Addendum: for use with California Life & Health online ExamFX courses and study guides version 19871en (Life Only) and 19898en (Life & Health) per state Educational Objectives update effective December 2019.

The following are additions to the existing text unless otherwise indicated:

Types of Life Policies

D. Flexible Premium Policies

2. Universal Life

Guaranteed Universal Life Insurance

Unlike universal life insurance, which accumulates interest dependent on market indexes, **guaranteed universal life insurance** eliminates the reliance on market risk, and provides more affordable coverage. This policy does not accumulate cash value, which allows for lower monthly premiums as compared to universal life insurance. Because there is no cash value component, the death benefit remains level throughout the life of the policy. The policy has a **no-lapse guarantee**, which means that as long as the policyowner pays the premium, the coverage will remain in force.

Guaranteed universal life is similar to term life insurance in that it provides coverage up to a certain period; however, instead of the policy lasting for a specific number of years, a guarantee universal life police may be set for the rest of the insured's life, or up to a specific age (usually 90, 95, or 100).

Survivorship Universal Life Insurance

Survivorship universal life (SUL) insurance, also called second-to-die life insurance, is permanent life insurance that covers two people. SULs pay benefits after **both insureds have passed away**. Since SULs provide coverage on two people, it's usually more affordable than two individual permanent policies. SULs are a suitable option for insureds who intend to leave the policy proceeds to the beneficiaries, to fund a buy-sell agreement on a business, or to make charitable donations.

Insureds under survivorship universal life policies may choose to raise or lower premiums as needed during the policy period.

The cash value of SUL policies grows **tax deferred**. Death benefits paid to beneficiaries are typically income **tax free**.

Life Policy Riders

Annuity Riders (Guaranteed Minimum Income and Withdrawal)

Annuity riders are features that allow annuity investors to obtain additional benefit not offered with the original annuity product. Several of the more common riders available for variable annuities are listed below:

- **Guaranteed Lifetime Withdrawal Benefit** – allows the annuity owner to withdraw from the annuity over his or her lifetime that will at least equal the amount paid for the annuity. This rider protects the annuity owners against losing their investments if the value of the annuity drops.
- **Guaranteed Minimum Income Benefit** – allows investors to receive at least a set amount of income annually, regardless of how the underlying investments are performing. This rider provides the same income guarantee to the annuity owner as a fixed annuity would.

Annuities

C. Use of Annuities

3. Suitability

Suability requirements **do not apply** to the following transactions:

- Direct response solicitations where there are no recommendations based on information collected from the consumer;
- Employee pension or welfare benefit plans covered by the Employee Retirement Income Security Act (ERISA);
- Profit-sharing plans (401(k)) or tax-sheltered annuities (403(b));
- Government or church plans;
- Employer-sponsored nonqualified deferred compensation plans;
- Settlements of or assumptions of liabilities associated with personal injury litigation or any dispute or claim resolution process; and
- Prepaid funeral contracts.

Taxation of Life Insurance and Annuities – Premium and Proceeds

B. Taxation of Annuities

1. Individually Owned

Distribution at Death

If the annuity contract holder dies before the annuitization date, the interest accumulated in the annuity becomes taxable. If the beneficiary of the annuity is a spouse, however, the tax can continue to be deferred.

Any unpaid annuity benefits following the death of an annuitant are paid to the beneficiary and are taxable.

Medical Expense Insurance

F. Group Health Insurance

1. Eligible Groups

Small Employer – *revised definition*

Small employer means any person, firm, corporation, partnership or association that is actively engaged in business that, on at least **50%** of its working days during the preceding calendar year, employed no more than **100 eligible employees**, the majority of whom were employed within the state.

Qualified Small Employer Health Reimbursement Arrangements (QSEHRA)

Small employers who does not offer group health coverage may assist in the payment of employee medical expenses through a Qualified Small Employer Health Reimbursement Arrangement (QSEHRA). QSEHRAs are a ACA compliant health plan, designed to pay for medical expenses and monthly premiums associated with medical plans purchased through the individual market.

In a QSEHRA, the employer is considered the sole funder of the arrangement. Employee salary reductions are prohibited. For 2020, maximum reimbursement payments cannot exceed an annual amount of:

- $5,150 for individual employees; or
- $10,450 for individual employees and family members.

For an employer to offer QSEHRAs, a business cannot employ more than 50 full-time employees.

- Employer's may exclude QSEHRA plans to employees who:
- Have not completed 90 days of service;
- Do not reach age 25 before the beginning of the plan year;
- Are part-time or seasonal employees;
- Are covered by a collective bargaining agreement; or
- Are nonresident aliens with no earned income from sources within the United States.

I. Patient Protection and Affordable Care Act (PPACA)

9. California Health Benefit Exchange

Covered California for Small Business (CCSB)

Covered California for Small Business (CCSB) is a health insurance marketplace available from Covered California for businesses with 1 to 100 eligible employees. Enrollment in CCBS is available year round. Employers may choose plans from 4 levels of coverage: Bronze, Silver, Gold, and Platinum, as well as Dual Tier Choice, which allows them to select 2 adjoining metallic tiers.

Small businesses that buy health insurance through Covered California may qualify for federal tax credits to offset part of their costs. To qualify for the federal premium tax credit, employers must have fewer than 25 full-time equivalent employees, pay employees an average annual salary of less than $54,000, and contribute at least 50% towards qualified employee premium costs.

Senior Health Products

A. Medicare

7. Part D – Prescription Drug Benefit – *revisions to the coverage gap specifications*

Medicare beneficiaries may choose between **stand-alone plans** that offer coverage on a fee-for-service basis, or **integrated plans** that group coverages together, including PPOs and HMOs (known as Medicare Advantage).

The plans offered by private companies are restricted by some standards set by Medicare, but still have freedom to personalize their plans. Providers must cover drugs for certain classes, but do not have to cover every drug in each class.

Those who sign up for the standard Prescription Drug Benefit plan will have a monthly premium and a deductible. The monthly premium varies by plan. After the deductible is paid, the plan would provide prescription drug costs coverage until a benefit limit is reached. Most Medicare drug plans have a coverage gap, also called a "donut hole." The coverage gap begins after the beneficiary and the drug plan have spent a certain amount for covered drugs ($4,020 in 2020). In the coverage gap, the beneficiary is responsible for **25%** of brand name prescription drug costs, and **25%** of the plan's cost for covered generic drugs. Note that as of 2020, the donut hole for generic drugs has closed.

Once the beneficiary has met the plan's out-of-pocket cost requirements for the year ($6,350 in 2020), **catastrophic coverage** begins automatically. Catastrophic coverage will cover 95% of prescription drug costs. The beneficiary pays the greater of the specified amount or 5%. The cost limit for generic drugs would be lower than for name brand drugs.

The Insurance Marketplace

B. Producers

11. Miscellaneous Code Requirements and Specifications

Agency Name/Use of Name – *additions to the existing text*

If a broker or agent has a contract to provide service for a corporation which holds an insurance license in its own name, or is a stockholder in a licensed corporation, or is a member of an incorporated agency, that broker or agent may use the name of such organization in printed materials as long as the broker or agent clearly identifies the relationship.

The following are acceptable relationship identifiers:

- "Representing _____;"
- "A stockholder of _____;"
- "Placing business through _____;" and
- "Using services of _____."

Any licensed agent or broker who advertises **online** must identify the following information, even if the agent or broker is not responsible for maintaining his or her internet presence:

- The licensee's name approved by the Commissioner;
- The state of the licensee's principal place of business; and
- The licensee's license number.

Any person who conducts the following online is deemed to be transacting insurance in this state:

- Provides insurance premium quotes to California residents;
- Accepts applications from California residents; and/or
- Communicates with California residents regarding terms of an insurance agreement.

D. Market Regulation — General

Gramm-Leach-Bliley Act (GLBA)

The Gramm-Leach-Bliley Act stipulates that in general, an insurance company may not disclose nonpublic personal information to a nonaffiliated third party except for the following reasons:

- The insurance company clearly and conspicuously discloses to the consumer in writing that information may be disclosed to a third party;
- The consumer is given the opportunity, before the time that information is initially disclosed, to direct that information not be disclosed to the third party; or
- The consumer is given an explanation of how the consumer can exercise a nondisclosure option.

The Gramm-Leach-Bliley Act requires **2 disclosures** to a customer (a consumer who has an ongoing financial relationship with a financial institution):

1. When the customer relationship is established (i.e. a policy is purchased); and
2. Before disclosing protected information.

The customer must also receive an annual privacy disclosure, and have the right to opt out, or choose not to have their private information shared with other parties.

4. California Financial Information Privacy Act

The **California Financial Information Privacy Act**, in effect since July 1, 2004, was enacted to provide consumers the ability to control how consumer nonpublic personal information is shared or sold to third-party financial institutions. The act is designed to provide greater privacy protections than those under the federal Gramm-Leach-Bliley Act (GLBA).

The act restricts financial profiling of consumers and makes consumers aware of their rights through a clearly written and easy-to-understand notice, which provide the consumer the ability to opt-in or opt-out of sharing nonpublic personal information.

Nonpublic personal information refers to personally identifiable information collected by a financial institution by way of the consumer providing it, a transaction between the institution and consumer, or other means.

Personally-identifiable information includes:

- Information on an application to obtain loans, credit cards, or other financial products or services;
- Account balance information, payment history, credit or debit card purchase information;
- Information from previous and current financial institutions used by a consumer;
- Financial information collected through internet cookies or web servers; and
- Information on a consumer report.

An authorized privacy notice must include the following:

- A form, statement, or writing that is separate from other documents;
- A title reading "IMPORTANT PRIVACY CHOICES FOR CONSUMERS;"
- The consumer's signature and date;
- A disclosure that the consumer is consenting to the release of personally identifiable information to a nonaffiliated third party;
- A disclosure that consent will remain in effect unless revoked or modified by the consumer;
- A procedure for the consumer to revoke consent; and
- A statement that the financial institution will maintain the notice and the consumer may receive a copy if requested.

A financial institution is not required to obtain a consumer's consent if nonpublic personal information is shared with its wholly owned financial institution subsidiaries.

If a financial institution is found to be in violation of the California Financial Information Privacy Act, the institution may be fined up to **$2,500** per violation of one consumer's information being released, or **$500,000** for multiple consumers.

9. Notice by Mail – *additions to the existing text*

A licensee must acquire an insured's **consent to opt in to receiving records electronically**. Additionally, a licensee must disclose to insureds that they may opt out of electronic transmission at any time, a description of the records the insured will receive, a process to change or correct an insured's email address, and the licensee's contact information.

Upon the request of the insured, a licensee must provide at least one free printed copy of records on an annual basis.

If required to transmit a record by return receipt, a licensee may demonstrate actual delivery by:

- Having the recipient acknowledge the receipt;
- Have the record posted in the licensee's secure website; or
- Have the record transmitted to the named insured through an secured application.

If a record is not delivered directly to the insured's email, a licensee must either contact the insured to confirm his or her email address or resend the record by regular mail within **5 business days**.