Key Facts

A. Basic Insurance Concepts And Principles

- The CIC defines insurance as a contract whereby one undertakes to indemnify another against loss, damage, or liability arising from a contingent or unknown event.
- Any person capable of making a contract may be an insurer, subject to the restrictions imposed by the CA Insurance Code.
- A speculative risk is a risk situation that includes a chance of loss and a potential for gain. Speculative risks are not insurable.
- A hazard is something that increases the risk.
- The law of large numbers states that the more similar risks the insurance company combines together, the better they can guess approximately how many losses they will have in a given time period.
- Any situation that presents the possibility of a loss is known as a loss exposure.
- The principle of indemnity is most closely associated with insurable interest.
- The doctrine of utmost good faith states that all parties to the contract can rely upon the statements of the other party.

B. Contract Law

- The written instrument in which a contract of insurance is set forth is the policy.
- All policies must specify the parties, the property or life insured, the interest of the insured, the risks insured against, the policy period and the premium.
- The following information does not need to be communicated in a contract: known information, information that should be known, information which the other party waives, and information that is not material to the risk.
- The financial rating of the insurer is not required to be specified in the insurance policy.
- The premium is the amount the insured pays the insurer for the coverage provided.
- The price of insurance for each exposure unit is called the rate.
- The rate is the cost per exposure unit.
- In order to determine the amount of premium an insured will pay, the insurer multiplies the rate by the number of exposure units purchased.
- An express warranty is a statement of fact in a policy of a matter relating to the person or thing insured, or to the risk.
- A warranty may be expressed or implied.
- A representation in an insurance contract qualifies as an implied warranty.
- A representation may be oral or written and may be made at the time of, or before, the issuance of the policy.
- A representation may be altered or withdrawn before the policy is issued, but not afterward.
- A representation as to the future, unless it is merely a statement of an expectation or belief, is considered to be a promise.
- A representation is false when the facts fail to correspond with its assertions or stipulations.
- If a representation is false in a material point, the injured party is entitled to rescind the contract.
- A false representation on a signed claim form may subject the insured to perjury.

- The materiality of concealment is the rule used to determine the importance of a misrepresentation.
- Concealment is when a party fails to communicate that which a party knows, and ought to communicate, so that the other party may make a sound decision.
- Concealment, whether intentional or unintentional, entitles the injured party to rescind the insurance.
- Materiality is determined solely by the probable influence of the facts upon the underwriter in forming an opinion of the disadvantages of the proposed contract.
- If the insurer discovers the insured has violated a material warranty, they can rescind the contract (void the policy).
- To rescind a policy means to void or cancel the policy flat by returning all premiums to the insured. It is as if the policy never existed and no coverage applies.

C. Life Insurance - Basics

Uses of Life Insurance:

- The insurance applicant is the individual who is applying to purchase insurance.
- Before making a sale, the first thing an agent should do is identify the applicant's overall financial objectives.
- Life insurance creates an immediate estate upon the death of the insured in that the death benefit will be paid to the beneficiary upon the insured's death.
- In life insurance, insurable interest must exist at the time of application.
- If insureds increase their insurance policy limits, they are not eliminating their risk; they are transferring more of their risk.
- Key person life insurance is used by a business to protect itself in case a valued employee dies. The death benefit would be paid to the company to hire and train a replacement.
- Premiums paid for key person life insurance are not tax deductible, but benefits are not taxable.
- Purchasing life insurance to fund a buy/sell agreement is a business use of life insurance, not a personal use.
- Under the CIC, all advertisements, policies and certificates of term life insurance sold to those age 55 and older must include a term life insurance monetary value index, which is similar to the life insurance surrender cost index.

Individual Underwriting, Pricing, and Claims:

- In the event of an adverse underwriting decision the insurer or agent must provide the individual with the specific reason for the decision in writing and a summary of his or her rights.
- Preferred risks receive the lowest premium charges as they pose the lowest risk to the insurer.
- The underwriting division within the insurance company selects which risks the insurer will take on.
- Members of the Medical Information Bureau (MIB) are required to report medical impairments found during the underwriting process.
- Life insurance companies are members of the Medical Information Bureau.
- The HIPAA Privacy Rules establish national standards for the use and disclosure of protected health information.
- Life insurance policies do not contain a probationary period for pre-existing conditions.
- When an applicant reveals medical conditions that require more information, the insurer will usually require an attending physician's report.
- The request for an attending physician's report must be accompanied by a copy of the signed authorization.
- To authorize the release of an attending physician's report, the applicant must sign a consent form.
- The agent's commission comes from the insurer expenses portion of the premium charged.

D. Types Of Life Policies And Annuities

Life Insurance:

- A nonparticipating policyowner will not receive dividends. Nonparticipating policies are issued by stock insurers. Stock insurers pay dividends to stockholders, not policyholders.
- Employees that are covered under a group policy receive certificates of insurance as their proof of coverage.
- There are three types of ordinary life insurance: whole life, endowment, term. Use the acronym WET to remember them. Group insurance is not a type of ordinary life insurance.
- Whole life insurance is also known as continuous premium whole life insurance.
- When a premium is paid on a universal life policy, the insurance company will subtract from it the mortality and general expenses, then add the current interest and deposit it into the cash value.
- The rate of return paid on the cash value of an indexed whole life policy will keep up with the rate of inflation.
- A life insurance policy that allows the policyowner to self-direct cash values into different subaccounts is known as variable life.
- Variable insurance products are regulated by the state department of insurance and the Securities and Exchange Commission (SEC) since they are considered to meet the definition of a securities product.
- A variable/universal life policy has no fixed, guaranteed rate of return.
- A family policy provides life insurance for an entire family and allows the children to convert from term to whole life coverage without a physical exam.
- A family life insurance policy consists of whole life on one spouse and level, convertible term on the other spouse and children.
- If a payor benefit rider is added to a juvenile life policy, it will waive the premium for the policy until the child reaches a certain age (often 21) if the parent dies.
- A joint life policy covers multiple lives and pays out when the first insured dies.
- The following are true concerning survivorship life insurance: it offers premiums that are quite low compared with those that would be charged for separate policies; it is well situated to meet the need for cash to cover estate taxes; face amounts are usually more than one million dollars.
- Annually renewable term life insurance has a level face amount but an increasing premium.
- Decreasing term life insurance is often used to pay off an outstanding mortgage upon the death of the borrower.

Annuities:

- If an annuitant selects the 10-year period certain annuity payout option, it guarantees that if the annuitant dies within the first 120 payments, the remaining payments will be made to the beneficiary. However, the annuitant will be paid as long as he or she lives (which could be substantially longer than 10 years).
- The exclusion allowance is the formula used to determine the amount of annuity distribution which is taxable.
- A variable annuity is one in which the value of an accumulation unit can be multiplied by the number of units owned in a separate account.
- Money invested in variable annuities is held in the insurance company's separate account.
- An equity-indexed annuity has a fixed minimum interest rate, and the chance to get a higher rate of return, like that of the stock market.

Life Insurance and Annuities - Policy Replacement / Cancellation:

- Both the agent and the applicant must sign the Notice Regarding Replacement.
- When replacing a policy, the agent is not required to send a copy of the replacement notice to the existing insurer. The new insurance company will provide notice to the existing insurer.
- Replacement is when an agent replaces a customer's current policy with a new one and is not illegal. However, the agent would not replace the customer's policy

if the new policy is worse and the premium is higher. This would be considered twisting and is illegal.

E. The Individual Life Insurance Contract

- An insurer or agent must clearly specify those questions on an application that are designed to obtain information solely for marketing or research purposes.
- A nonmedical application allows the insurer to write a life insurance policy without a physical exam.
- The beneficiary is not required to sign the application for insurance.
- The entire contract clause states the application is part of the contract if attached when issued.
- There is no coverage under a conditional receipt until all conditions are satisfied.
- An insurance binder always creates immediate coverage (which is the main difference between a binder and a conditional receipt). A binding receipt provides a limited amount of coverage right away.
- Under the California Insurance Code (CIC), life insurance agents cannot issue binders.
- If an agent issues a binder for a company for which he or she is not appointed, the Commissioner can suspend or revoke the agent's license.
- A written binder is deemed a valid insurance policy for the purpose of proving that the insured has insurance coverage. This excludes life insurance. Binders are only allowed in Property and Casualty insurance.
- An illustration is a presentation or depiction that includes nonguaranteed elements of a policy of life insurance over a period of years.
- Life insurance policy illustration regulations were not created to eliminate disclosure.
- The quarterly mode of payment costs more than the annual mode of payment.
- The interpretation of policy provisions is not a primary objective of insurance regulation.
- The free look on life insurance and annuities is also known as the right to return.
- Life insurance companies are required to give the policyholder a minimum 10-day free look
- Policyholders who are age 60 or older are considered a senior citizen and must receive a 30-day minimum free look).
- If the owner of a variable annuity returns it during the right-to-return period, he or she will receive **a full refund of all premiums paid**.
- An absolute assignment is a permanent transfer of ownership rights.
- The conversion feature allows an employee to go from group coverage to an individual policy.
- Dividends are declared by the board of directors and cannot be guaranteed.
- An insured would name a contingent beneficiary to ensure where the policy proceeds will go if the primary beneficiary dies prior to the insured.
- The common disaster clause applies when both the insured and primary beneficiary die as a result of the same accident. It states that the primary beneficiary always dies first and protects the interest of the contingent beneficiary.
- The spendthrift clause protects the policy proceeds from the creditors of the beneficiary. However, the spendthrift clause will not apply if the proceeds are paid out in a lump sum.
- The insured can change the beneficiary at any time if the beneficiary designation is revocable.
- Automatic premium loan is a rider than can be added to a cash value life insurance policy in case the insured forgets to pay the premium. It takes effect at the end of the grace period.
- A collateral assignment can be utilized to obtain a loan.
- In California, life insurance premiums are refunded to the beneficiary if death occurs due to suicide within the first 2 years of the effective date of coverage.
- The misstatement of age clause allows the insurance company to adjust the face amount at the time of death to what the premium the insured paid would have

purchased had the truth about the insured's age been told when the policy was purchased.
- Cash surrender of an annuity prior to age 59 and 1/2 will result in ordinary income tax and a 10% premature distribution penalty, both of which apply to the earnings portion.
- The reduced paid-up nonforfeiture option will provide a new whole life policy with a reduced face amount of protection.
- Extended term is a nonforfeiture option that provides a new term life insurance policy with the same face amount of coverage as the original policy. Extended term is not a settlement option.
- Extended term is a life insurance nonforfeiture provision, not a rider or a settlement option.
- Extended term insurance is the nonforfeiture option that uses cash surrender values to purchase paid-up term insurance for the full face amount of the policy.
- A settlement option can be predetermined by the owner of the policy prior to death, but is usually selected by the beneficiary upon the insured's death.
- If a policy loan is outstanding when the insured dies and the beneficiary selects the fixed period settlement option, the outstanding loan will affect the amount of the payments received, not the length for which they are received.
- The interest settlement option will allow only the death benefit earnings to be paid to the beneficiary.
- If a beneficiary wants to leave the life insurance proceeds with the insurer and receive investment income, the beneficiary should select the interest option.

F. Life Policy Riders

- A disability income rider that is added to a life insurance policy will pay a replacement of the insured's lost income if the insured becomes disabled.
- The waiver of premium rider will waive the insured's premium if the insured becomes disabled.
- The accidental death benefit rider will pay double the face amount if the insured dies as a result of an accident as defined in the policy.
- If an insured purchases a cost of living rider, this rider will automatically increase their policy limits tied to the consumer price index. However, if the policy limit increases, so will the underlying premium.
- The guaranteed insurability rider allows the insured to adjust benefits upwards at specified future option dates.

G. Group Life Insurance, Retirement Plans, And Social Disability Program

- Group coverage is usually less expensive than individual coverage.
- California requires a minimum of 2 employees be covered in a group life contract.
- If an employee wants to enroll without any restrictions, the employee would enroll during the eligibility period (open enrollment period).
- In a contributory group policy, the premium is shared between the employer and employee. The employee contributes toward the premium.
- A group contract where the employer pays 100% of the premium is referred to as a noncontributory group plan.
- All eligible employees must participate in a noncontributory group life plan.
- The employee pays all or part of the costs in a contributory group insurance plan.
- A group contract is between the insurer and the employer.
- Insurance agents must keep records regarding policies sold in this state for a minimum of 5 years.
- Sole proprietors without any employees are not eligible for group life coverage.
- If a dependent child covered by a group life plan is incapable of self-support, coverage under the plan may continue without any age limitation.

- In a group life plan, a dependent child attending an educational institution may be covered until age 26.
- Group life policies may exclude aviation, suicide and military action, but not death due to other accidents.
- Most workers contribute to Social Security through taxes levied on their earnings. Benefits are based on contributions, but are not equal to contributions.
- A widow or widower without children would be eligible for Social Security survivors benefits at age 60.
- The Social Security blackout period is the period of time when surviving family members are not eligible for Social Security survivors benefits. Survivors benefits stop during this period.
- The Social Security blackout period begins when the youngest child reaches age 16.
- The Social Security blackout period ends when the surviving spouse reaches age 60.
- Social Security full retirement age is based upon the year in which an individual was born.
- Retirement benefits under Social Security are only available to workers who are fully insured.
- Fully insured status in Social Security requires 40 quarters of coverage.
- Eligibility for Social Security retirement benefits is based upon the number of quarters earned.
- An individual that has contributed to Social Security for 6 of the last 13 quarters who becomes disabled is currently insured under the system.

H. Taxation Of Life Insurance And Annuities

- Annuity death benefits are not tax deductible or tax free. Life insurance death benefits are tax free.
- In a group life policy with a death benefit of more than $50,000, the premium cost for insurance above $50,000 is taxable as income to the insured.
- Group life insurance does not exclude accidental death.
- A modified endowment contract has a 10% IRS early withdrawal penalty.

I. Accident And Health Insurance - Basics

- On an accident and health policy with an accidental means clause, both the cause and the result must be accidental in order for coverage to apply.
- Coinsurance is a feature of medical insurance and is defined as a sharing of the loss after the deductible has been satisfied. Coinsurance is usually expressed as a percentage sharing of the loss between the insurer and the insured, with the insurer paying the larger percentage, such as 90/10.
- A gatekeeper (primary care physician) cannot be a specialist; the gatekeeper must be a general practice doctor.
- The waiver of premium rider will waive the insured's premium if the insured becomes disabled.
- A guaranteed renewable health insurance policy would have the highest premium.
- Guaranteed renewable health insurance policies must offer renewal and cannot be changed in any way EXCEPT for rates by class only.
- An insurer may not change a noncancellable health insurance policy in any way.
- A specified disease policy is a policy that covers only certain dread diseases, such as cancer insurance.

J. Medical Expense Insurance

Individual Insurance:

- HMOs and PPOs are referred to as service providers since the doctors and hospitals get paid directly for those services provided.

- A capitation fee is a per-head (capitation) fee that is paid to doctors that treat subscribers of HMOs.
- A subscriber of an HMO could receive emergency medical attention without prior authorization of the primary care physician (gatekeeper).
- Out-of-network coverage is only available from an HMO in an emergency situation.
- HMOs stress preventive medicine.
- Health maintenance organizations are not required to provide coverage for prescriptions drugs.
- Preferred provider organizations (PPOs) are made up of various hospitals and private physicians, in a given network area, who agree to provide services to the organization's subscribers at a predetermined, discounted fee-for-service rate.
- If services are performed by a preferred provider, the PPO may cover 100% of the services, less a nominal copayment.
- If services are provided by non-PPO providers, the services are still covered, but at a reduced amount, except in emergency situations.
- With a PPO, an insured may go out of network. Out of network is available at a reduced amount with a PPO, except in emergency situations.
- An exclusive provider organization (EPO) is a type of PPO that utilizes a select group of exclusive preferred providers who are paid on a fee-for-service basis.
- Most EPOs utilize the gatekeeper concept where enrollees are assigned to a primary care physician who makes referrals to the various exclusive providers.
- EPOs provide an alternative to traditional HMOs and PPOs.

Consumer-Driven Health Plans (CDHPs):

- Consumer-driven health plans include point of service (POS) plans, medical savings accounts (MSAs) and high-deductible health plans (HDHPs).
- HSAs, MSAs, FSAs, and HRAs are consumer-driven models.
- FSAs are set up by the employer.
- FSAs are owned by the employer, but the employee gets to decide which medical expenses to pay for with the FSA.
- FSAs can be used with most employer-sponsored health plans.
- An HRA (health reimbursement arrangement) is a benefit account set up by an employer.
- The employer makes contributions into the HRA each year for the employee.
- The employee can use the balance in the HRA toward medical expenses not covered by the health plan, such as deductibles and coinsurance.
- An HRA can only be funded by the employer. Employee contributions are not permitted.
- An HSA (health savings account) can best be thought of like a retirement account for medical expenses.
- FSAs, HRAs and HSAs are all funded with pre-tax dollars. They all have earnings that are income tax free when used for qualified medical expenses. Each of these accounts includes a debit-type card for withdrawals.
- The employer owns the HRA and the FSA.
- MSAs are similar to HSAs. The key difference is the medical savings account is only available to self-employed persons and/or small businesses. In an MSA, only employers or individuals can make a contribution, not a mix of the two. HSAs are the more common of the two.
- High-deductible health plans are often paired with health savings accounts (HSAs).
- In order to have an HSA, the insured must be enrolled in an HSA-compatible insurance plan.
- The employee owns the HSA.
- It is only the HSA that can invest the money (think of it like a mutual fund account).

Group Medical Expense Insurance:

- Group coverage is usually less expensive than individual coverage.
- The conversion feature allows an employee to go from group coverage to an individual policy.

- Employees that are covered under a group policy receive certificates of insurance as their proof of coverage.
- Employee benefit plans cannot self-fund for life insurance benefits, only health benefits.
- If an employee wants to enroll without any restrictions, the employee would need to enroll during the eligibility period (open enrollment period).
- In a contributory group policy, the premium is shared between the employer and employee. The employee contributes toward the premium.
- In a noncontributory group disability income policy, any policy benefits paid would be included in the employee's gross income (be taxable).
- A group contract where the employer pays 100% of the premium is referred to as a noncontributory group plan.
- The Consolidated Omnibus Reconciliation Act (COBRA) requires that employers with 20 or more employees offer health insurance continuation to employees and employees' dependents who become ineligible for coverage due to a qualifying event. If the employee elects continuation, the employee is responsible for paying the full premium for coverage and can only continue coverage under the group plan for a limited period of time.
- A terminated employee may not be eligible for group continuation under COBRA if they were terminated for cause.
- Divorce is a qualifying event under COBRA which will allow the employee to apply to continue coverage under the group plan.
- Wearing eyeglasses is not considered to be a disability under the Americans with Disabilities Act (ADA), although confinement to a wheelchair, deafness and HIV/AIDs are covered by the Act.
- The Family and Medical Leave Act (FMLA) provides certain employees with up to 12 weeks of unpaid, job-protected leave per year for the birth and care of a newborn child, the adoption of a child, to care for an immediate family member (spouse, child or parent) with a serious health condition; or to take medical leave when the employee is unable to work due to a serious health condition.

Patient Protection and Affordable Care Act (PPACA):

- The PPACA requires most U.S. citizens and legal residents to have health insurance, or pay a penalty.
- There can no longer be a probationary period on medical expense policies.
- Individual and small group medical expense policies can be purchased through the Exchange.
- Health insurance policy premiums may not be based upon health or gender. Rates may be based upon type of policy or level of tier purchased, and age-banded rates may be used.
- The PPACA interrelates with other federal laws, including Medicare, COBRA, HIPAA and the Children's Health Insurance Program (CHIP).
- Under the PPACA, anyone can get medical expense insurance, regardless of health.
- A person who qualifies for the advance premium tax credit may purchase any metal tier of coverage.
- A person who is offered affordable health coverage through his or her employer is not eligible for an advance premium tax credit or a cost-sharing subsidy.
- All policies sold through the Exchange must provide coverage for essential health benefits.
- There is an open enrollment period every year in which new enrollees may purchase coverage through the Exchange.
- A person who has purchased coverage through the Exchange may switch policies during the open enrollment period.
- A special enrollment period allows a person to enroll in Exchange coverage following a triggering event.
- Triggering events for special enrollment through the Exchange include losing job-based health coverage, losing Medicaid coverage due to an increase in income, marriage, divorce, and the birth or adoption of a child.
- When purchasing a policy through the Exchange, a person may qualify for cost-sharing subsidies or premium reductions. The Exchange is also designed to

qualify people for Medi-Cal coverage.
- The PPACA requires insurers to provide dependent coverage for children up to age 26 on all individual and group health insurance policies. Children can join or remain on their parent's plan even if they are married, not living with them or attending school.
- Persons purchasing coverage through the Exchange are screened for eligibility for the Medi-Cal (California's Medicaid) program as well as the Children's Health Insurance Program (CHIP).
- Persons purchasing coverage through the Exchange may qualify for cost-sharing subsidies and/or advance premium tax credits, depending upon their annual income versus the Federal Poverty Level.
- In order to qualify for cost-sharing subsidy, a person must purchase a silver tier of coverage.
- Cost-sharing subsidies limit the annual out-of-pocket maximum a person will be subject to.
- Medical expense policies sold through the Exchange are offered as standardized plans, which are called metal tiers: platinum, gold, silver and bronze. A platinum plan would be the most expensive and provide the best coverage
- Large businesses are required to provide affordable coverage that meets a minimum level of coverage to full-time employees (30 hours or more a week), or face a penalty.

California Health Benefit Exchanges (Covered California for Small Business (CCSB)):
- The California Health Benefit Exchange makes it easier for individuals and small businesses to compare plans and buy health insurance in the private market.
- The California Health Benefit Exchange was designed to enhance competition and provide the same advantages available to large employer groups by organizing the private insurance market, including a more stable risk pool, greater purchasing power, more competition among insurers and detailed information regarding the price, quality and services.
- Small businesses can purchase coverage through the CCSB program at any time throughout the year.
- Businesses with 25 or fewer employees must purchase health insurance through the CCSB program to be eligible for federal premium tax credits.
- Small businesses are not required under the PPACA to provide coverage for employees.
- Insurers must comply with the medical loss ratio requirement as follows: individual plans 80%, and large group plans 85%.

K. Disability Income Insurance

- Disability insurers have to eliminate applications that seem likely to have losses much more frequently or much more severely than what the insurer's rates anticipate. This is the underwriter's responsibility.
- A morbidity table contains statistical data relating to the probability of a sickness or disability occurring. A mortality table contains statistical data relating to the probability of death.
- A period of time that excludes coverage for prior medical conditions that begins when a disability income insurance policy is brand new is known as a probationary period or pre-existing condition exclusion.
- The waiting period included in disability income policies is also known as the elimination period.
- On disability income insurance, the waiting period is like a deductible, except it is stated in terms of time rather than in dollars.
- The period of time (30 days, 60 days, 90 days or 180 days) the insured is not eligible for benefits after becoming disabled is known as the waiting period.
- The disability income coverage under Social Security was created to provide a minimum floor of income in case of total disability. It was not created to provide a full replacement of lost income.

- An employee would be considered to be partially disabled when working part time and receiving lost income under a long-term disability benefit.
- Social Security has the most difficult definition of total disability to meet.
- Under Social Security, in order to receive total disability benefits, the disability must be expected to last at least 12 months or end in death.
- An occupational disability income policy provides coverage on and off the job.
- On noncontributory group disability income, premiums are tax deductible for employers, but benefits are taxable to employees.
- If the premium for a group disability income policy is fully paid by the employee, benefits would be excluded from the employee's gross income (not taxable).
- The any occupation definition in disability income states the insured must be unable to perform any job the insured is suited to do by prior training, experience or education.
- A computer programmer will still be eligible for disability income benefits although he returned to work as a janitor if he has the own occupation definition of total disability in his policy.
- Disability income policies do not offer a lifetime benefit period.
- On a disability income policy, the Social Security offset rider will pay the difference between what Social Security pays and the insured's actual loss of earned income.
- The purpose of the rehabilitation provision in a disability income policy is to encourage a disabled insured to return to his or her original occupation.
- The transplant donor benefit in a disability income policy considers the insured to be disabled if donating a body organ.
- The return of premium rider that can be added to a disability income policy will provide a return of a percentage of premiums paid at periodic intervals, provided the insured remains disabled.

L. Senior Health Products

Social Security:

- The waiting, or elimination, period for Social Security disability benefits is **5 months.**
- The amount of Social Security disability benefits is based upon the worker's Primary Insurance Amount (PIA).
- Benefits are not retroactive to the beginning of the disability.
- Contributions to Social Security are compulsory for most workers.

Medicare:

- Under Part A of Medicare, it is the provider who submits the claim.
- Medicare Part A provides coverage for hospital services and is free to those eligible once they reach age 65.
- Medicare Part B is optional and if an eligible individual enrolls, a monthly premium must be paid for the coverage. Part B of Medicare provides coverage for doctors' services.
- Coverage provided by Medicare Part B - Medical Insurance: deductibles, coinsurance, physician services, second opinion before surgery, hospital outpatient, other covered services, mental illness, diagnostic tests and x-rays performed on outpatient basis, etc.
- Medicare Part B is only for individuals age 65 or older.
- Insurers MAY offer Medicare supplement insurance plans that contain only core benefits.
- Medicare Part C does not cover prescription drugs. Medicare Part D covers prescription drugs.
- Medicare will send out a Medicare Summary Notice (previously known as the Explanation of Medicare Benefits) each quarter which details the services that were provided under Part A and B, if they were covered, and how much they were covered for.

- The Medicare Summary Notice is not a bill. Money due will be billed directly by the provider who performed the services.

M. Long-Term Care Insurance

- Agents who sell long-term care are required to complete long-term care-specific continuing education within the core requirement, not in addition.
- Skilled nursing care, intermediate nursing care, custodial care, home health care, home care and community-based care are standard levels of care in a long-term care policy.
- Hospice care is care for the terminally ill and is covered by most long-term care policies. Hospice care would not cover costs associated with rehabilitation.
- An individual who needs terminal illness care would find this coverage provided in his or her long-term care policy as hospice care.
- Adult day care coverage in a long-term care policy will cover part-time care in a facility for a person who lives at home.
- Long-term care policies are underwritten on the applicant's ability to care for him or herself (activities of daily living).
- There are 6 main ADLs that trigger coverage on long-term care policies, including bathing, continence, dressing, eating, toileting and transferring (walking).
- To meet the chronically ill trigger of a long-term care policy, an individual must be unable to perform at minimum two activities of daily living.
- Convalescence is not a level of care for which benefits are paid on an LTC policy.
- Every qualified long-term care policy sold in California must state the following on the first page of the policy: *"This contract for long-term care insurance is intended to be a federally qualified long-term care insurance contract and may qualify you for federal and state tax benefits."*
- An outline of coverage must be delivered to a prospective applicant for long-term care insurance at the time of initial solicitation.
- With regard to long-term care insurance, all insurers, brokers, agents, and others engaged in the business of insurance owe a policyholder or a prospective policyholder a duty of honesty, and a duty of good faith and fair dealing.
- On a replacing long-term care policy, the commission will be calculated based on the difference between the annual premium of the replacement policy and the original policy.

N. The Insurance Marketplace

Producers:

- Transacting insurance includes soliciting, negotiating or executing a contract and the transaction of matters arising out of the contract.
- A person cannot transact insurance without a valid license.
- A person who is transacting insurance without a license is guilty of a misdemeanor.
- Transacting insurance without a license is a misdemeanor punishable by a fine not exceeding $50,000 or up to 1 year in jail, or both.
- Under federal law, a prohibited person is a person whose activities affect interstate commerce and who knowingly, with the intent to deceive, makes any false material statement or financial report to any insurance regulator for the purpose of influencing that regulator's actions.
- Under federal law, a prohibited person may not engage in insurance activities in this state without the prior written consent of the Commissioner.
- Under federal law, upon conviction, a prohibited person may be imprisoned 10 to 15 years and fined up to a maximum of $50,000 per violation.
- An insurance agent means a person authorized by and on behalf of an insurer, to transact all types of insurance other than life, disability or health insurance.
- A life licensee is a person authorized to act on behalf of a life or disability insurer to transact life insurance, accident and health insurance, or life and accident and health insurance.

- An insurance broker means a person who, for compensation and on behalf of another person, transacts insurance other than life insurance, but not on behalf of an insurer.
- A licensed life or health agent may submit an application for life or health insurance to an insurer who has not appointed them. If the insurer issues the policy, they must appoint the agent within 14 days. This is known as brokerage.
- An insurance broker is not appointed by an insurer.
- There is no such thing as a life or health insurance broker.
- Property/casualty agents or brokers may offset funds due an insured for return premiums against amounts due them from the same insured for unpaid premiums due on the same or any other policy.
- A life settlement broker is a person who, on behalf of a policyowner, offers to negotiate the sale of the owner's life insurance policy to a life settlement provider.
- Life settlement brokers represent only the owner and owe a fiduciary duty to the owner to act according to the owner's instructions.
- Viatical settlements are effected through the use of absolute assignment.
- An insurance solicitor is a natural person employed to aid an agent or broker transacting insurance, other than life or health insurance.
- An insurance solicitor may represent more than one agent or broker.
- Errors & omissions insurance protects agents against legal liability resulting from negligence, errors and omissions. It does not cover fraudulent, dishonest or criminal acts.
- Except when performed by a surplus lines broker, it is a misdemeanor for a person to act as an agent for a nonadmitted insurer.
- A surplus lines broker may place insurance with a nonadmitted insurer only if insurance cannot be procured from admitted insurers in this state.
- Surplus lines coverage cannot be written for the purpose of obtaining a rate lower than the lowest rate charged by an admitted insurer.
- Surplus line brokers must conduct a diligent search among admitted insurers before placing the coverage with a nonadmitted insurer.
- Providing free insurance coverage in connection with the sale of services as an inducement for completing the transaction is not legal.
- Agents need not have the Commissioner's approval to use their actual names.
- Licensees must file with the Commissioner their true names and all fictitious names under which they conduct business.
- Fictitious names may not be too similar to a name already on file, may not mislead the public or imply the licensee is an insurer.
- Licensees must immediately notify the Commissioner of any change in their email, residence, principal business, or mailing address.
- If an agent puts an ad on the internet, it must include the agent's license number, name and business address, but not phone number.
- Licensees must notify the Commissioner in writing within 30 days of the date they learn of a change in their background information.
- Life insurance agents are not required to keep records of printed material in general use that have been distributed by the insurer.
- The rules regarding life insurance policy illustrations are not intended to ensure that the illustration specify that nonguaranteed elements will continue unchanged for all years shown.
- Life insurance illustrations showing premiums, values, credits or charges that are not determined at issue demonstrate nonguaranteed elements.
- Life insurance illustrations are not required to include a statement that the benefits in the illustration are guaranteed. Benefits may be guaranteed or nonguaranteed.
- If an insurer indicates that an illustration will be used, they must send a summary status report to the policyowner annually
- The Commissioner may, without a hearing, deny a license application if the applicant has committed a felony as shown by a plea of guilty, nolo contendere (no contest) or by conviction.
- If an applicant has had a professional license revoked in the past 5 years, the insurance Commissioner can deny their licensing application without a prior hearing.

- If an insurer knowingly allows one of its agents to mislead a member of the public in order to induce the person to change their existing insurance, the Commissioner may suspend the insurer's certificate of authority for the class of business involved.
- Insurers may NOT offer any kind of insurance as an inducement to the purchase or rental of any real or personal property or services without any separate charge to the insured for such insurance.
- Insurers must file a notice of appointment with the Commissioner appointing a licensee as the insurer's agent.
- Appointments are effective as of the date they are signed and will continue until they are canceled by the insurer or the appointee's license expires.
- In order to transact insurance, agents must hold at least one insurer appointment.
- If an agent no longer holds any insurer appointments, his or her license is considered to be inactive.
- An inactive license may be reactivated at any time prior to its expiration by the filing of a new appointment.
- A licensee may at any time surrender his or her license to the Commissioner for cancellation.
- If an employer holds an agent's license and wants to cancel it, the employer is required to send written notice to the Commissioner.
- Upon termination of all appointments, the licensee's permanent license will not be canceled, but will become inactive.
- All licenses issued to natural persons terminate upon the death of such person.
- When a corporation ceases to exist entirely, its insurance license terminates.
- Any licensee who diverts fiduciary funds to his or her own use is guilty of theft.
- Insurance agents are acting in a fiduciary capacity when they are handling their customer's premiums.
- An MGA (managing general agent) can be any person, firm, association, partnership, or corporation that manages all or part of an insurer's business (including a separate division, department or underwriting office).
- Agents have a fiduciary responsibility when they deal with, handle, supervise, or hold in trust and confidence the affairs of another, especially when it pertains to financial matters.
- Licensees who receive fiduciary funds must remit them to the person so entitled or maintain such funds in a trustee bank account in this state separate from any other account.
- Licensees may commingle fiduciary funds in their trustee bank account with other funds to be used for the purpose of advancing premiums or establishing reserves for the paying of return commissions.
- A written agreement must be obtained from every insurer or person entitled to such funds authorizing the maintenance and retention of any earnings accruing on trustee bank account funds.
- Life-only agents or accident and health agents must complete 24 hours of continuing education each 2-year renewal period.
- Agents who are licensed for all lines of insurance, life, health and property and casualty, must complete 24 hours of continuing education each 2-year renewal period, not 48.
- Property and casualty broker-agents must complete 24 hours of continuing education each 2-year renewal period.
- In addition to completing the prelicensing requirement, life agent, fire and casualty broker-agents and personal lines agents must also complete a 12-hour ethics and code course.
- Third-party administrators often help employers administer their self-funded plans.
- The Code of Ethics requires agents to always place their customer's interest first.
- If an insurer is inadvertently found guilty of unfair trade practices while issuing, renewing and servicing a policy, the insurer could be prosecuted for three violations, one for each act.
- If an agent is engaging in unfair methods of competition, the agent is subject to penalties of no more than $5,000 for each act, or, if the act is judged to be willful, penalties of no more than $10,000 for each act.

- The California Insurance Code (CIC) and the California Code of Regulations (CCR) identify many unethical and/or illegal practices, but they are not a complete guide to ethical behavior.
- California Insurance Code includes senior code protections. A life insurance policy sold to a person age 60 or older is required to offer a minimum 30-day free-look period. A minimum required free-look period for people under age 60 is 10 days.
- Every insurer offering individual life insurance policies or annuities to senior citizens that use nonguaranteed elements in illustrations must provide a statement to that effect which must appear in bold print.
- The free-look notice for seniors must be printed in no less than 10-point uppercase type, on the cover page of the policy or certificate and the outline of coverage.
- Agents may not use or authorize the use of pretext interviews to obtain information in connection with an insurance transaction.
- Term life insurance directed to individuals 55 years of age or older must prominently disclose any change in premium resulting from the aging of the insured, policy duration, or any other factor. If the insurer retains any right to modify premiums in the future, that fact must also be disclosed.
- If a senior has purchased an annuity which is invested in a mutual fund and cancels during the free look, the CIC requires the senior to be refunded the value of the account.

Insurers:

- An insurer organized in California and selling in California is considered to be a *domestic* insurer in California.
- An insurance company based in another state that is selling in California is a *foreign* insurer in California.
- An insurance company that is based in another country (e.g. Canada) and doing business in California is an *alien* insurer.
- A diligent search among admitted insurers is considered to have been made if three admitted insurers have declined the risk.
- In a reinsurance transaction, a primary insurer is the insurance company who transfers its loss exposure to another insurer.
- The insurance company that purchases reinsurance is referred to as the primary insurer (a.k.a. ceding insurer).
- The CIC defines a person broadly to include individuals, associations, organizations, partnerships, business trusts, limited liability companies or corporations.
- An insurer may be a person, association, organization, partnership, business trust, or limited liability company or corporation.
- Policies issued by mutual insurers pay dividends to policyholders. The dividend option is selected by the policyholder on the insurance application.
- Mutual insurers are owned by policyholders.
- A stock insurer is an insurance company that is owned by individuals who purchase shares of stock in the company (which shares in profits in proportion to shares owned) and votes for a board of directors.
- Dividends received by policyholders of a mutual insurer are not taxable.

Market Regulation - General:

- The CIC may only be changed when the state legislature passes a new statute amending, modifying or repealing an existing one.
- The CCR may only be changed by the Commissioner in accordance with the State Administrative Procedures Act.
- The Insurance Commissioner is elected by the people the same way as the Governor.
- The Commissioner is elected for no more than two 4-year terms.
- Under CIC 770, the Insurance Commissioner may issue a cease and desist order for a violation of more than one transaction if the violation dealt with loans on the security of real or personal property.
- Pretext interviews may be used for the purpose of investigating a claim where there is a reasonable basis for suspecting criminal activity, fraud or material

misrepresentation.
- The federal Gramm-Leach-Bliley Act (GLBA) requires a privacy protection notice be provided no later than at the time of policy delivery when new insurance is being sought, and annually upon renewal.
- The CA Financial Information Privacy Act affords persons greater privacy protections than those provided by the federal GLBA.
- The purpose of the CA Insurance Information and Privacy Protection Act is to establish standards for the collection, use and disclosure of information gathered in insurance transactions.
- An insurer is considered to be insolvent when they are unable to meet their financial obligations when they are due.
- An insurer cannot escape the condition of insolvency by being able to provide for all its liabilities and for reinsurance of all its outstanding risks.
- An insurance company that has enough reserves to pay for all its liabilities is referred to as a solvent insurer.
- In order to remain financially solvent under the CIC, an insurer must have enough assets to provide for its liabilities and for reinsurance for all outstanding risks and must also meet minimum requirements equal to their paid-in capital (value of company if liquidated).
- The State Insurance Guarantee Fund provides protection to policyholders whose insurer becomes insolvent (financially impaired). This fund only covers member insurers (licensed insurance companies).
- The paid-in capital of an insurer is defined as the amount by which the value of its assets exceeds the sum of its liabilities.
- Agent records must be made available to the Commissioner at any time.
- It is a misdemeanor to refuse to deliver any books, records, or assets to the Commissioner once a seizure order has been executed in an insolvency proceeding.
- Agents who receive commission related to premium financing must keep their records for 3 years.
- If the Insurance Commissioner issues a notice of seizure for documents and the agent fails to produce the documents, the agent would be subject to up to 1 year in jail and/or a $1,000 fine.
- The Commissioner may undertake conservation proceedings when an insurer has been found to be in such poor financial condition that its further transaction of business will be hazardous to policyholders.
- The California Life and Health Insurance Guarantee Association (CLHIGA) does not cover employer self-funded plans or group stop-loss plans.
- Fraud is an intentional and fraudulent omission on the part of an insured that allows the insurer to rescind the contract.
- Each authorized insurer is required to establish a division within the insurer to investigate fraudulent claims.
- If an insured is found guilty of turning in a fraudulent claim, the insured can face imprisonment and/or a $150,000 fine or twice the dollar amount of the fraudulent claim, whichever is greater.
- If an insured signs a fraudulent claim form, the insured may be guilty of perjury.
- Claims forms are required to include the following statement related to fraudulent claims: *"Any person who knowingly presents a false or fraudulent claim for the payment of a loss is guilty of a crime and may be subject to fines and confinement in state prison."*
- As used in the CIC, the word "shall" means mandatory, and the word "may" is permissive.
- The affidavit of the person who mails a notice, stating the facts of such mailing, is prima facie evidence that the notice was mailed.