D (correct). To provide a stream of income, typically during retirement**

48. Texas law requires a life insurance company to provide a free-look period of at least:

- A. 30 days
- B. 15 days
- C (correct). 10 days**
- D. 5 days

Rationale: Texas requires a minimum 10-day free-look period for life insurance policies, during which the policyowner may return the policy for a full refund of premiums paid.

49. Which annuity option guarantees payments for the annuitant's lifetime, regardless of how long they live?

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

Rationale: A straight life (pure life) annuity pays income for the annuitant's entire lifetime. Payments stop at death with no residual value passing to beneficiaries, making it the highest periodic payment option.

50. What is the primary difference between a traditional whole life policy and a universal life policy?

- A. Whole life offers flexible premiums and adjustable death benefits
- B (correct). Universal life offers flexible premiums and adjustable death benefits**
- C. Universal life does not accumulate cash value
- D. Whole life premiums decrease as the insured ages

Rationale: Universal life insurance offers flexible premiums and adjustable death benefits, unlike traditional whole life which has fixed premiums and a fixed death benefit.

51. Which type of life insurance policy provides permanent coverage and accumulates cash value at a guaranteed rate?

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

Rationale: Whole life insurance provides lifetime coverage with a guaranteed cash value accumulation rate and fixed premiums, unlike term which has no cash value.

52. Under Social Security disability benefits, a claimant must be unable to perform any substantial gainful activity for at least:

- A. 6 months with no waiting period
- B. 24 months with a 12-month waiting period
- C. 3 months with an immediate benefit upon approval
- D (correct). 12 months (with a 5-month waiting period before benefits begin)**

Rationale: Social Security disability benefits require the claimant to be disabled for at least 12 months or have a condition expected to result in death. There is also a 5-month waiting period before benefits begin.

53. The cash surrender value of a life insurance policy represents:

- A. The amount paid to the beneficiary upon the insured's death
- B. The maximum loan amount available from the policy
- C. The total premiums paid minus any claims filed
- D (correct). The amount paid to the policyowner upon voluntarily terminating the policy**

Rationale: The cash surrender value is the amount the policyowner receives upon voluntarily terminating the policy, equal to accumulated cash value minus any surrender charges and outstanding loans.

54. A life insurance policy that allows the policyowner to vary the premium amount and death benefit is called:

- A. Adjustable whole life insurance
- B. Modified whole life insurance
- C. Variable life insurance
- D (correct). Universal life insurance**

Rationale: Universal life insurance provides flexible premiums and adjustable death benefits, subject to insurer guidelines and sufficient cash value.

55. A spendthrift clause in a life insurance policy protects the death benefit proceeds from:

- A. The insurer's creditors from accessing the policy reserves
- B (correct). The beneficiary's creditors attaching the proceeds before payment**
- C. The proceeds from being subject to federal income tax
- D. The policyowner from changing the beneficiary

Rationale: A spendthrift clause prevents the beneficiary's creditors from attaching or garnishing the death benefit proceeds before they are paid out, protecting the intended beneficiary.

56. In Texas, an insurance agent who misappropriates premium funds collected from clients may be subject to:

- A. Mandatory repayment of funds with no further penalty
- B. A temporary license suspension of 30 days
- C (correct). License revocation, civil penalties, and possible criminal prosecution**
- D. A written warning and mandatory ethics training

Rationale: Misappropriation of insurance premiums is a serious violation in Texas that can result in license revocation, civil penalties, and criminal prosecution, as premium funds belong to the insurer until remitted.

57. Texas requires that replacement notices be provided when a producer recommends replacing an existing life insurance policy. This notice must be provided:

- A. Only after the new policy is approved and issued
- B. At least 30 days before the existing policy is cancelled
- C (correct). Before or during the application interview**
- D. Within 10 days of policy delivery

Rationale: When a replacement is involved, the producer must provide a Notice Regarding Replacement to the applicant before or during the application interview, informing them of their rights and the potential impact of lapsing existing coverage.

58. Under the ownership clause of a life insurance policy, who has the right to change the beneficiary?

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

Rationale: The policyowner (not the insured or beneficiary) has the right to exercise policy rights including changing the beneficiary, taking loans, and selecting dividend options, unless these rights have been assigned.

59. A conditional receipt given to an applicant at the time of application provides coverage:

- A. Only after the insurer formally approves the application
- B. From the application date, unconditionally, regardless of insurability
- C (correct). From the application date, but only if the applicant qualifies as a standard risk**
- D. Only after the first premium is credited to the insurer's account

Rationale: A conditional receipt provides temporary coverage effective from the date of application or medical exam, but only if the applicant would have been approved as a standard risk. Coverage is conditional on insurability.

60. The mental health parity law requires group health plans to:

- A (correct). Apply no more restrictive limitations to mental health benefits than to medical/surgical benefits**
- B. Limit mental health inpatient stays to no more than 30 days per year
- C. Cover all mental health services at 100% with no cost sharing
- D. Offer separate deductibles for mental health and medical benefits

Rationale: Mental health parity laws require that mental health and substance use disorder benefits not be more restrictive than medical/surgical benefits in terms of financial requirements or treatment limitations.

61. The concept of insurable interest in life insurance requires that the policyowner:

- A. Be related by blood to the insured
- B. Have a financial interest in the insured's death
- C. Be the same person as the insured
- D (correct). Have a financial or genuine interest in the continued life of the insured at the time of application**

Rationale: Insurable interest in life insurance must exist at the time the application is made. The policyowner must have a financial interest in or genuine concern for the continued life of the insured.

62. Which type of annuity credits a fixed rate of return during the accumulation phase?

- A. Variable annuity
- B (correct). Fixed annuity**
- C. Immediate annuity
- D. Indexed annuity

Rationale: A fixed annuity credits interest at a guaranteed minimum rate during accumulation, providing principal protection and predictable growth.

63. Which settlement option pays the beneficiary a fixed amount each month until the proceeds and interest are exhausted?

- A. Fixed period option
- B. Life income option
- C (correct). Fixed amount option**
- D. Interest only option

Rationale: The fixed amount option pays the beneficiary a set dollar amount each month; payments continue until both the principal proceeds and credited interest are fully paid out.

64. The concept of subrogation does NOT apply to life insurance because:

- A (correct). Life insurance is not indemnity-based and there is no negligent third party responsible for natural death**
- B. The beneficiary waives subrogation rights when accepting payment
- C. Federal law prohibits subrogation in all life insurance contracts
- D. Life insurance policies are too small to warrant subrogation recovery

Rationale: Subrogation allows an insurer to recover from a negligent third party after paying a claim. Life insurance pays an indemnity regardless of fault, and there is no negligent party responsible for natural death.

65. Under Texas law, an insurer must acknowledge receipt of a health insurance claim within:

- A. 30 days of receiving all required documentation
- B. 45 days of the date of service
- C (correct). 15 days of receiving notice of the claim**
- D. 5 business days of receiving the claim

Rationale: Texas Insurance Code requires insurers to acknowledge receipt of a claim within 15 days of receiving notice of the claim, begin investigating promptly, and accept or deny within 15 business days after receiving all items.

66. The suicide clause in most life insurance policies provides that:

- A (correct). Returns only the premiums paid if suicide occurs within the first one to two years**
- B. Permanently excludes death by suicide from coverage
- C. Voids the entire policy if suicide is suspected
- D. Pays the full death benefit for suicide after the free-look period

Rationale: The suicide clause typically states that if the insured commits suicide within the first one to two years of the policy, the insurer will only return the premiums paid rather than paying the full death benefit.

67. Which of the following is true regarding group health insurance underwriting?

- A. Requires each member to pass a medical examination before enrollment
- B (correct). Based on the group as a whole rather than individual medical exams**
- C. Based solely on the employer's industry and not employee health history
- D. Always offered at the same premium regardless of group claims experience

Rationale: Group health insurance is typically underwritten on the group as a whole rather than on each individual. This allows coverage to be extended without medical exams, though the group's overall claims experience affects renewal rates.

68. Which settlement option pays the beneficiary a fixed amount each month until the proceeds and interest are exhausted?

- A (correct). Fixed amount option**
- B. Interest only option
- C. Life income option
- D. Fixed period option

69. An accidental death benefit (ADB) rider is also commonly known as:

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

Rationale: The accidental death benefit rider doubles (or sometimes triples) the policy's face amount if the insured dies as a result of an accident, which is why it is commonly called a double indemnity rider.

70. A decreasing term life insurance policy is most commonly used to:

- A. Replace income for a surviving spouse for a fixed period
- B. Provide increasing coverage as the insured ages
- C. Accumulate cash value at an accelerating rate
- D (correct). Cover a mortgage or other amortizing debt that declines over time**

Rationale: Decreasing term insurance features a death benefit that declines over time while premiums remain level. It is most commonly used to cover a mortgage or other amortizing debt.

71. A binding receipt given at the time of application provides coverage:

- A. Only during normal business hours on weekdays
- B. Only after the insurer processes and approves the application
- C (correct). Immediately and unconditionally from the date of application**
- D. Only if the applicant is approved as a standard risk

Rationale: A binding receipt provides immediate, unconditional temporary coverage from the date the application and initial premium are received, regardless of whether the applicant is ultimately insurable.

72. The accumulation period of a deferred annuity is the time during which:

- A. The contract is in a surrender charge-free period
- B. The insurer calculates the annuitant's life expectancy
- C. Income payments are being distributed to the annuitant
- D (correct). Premiums are paid and interest accumulates tax-deferred before income payments begin**

Rationale: During the accumulation period, premiums are paid and interest accumulates tax-deferred. Income payments have not yet begun.

73. Texas law requires insurers to pay interest on delayed life insurance death benefit claims at a rate of:

- A (correct). Interest at a rate specified in the Texas Insurance Code on the overdue amount**
- B. Double the death benefit as a bad faith penalty
- C. No penalty unless the insured files a formal complaint with TDI
- D. A flat penalty of \$500 per day of delay

Rationale: Under the Texas Insurance Code, if a life insurance claim is not paid within the statutory timeframe after all required documentation is received, the insurer must pay interest on the delayed amount.

74. Under Texas insurance law, the term "rebating" refers to:

- A. Charging different premiums to insureds of the same risk class
- B. Backdating a policy to obtain a lower premium for the insured
- C (correct). Giving or offering a portion of a commission as an inducement to purchase insurance**
- D. Misrepresenting policy terms to induce a client to switch insurers

Rationale: Rebating is an unfair trade practice where an agent offers or gives a portion of their

commission or other valuable consideration to an insured as an inducement to purchase insurance. It is illegal in Texas.

75. Which of the following best describes a single premium whole life policy?

- A. A whole life policy with premiums paid over a single decade
- B. A universal life policy with no ongoing premium requirements
- C. A term policy paid for with a single premium covering one year
- D (correct). A whole life policy purchased with one lump-sum payment, immediately paid up**

Rationale: A single premium whole life policy is purchased with one lump-sum payment that immediately makes the policy fully paid up with no further premiums required.

76. Which of the following best describes a joint life insurance policy?

- A (correct). A policy covering two lives that pays upon the death of the first insured**
- B. A policy that allows two policyowners to share premium payments
- C. A group policy covering all members of a joint venture
- D. A policy covering two lives that pays upon the death of the second insured

Rationale: A joint life (first-to-die) policy covers two lives and pays the death benefit upon the death of the first insured, after which coverage ends.

77. A life annuity with a 10-year period certain will continue payments to a beneficiary if the annuitant dies:

- A. Only if the annuitant selected a joint and survivor option
- B (correct). Before the 10-year guaranteed period expires**
- C. At any time, for the remainder of the beneficiary's lifetime
- D. After receiving more than the purchase price in payments

Rationale: A period certain annuity guarantees payments for the annuitant's lifetime, but if the annuitant dies before the guaranteed period expires, a beneficiary receives the remaining guaranteed payments.

78. A 20-Pay Life policy is best described as:

- A. A term policy that provides coverage for exactly 20 years
- B. A whole life policy that matures at age 20
- C. A universal life policy with a 20-year interest guarantee
- D (correct). A whole life policy with premiums paid over 20 years, then paid up for life**

Rationale: A 20-Pay Life policy is a whole life policy where premiums are paid over 20 years, after which the policy is paid up and permanent coverage continues for life with no further premiums.

79. The Texas Department of Insurance (TDI) is headed by the:

- A. An elected Insurance Board
- B. The Secretary of State
- C. The State Treasurer
- D (correct). The Commissioner of Insurance**

Rationale: The Texas Department of Insurance is headed by the Commissioner of Insurance, who is appointed by the Governor and confirmed by the Senate, serving a two-year term.

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

- A. A fixed rate declared annually by the insurer
- B (correct). The performance of a stock market index, subject to a cap and floor**
- C. The performance of mutual fund subaccounts chosen by the policyowner
- D. The prime interest rate set by the Federal Reserve

81. Which of the following best describes the concept of warranties in an insurance contract?

- A. All statements on an application are warranties and must be literally true
- B. Representations are binding on the insurer but not the insured
- C (correct). Statements on an application are representations, not warranties — they must be substantially true**
- D. Only statements about the applicant's age are considered warranties

Rationale: In insurance, statements made on an application are representations (believed to be true to the best of the applicant's knowledge), not warranties. Warranties must be literally true; representations only need to be substantially true.

82. Under Texas law, how long must insurance companies retain copies of policy applications?

- A. 10 years from policy issuance
- B (correct). 5 years from the date of issue or last entry**
- C. Indefinitely for life insurance policies
- D. 2 years from policy cancellation

Rationale: Texas insurance regulations require insurers to retain copies of policy applications and related records for a minimum of 5 years from the date of issue or last entry, whichever is later.

83. Variable annuities require the producer to hold which additional license beyond a life insurance license?

- A. No additional license — a life insurance license alone is sufficient
- B. A property and casualty license in addition to a life insurance license
- C (correct). A FINRA securities registration (Series 6 or 7) in addition to a life insurance license**
- D. A health insurance license in addition to a life insurance license

Rationale: Variable annuities are securities products. Producers must hold both a state life insurance license and FINRA securities registration (typically Series 6 or 7) to sell variable annuities.

84. Which of the following statements about a participating life insurance policy is correct?

- A. Guarantees a fixed dividend payment each year
- B (correct). Eligible to receive policy dividends that are not taxable as income**
- C. Sold exclusively by stock insurance companies
- D. Always charges lower premiums than non-participating policies

Rationale: Participating policies are sold by mutual insurance companies and are eligible to receive policy dividends (a return of excess premiums). Dividends are not guaranteed and are not considered taxable income.

85. A guaranteed insurability rider allows the policyowner to:

- A. Guarantee that premiums will not increase as the insured ages
- B (correct). Purchase additional coverage at future dates without evidence of insurability**
- C. Guarantee the policy will remain in force regardless of premium payments
- D. Convert a term policy to whole life without a new application

Rationale: The guaranteed insurability (guaranteed purchase option) rider allows the policyowner to purchase additional life insurance coverage at specified future dates without providing evidence of insurability.

86. An accidental death and dismemberment (AD&D) policy pays the "capital sum" for:

- A. The loss of both hands and both feet
- B. The loss of life in an accident
- C (correct). The loss of one limb or one eye (partial dismemberment)**
- D. Total and permanent disability from any cause

Rationale: The capital sum is a portion (typically 50%) of the principal sum paid for the loss of one limb or one eye (accidental dismemberment). The full principal sum is paid for loss of life or two or more limbs/eyes.

87. Which life insurance policy feature allows the policyowner to skip premium payments if the cash value is sufficient?

- A. Reduced paid-up option
- B. Waiver of premium rider
- C. Extended term option

D (correct). Automatic premium loan provision

Rationale: The automatic premium loan (APL) provision uses available cash value to pay an overdue premium, preventing unintentional policy lapse by treating the missed premium as a policy loan.

88. A viatical settlement in Texas involves:

- A. An accelerated death benefit paid directly by the insurer to a terminally ill insured
- B (correct). Sale of a life insurance policy by a terminally ill insured to a third party for a lump sum**
- C. A charitable donation of a life insurance policy to a nonprofit organization
- D. A court-ordered transfer of a life insurance policy in a divorce settlement

Rationale: A viatical settlement is the sale of a life insurance policy by a terminally or chronically ill insured to a third party (viatical settlement provider) for a lump sum less than the death benefit.

89. A waiver of premium rider provides which benefit?

- A. Doubles the death benefit if the insured becomes disabled
- B. Pays a monthly disability income benefit equal to the face amount
- C (correct). Waives future premium payments if the insured becomes totally disabled**
- D. Returns all premiums paid if the insured becomes disabled

Rationale: The waiver of premium rider waives future premium payments if the insured becomes totally disabled, keeping the policy in force without requiring the insured to pay premiums during the disability.

90. Under the ACA (Affordable Care Act), what is the maximum annual out-of-pocket limit for essential health benefits?

- A (correct). A federally set annual limit after which the insurer pays 100% of covered in-network costs**
- B. A voluntary limit insurers may choose to apply to reduce premiums
- C. A fixed \$6,000 limit that applies to all ACA plans regardless of tier
- D. The maximum lifetime benefit payable under any ACA plan

Rationale: The ACA sets annual out-of-pocket maximums for in-network essential health benefits. Once met, the insurer pays 100% of covered in-network costs for the remainder of the year. The specific limits are adjusted annually by HHS.

91. An installment refund annuity differs from a straight life annuity in that it:

- A. Pays higher monthly income than a straight life annuity
- B. Pays income only for a fixed period regardless of survival
- C (correct). Guarantees a beneficiary receives remaining payments if annuitant dies before recovering the purchase price**
- D. Provides a lump sum refund to the annuitant's estate upon death

Rationale: An installment refund annuity guarantees that if the annuitant dies before receiving payments equal to the purchase price, a beneficiary continues receiving installments until that amount is recovered.

92. Under Texas law, an insurance producer acting as a "surplus lines agent" may place coverage with:

- A. Any insurer licensed in any US state regardless of Texas admission
- B. Only Texas-domiciled insurers at preferred commission rates
- C. Foreign insurers directly without TDI approval
- D (correct). Non-admitted (unlicensed) insurers when coverage is unavailable in the admitted market**

Rationale: Surplus lines agents are licensed to place coverage with non-admitted (unlicensed)

insurers when coverage is not available in the admitted market. The insurer must still meet TDI financial requirements.

93. A return of premium rider attached to a term life policy will pay:

- A. A full premium refund if the policy is surrendered at any time
- B. The full death benefit plus all premiums paid if the insured dies during the term
- C (correct). All or a portion of premiums paid if the insured outlives the policy term**
- D. Interest earned on the premiums held by the insurer

Rationale: A return of premium (ROP) rider refunds all or a portion of premiums paid if the insured outlives the policy term, in addition to providing the standard death benefit if the insured dies during the term.

94. A disability income policy's benefit period refers to:

- A. The maximum policy term before the policy must be renewed
- B. The period during which premiums are waived due to disability
- C (correct). How long disability income payments will continue once they begin**
- D. The waiting period before benefits begin after the onset of disability

Rationale: The benefit period is how long disability income payments will continue once they begin. Common benefit periods are 2 years, 5 years, to age 65, or lifetime.

95. Under Texas law, a "stranger-originated life insurance" (STOLI) transaction is:

- A. A legitimate investment strategy regulated by TDI
- B. Permitted only for policies with a face amount under \$500,000
- C (correct). Illegal because the third party lacks an insurable interest in the insured**
- D. Legal if the insured consents in writing to the arrangement

Rationale: STOLI arrangements, where a third party with no insurable interest in the insured initiates or finances a life insurance policy with the intent to sell it, are illegal in Texas as they violate insurable interest requirements.

96. A health insurance policy's stop-loss (out-of-pocket maximum) provision:

- A. Limits the total lifetime benefit the insurer will pay
- B (correct). Caps the insured's annual out-of-pocket costs, after which insurer pays 100%**
- C. Prevents the insurer from cancelling the policy after a large claim
- D. Stops premium increases after a specified number of years

Rationale: The stop-loss provision caps the insured's total annual out-of-pocket costs. Once met, the insurer pays 100% of remaining covered expenses for the year, protecting the insured from catastrophic costs.

97. A child rider on a life insurance policy typically provides coverage for:

- A. Only the firstborn child at the time the rider is purchased
- B. Only children under age 5 at the time of rider purchase
- C (correct). All of the insured's children under one rider for a flat additional premium**
- D. Each child individually at a separate premium per child

Rationale: A child term rider provides level term life insurance coverage for all of the insured's children (including future-born children after a brief waiting period) under one rider for a flat additional premium.

98. The mortality charge in a universal life insurance policy is deducted from the:

- A. The insurer's general account reserves
- B. The surrender value upon policy termination
- C. The policyowner's checking account via automatic withdrawal
- D (correct). The policy's cash value account**

Rationale: In a universal life policy, the cost of insurance (mortality charge) is deducted monthly from the policy's cash value account along with administrative expenses.

99. Which of the following is a requirement for a life insurance contract to be legally valid?

- A. Notarization by a licensed attorney
- B. A signed medical exam
- C. A minimum face amount of \$10,000
- D (correct). Insurable interest**

Rationale: A valid insurance contract requires offer and acceptance, consideration (premiums), legal purpose (insurable interest), and competent parties. Insurable interest is the element unique to insurance contracts.

100. A policy loan provision allows a policyowner to borrow against the policy's cash value at:

- A. Zero percent, as policy loans are an interest-free benefit
- B. The rate determined by the state insurance department annually
- C (correct). The interest rate specified in the policy or tied to a current index**
- D. The current prime rate plus 5%

Rationale: Policy loans are available at a rate specified in the policy (or a current rate tied to an index). The death benefit is reduced by any outstanding loan balance if the insured dies before repayment.

101. The COBRA continuation coverage law requires employers with 20 or more employees to:

- A. Provide state-subsidized health coverage to all terminated workers
- B (correct). Offer terminated employees continued group health coverage at the employee's own expense**
- C. Convert group coverage to individual coverage at no additional cost
- D. Pay all health insurance premiums for terminated employees for 18 months

Rationale: COBRA requires employers with 20+ employees to offer terminated employees and their dependents the option to continue group health coverage for up to 18 months (or longer in some circumstances) at their own expense plus a 2% admin fee.

102. Medicaid is a government health insurance program primarily designed to serve:

- A (correct). Low-income individuals and families who meet eligibility criteria**
- B. All Americans over age 65 regardless of income
- C. Federal government employees and their dependents
- D. Veterans who served in active military duty

Rationale: Medicaid is a joint federal-state program that provides health coverage to low-income individuals and families, including children, pregnant women, elderly adults, and people with disabilities.

103. The entire contract clause in a life insurance policy means:

- A. The insurer may attach additional documents to modify coverage at any time
- B (correct). The policy and attached application constitute the complete agreement between the parties**
- C. The policy can be modified by oral agreements between agent and insured
- D. The insured has the right to review the entire underwriting file

Rationale: The entire contract clause states that the policy document and the application (when attached) constitute the entire contract between the insurer and policyowner, preventing the insurer from referring to outside documents to modify coverage.

104. A modified premium whole life policy differs from a standard whole life policy in that it:

- A. Provides a modified (reduced) death benefit during the entire policy period
- B. Has higher premiums in the first few years, then lower premiums thereafter
- C (correct). Has lower premiums in the first few years, then higher premiums thereafter**
- D. Allows the policyowner to modify the death benefit annually

Rationale: A modified premium whole life policy charges lower premiums during the first few years, then increases to a higher level for the remainder of the premium-paying period.

105. An attending physician statement (APS) is requested by the underwriter when:

- A (correct). The applicant's medical history indicates a condition requiring more detail**
- B. The agent suspects the applicant has misrepresented their income
- C. The applicant requests a face amount over \$1 million
- D. All applicants over the age of 50 regardless of health history

Rationale: An APS is requested when the applicant's medical history indicates a health condition that requires more detailed information. It is obtained directly from the applicant's treating physician.

106. A health savings account (HSA) can only be established by an individual enrolled in:

- A. Any group health insurance plan sponsored by an employer
- B (correct). A High-Deductible Health Plan (HDHP)**
- C. Medicare Part A or Part B
- D. A PPO plan with an out-of-pocket maximum under \$5,000

Rationale: HSAs are only available to individuals enrolled in a High-Deductible Health Plan (HDHP). Contributions are tax-deductible, grow tax-free, and can be withdrawn tax-free for qualified medical expenses.

107. Which of the following is NOT an element of a valid insurance contract?

- A. Consideration
- B. Legal purpose
- C. Offer and acceptance
- D (correct). Warranty**

Rationale: A valid insurance contract requires offer and acceptance, consideration, legal capacity, and legal purpose. Warranty is a characteristic of some contracts but is not a required element of a valid insurance contract.

108. A disability income policy with an "own occupation" definition of disability pays benefits when:

- A. The insured cannot perform any occupation for which they are reasonably suited
- B. The insured's income is reduced by at least 50% due to illness
- C. The insured is hospitalized for more than 30 consecutive days
- D (correct). The insured cannot perform the duties of their specific occupation**

Rationale: An own-occupation disability policy pays benefits if the insured cannot perform the duties of their specific occupation, even if they can work in another capacity. This is the most favorable definition for the insured.

109. Which of the following best describes a flexible spending account (FSA)?

- A (correct). Allows pre-tax dollars for medical expenses but unused funds are generally forfeited at year-end**
- B. Requires enrollment in a High-Deductible Health Plan to participate
- C. Rolls over unused funds indefinitely and earns tax-free investment returns
- D. Is funded entirely by the employer with no employee contributions

Rationale: An FSA allows employees to set aside pre-tax dollars for qualified medical expenses. Unlike HSAs, FSA funds are generally "use it or lose it" — unused funds are forfeited at year-end (subject to a small rollover allowance).

110. Which nonforfeiture option provides term insurance for the full face amount for a limited period?

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

Rationale: The extended term option uses the cash value as a single premium to purchase term insurance for the full original face amount for as long as the cash value will support it.

111. The incontestability clause in a life insurance policy prevents the insurer from contesting the policy after:

- A. The insured has reached age 65
- B. The policy has been in force for one year
- C (correct). The policy has been in force for two years**
- D. The first premium has been paid

Rationale: The incontestability clause (standard in most states including Texas) prevents the insurer from voiding the policy based on misrepresentation after the policy has been in force for two years.

112. Under an irrevocable beneficiary designation, the policyowner:

- A. Retains full ownership rights including the right to surrender the policy
- B. Must obtain the insurer's approval before making any policy changes
- C (correct). Cannot change the beneficiary or take a policy loan without the beneficiary's consent**
- D. Can change the beneficiary at any time without restriction

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

113. A premium notice is NOT required to be sent by the insurer when:

- A. Premiums due during the grace period
- B. Premiums paid on a monthly basis
- C (correct). The first (initial) premium**
- D. All renewal premiums after the first year

Rationale: Insurers are not required to send premium notices for the first premium. It is the policyowner's obligation to know when premiums are due and to pay them. Subsequent renewal notices are typically sent but not always legally required.

114. Which exclusion is most commonly found in life insurance policies?

- A. Death while operating a private aircraft
- B (correct). Suicide (within the first one to two policy years)**
- C. Death from a pre-existing condition
- D. Death during military service

Rationale: War and aviation exclusions were historically common, but today the suicide clause is the most universally found exclusion in life insurance policies, limiting liability in the first policy years.

115. A backdating provision on a life insurance policy is primarily used to:

- A. Extend the contestability period beyond the standard two years
- B. Avoid paying the first premium until a later date
- C (correct). Obtain a lower premium rate based on the insured's younger age at the backdated date**
- D. Make the policy retroactively cover a recent hospitalization

Rationale: Backdating (allowed up to 6 months in most states) sets the policy date earlier than the application date, allowing the insured to qualify for a lower premium rate based on a younger age at the backdated date.

116. Medicare Part A primarily covers:

- A. Prescription drug coverage
- B. Dental, vision, and hearing services
- C (correct). Inpatient hospital stays and skilled nursing facility care**
- D. Outpatient physician visits and preventive services

Rationale: Medicare Part A covers inpatient hospital stays, skilled nursing facility care, hospice care, and some home health services. It is generally premium-free for those who paid Medicare taxes for at least 10 years.

117. Under Texas law, how long does a new life insurance producer have to complete their initial continuing education requirements?

- A (correct). Before the first renewal date, which occurs within 2 years of initial licensure**
- B. Within 30 days of completing the licensing exam
- C. Within 90 days of receiving the initial license
- D. Within 6 months of the first policy sold

Rationale: Newly licensed producers in Texas must complete CE requirements before their first renewal date, which occurs within 2 years of initial licensure. CE hours completed before licensure may count toward the first renewal.

118. An accelerated death benefit rider allows a terminally ill insured to:

- A. Have premiums waived for the duration of the terminal illness
- B. Receive the full death benefit tax-free immediately upon diagnosis
- C (correct). Receive a portion of the death benefit while still alive**
- D. Purchase additional coverage without evidence of insurability

Rationale: An accelerated (living) death benefit rider allows an insured diagnosed with a terminal illness to receive a portion of the policy's death benefit while still alive, reducing the amount paid to beneficiaries at death.

119. Under the Texas Insurance Code, "unfair discrimination" in life insurance includes:

- A. Declining coverage to applicants with a history of chronic illness
- B (correct). Charging different premiums to insureds in the same risk class without actuarial justification**
- C. Charging higher premiums for smokers than non-smokers
- D. Offering different policy options to customers of different income levels

Rationale: Unfair discrimination occurs when an insurer charges different premiums or provides different policy terms to individuals in the same risk classification without actuarial justification.

120. A universal life insurance policy differs from whole life primarily because it offers:

- A. A fixed premium with no cash value accumulation
- B (correct). Flexible premiums and an adjustable death benefit**
- C. Coverage for a specified term only, with no renewal option
- D. Investment subaccounts tied to equity market performance

121. The common disaster clause in a life insurance policy addresses the situation where:

- A. The insured and insurer dispute the cause of death
- B. The policy lapses during a declared state of emergency
- C. Two or more beneficiaries disagree on how to split the proceeds
- D (correct). The insured and primary beneficiary die in the same event**

Rationale: A common disaster clause provides instructions for distributing the death benefit when both the insured and primary beneficiary die in the same event, typically requiring the beneficiary to survive the insured by a specified period (e.g., 30 days) to receive the benefit.

122. Which type of life insurance policy provides a fixed death benefit and accumulates cash value at a guaranteed rate?

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

123. Under a waiver of premium rider, premiums are waived if the insured becomes:

- A (correct). Totally and permanently disabled**
- B. Diagnosed with any illness, regardless of severity
- C. Temporarily injured in an accident
- D. Unemployed for more than 90 days

124. A survivorship life (second-to-die) policy pays the death benefit upon:

- A (correct). The death of the second (last surviving) insured**
- B. When both insureds reach age 100
- C. The death of the first insured
- D. Either insured's death, whichever occurs first

Rationale: A survivorship life policy covers two insureds and pays the death benefit only upon the death of the second insured, commonly used for estate planning.

125. The pre-existing condition exclusion period under HIPAA for group health plans was limited to:

- A (correct). 12 months (18 months for late enrollees), reduced by prior creditable coverage**
- B. Unlimited — no statutory cap under HIPAA
- C. 24 months regardless of prior coverage
- D. 6 months with no reduction for prior coverage

Rationale: HIPAA limited pre-existing condition exclusions for group plans to a maximum of 12 months (18 months for late enrollees), with credit given for prior creditable coverage to reduce or eliminate the exclusion period.

126. A long-term care insurance policy typically begins paying benefits when the insured:

- A (correct). Cannot perform at least 2 of 6 activities of daily living or has cognitive impairment**
- B. Requires assistance with at least one instrumental activity of daily living
- C. Is confined to a nursing home for more than 90 consecutive days
- D. Has a terminal illness with a life expectancy of less than 12 months

Rationale: LTC benefits are triggered when the insured cannot perform at least 2 of 6 activities of daily living (ADLs) — bathing, dressing, toileting, transferring, continence, eating — or has severe cognitive impairment.

127. The Texas Life and Health Insurance Guaranty Association protects policyowners in the event of:

- A. A producer misappropriates client premiums
- B. An insurer denies a valid claim in bad faith
- C. A policyowner cannot afford to pay premiums
- D (correct). An insurer becomes insolvent and cannot pay policy benefits**

Rationale: The Texas Life and Health Insurance Guaranty Association provides a safety net for policyowners if a licensed insurer becomes insolvent, covering certain policy benefits up to statutory limits.

128. Which entity administers the Texas Producer Licensing exam?

- A (correct). Pearson VUE**
- B. PSI Services
- C. Prometric
- D. The Texas Department of Insurance directly

Rationale: Pearson VUE administers Texas insurance licensing exams on behalf of the Texas Department of Insurance. Candidates schedule exams through the Pearson VUE website.

129. A rated (substandard) policy is issued when the underwriter determines the applicant is:

- A. A standard risk who pays the published rate for their age and gender
- B. An uninsurable applicant who has been declined coverage
- C. A preferred risk who qualifies for the insurer's lowest available premium
- D (correct). A higher-than-average risk who may pay higher premiums or receive modified coverage**

Rationale: A rated (substandard) policy is issued to applicants who present higher-than-average risk. The insurer may charge a higher premium, reduce the death benefit, or add an exclusion rider to offset the increased risk.

130. Which of the following is NOT covered by Medicare Part A?

- A. Skilled nursing facility care after a qualifying hospital stay
- B (correct). Outpatient prescription drugs**
- C. Hospice care for terminally ill beneficiaries
- D. Inpatient hospital care

Rationale: Medicare Part A does not cover outpatient prescription drugs, routine dental or vision care, or custodial (non-skilled) long-term care. Prescription drug coverage is provided under Medicare Part D.