

Test Alert!

Georgia

Life, Accident, and Sickness Insurance

License Exam Manual

7/24/06

L&H

The information included in this release, in addition to your other Kaplan Financial materials, is designed to assist you in preparing for concepts that your exam may include. We urge you to read it carefully and take time to review the sample questions and rationales.

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The following information contains changes to the content of the License Exam Manual since the date of its publication. Please refer to that text when reading this information.

On page 77, replace the first sentence of paragraph B.1.c with the following content:

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- c. Owners of IRAs must begin to receive payments from their accounts by April 1 of the year following the year when they reach age 70½ years.

On page 79, add the following sentence to paragraph 4, “Simplified employee pensions (SEPs)”:

SEPs are sometimes used by small unincorporated businesses and self-employed individuals.

On page 136, replace paragraph 3(c), “Medical Savings Accounts (MSAs)” with the following content:

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- c. **Medicare+Choice MSA** This is a pilot program that enables senior citizens to establish a special Medical Savings Account (MSA). As with regular MSAs, individuals with Medicare+Choice can apply their contributions to their MSAs for health care expenses; however, this kind of MSA must be used with a high-deductible (up to \$6,000 per year) MSA health plan.
 - 1.) Annual contributions are limited to 75% of the individual’s deductible under the required MSA health plan. For example, if the deductible was \$5,000, contributions could not exceed \$3,750.
 - 2.) All earnings on MSAs are excluded from taxable income for the current year.
 - 3.) Distributions to pay for qualified medical expenses are not included in the participant’s income; however, distributions for purposes other than medical expenses must be included in taxable income.
 - 4.) Medicare+Choice has largely been replaced with a Medicare option that provides for health savings accounts (HSAs).
 - d. **Health Savings Accounts (HSAs)** The Medicare Prescription Drug, Improvement, and Modernization Act of 2003 established a new way for consumers to pay for medical expenses: health care savings accounts (HSAs). An HSA is a tax-favored vehicle for accumulating funds to cover medical expenses.

- 1.) **Eligibility** Individuals under age 65 are eligible to establish and contribute to HSAs if they have a qualified high-deductible health plan. For an individual, a qualified high-deductible health plan is one with a minimum deductible of \$1,050 and a \$5,250 cap on out-of-pocket expenses. For a family, a qualified health plan is one with a minimum deductible of \$2,100 and a \$10,500 cap on out-of-pocket expenses. These figures are for 2006 and are indexed annually for inflation.
- 2.) **Contribution limits** Annual contributions of up to 100% of an individual's health plan deductible can be made to an HSA. For 2006, the maximum annual contribution is \$2,700 for individual coverage and \$5,450 for family coverage (indexed annually), provided the insured has a deductible at least that high. Individuals who are 55 to 65 years old can make an additional catch-up contribution. Individuals with HSAs who are age 55 and older may make additional annual contributions of \$700 (as of 2006), increasing by \$100 each year to a maximum additional calendar year contribution of \$1,000 in 2009 and thereafter.
- 3.) **Tax treatment** Earnings in HSAs grow tax free, and account beneficiaries can make tax-free withdrawals to cover current and future qualified health care costs.
 - a.) Qualified health care expenses include amounts paid for:
 - doctors' fees;
 - prescription and nonprescription medicines;
 - necessary hospital services not paid for by insurance;
 - retiree health insurance premiums;
 - Medicare expenses (but not Medigap);
 - qualified long-term care services; and
 - COBRA coverage.
 - b.) Qualified medical expenses are those expenses incurred by the HSA owner, the spouse, and dependents. Nonqualified withdrawals are subject to income taxes and a 10% penalty. HSAs are fully portable, and assets can accumulate over the years. Upon death, HSA ownership may be transferred to a spouse tax free.

On page 136, replace paragraph 4, "Part D—Prescription Drugs," with the following content:

4. Part D (from the Medicare Prescription Drug, Improvement, and Modernization Act of 2003)

The Medicare Prescription Drug, Improvement, and Modernization Act of 2003 is considered by many to be the most comprehensive change to the federal Medicare program since it was enacted in 1965.

Its intent is to provide seniors and disabled persons with a prescription drug benefit as well as more choices under Medicare.

- a. **Health savings accounts (HSAs)** Commonly known as Medicare Advantage, this option allows an individual under age 65 years to establish and contribute to an HSA if the individual has a qualified health plan. It provides a tax-favored way to accumulate funds to cover medical expenses.
 - 1.) A qualified health plan for an individual is defined as one with a minimum deductible of \$1,050 and a cap of \$5,000 on out-of-pocket expense. For a family, the minimum deductible is \$2,100, with a \$10,000 cap. These amounts are for 2006 and are indexed annually.
 - 2.) Annual contributions can be made up to 100% of an individual's health plan deductible. In 2006, the limit is \$2,650 for self-only coverage and \$5,250 for individuals with family coverage. These limits are indexed annually.
 - 3.) Catch-up contributions of \$700 can be made by individuals aged 55 to 65 years. This amount can be increased by \$100 per year, up to \$1,000 in 2009 and thereafter.
 - 4.) HSA earnings grow tax free. Tax-free withdrawals can be made to cover such expenses as retiree health insurance premiums, Medicare expenses, prescription drugs, long-term care services, and COBRA coverage.
 - 5.) Nonqualified withdrawals are subject to income tax as well as a 10% penalty. HSA assets can accumulate and are portable. At death, ownership may be transferred tax free to a spouse.
 - 6.) HSAs may be offered by employers through a cafeteria plan; employer contributions are made on a pretax basis are not taxable to the employee.
- b. **Medicare Part D—prescription drug plan (PDP)** Beginning in 2006, Medicare recipients can elect a prescription drug plan for an additional monthly premium. The provisions of this option include the following.
 - 1.) For the standard benefits under the PDP plan, Medicare beneficiaries will pay a projected monthly premium of \$35 and assume an annual deductible of \$250. Beneficiaries will then pay 25% of the first \$2,250 of prescription drug costs, and Medicare will pay the 75% balance. After this limit is reached, coverage stops completely until total drug costs exceed \$5,100 (the initial \$2,250 plus another \$2,850). After that, coverage starts again, and beneficiaries contribute a copayment of \$2 for generic drugs and \$5 for brand-name medications, or 5% of total costs, whichever is higher. (Note that these dollar thresholds are scheduled to increase each year.)

- 2.) Benefits will be available through PDPs, which are private plans that will contract with Medicare, and through Medicare Advantage.
- 3.) A six-month enrollment period began on November 12, 2005. The law provides for federal subsidy payments to employers and unions that sponsor qualified retiree prescription drug plans.
- 4.) **Medicare supplement (Medigap) policies** Currently, three of the standardized Medicare supplement plans provide prescription drug coverage. Starting in 2006, the law prohibits the inclusion of prescription drug coverage in these policies. However, Medicare supplement policyholders who have the prescription drug coverage and do not enroll in Medicare Part D will be able to renew their policies.
 - a.) Policyholders who enroll in Part D may keep their current Medigap policy without the prescription drug coverage, and their premiums will be adjusted, or they may change to another Medigap plan if they elect Part D during the initial enrollment period.

On page 137, replace the last sentence of paragraph B(1), “Medicare Supplement (Medigap) Policies,” with the following content:

(In 2006, Plans H, I, and J were discontinued, and Plans K and L were introduced. More on this below.)

On page 138, replace the first sentence of paragraph 4 with the following content:

As noted, two new Medigap benefit packages became available on January 1, 2006.

On page 138, insert the following before paragraph 4(a):

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- a. Plan K includes coverage for the core benefits, 50% of the Medicare Part A deductible, and 50% of the skilled nursing facility coinsurance.
 - b. Plan L includes coverage for the core benefit, 50% of the Medicare Part A deductible, and 50% of the skilled nursing facility coinsurance.

On page 169, add the following content to paragraph d, “Penalties”:

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- 3.) **Insurance fraud [Sec. 33-1-9]** A natural person convicted of insurance fraud is guilty of a felony and may be punished by:
 - imprisonment for at least two but no more than 10 years;
 - a fine of up to \$10,000; or
 - both imprisonment and a fine.

On page 173, add the following content to paragraph 5, “Certificate of authority suspension”:

The Commissioner may also immediately suspend a certificate without notice or hearing if the insurer violated the Insurance Code, conducts its business fraudulently, or gives its consent.

On page 174, replace paragraph F(1)(a) of “Agent, Subagent, Counselor, and Adjuster Licensing” with the following content:

- an officer, director, or employee of an insurer or agency, if he does not receive any commission on policies sold on risks in Georgia
 - if his duties are executive, administrative, managerial, clerical, or only indirectly related to the transaction of insurance,
 - if his duties are related to underwriting, loss control, inspection, or processing, adjusting, investigating, or settling insurance claims, and
 - he acts as a special agent or agency supervisor to assist agents and does not transact insurance; or
- an agent who only places surplus lines insurance with or through a surplus lines broker.

On page 175, add the following content to paragraph G, “Licensing Requirements”:

12. Applicants must be at least 18 years old.

On page 176, add the following content to paragraph 3, “Prelicense education”:

- a. **Exemptions from education requirement** A person who applies for a license in Georgia who was previously licensed for the same lines of authority in another state is not required to complete prelicensing education or to take the licensing examination. The exemption is available if the person is currently licensed in the other state or if the application is received within 90 days of cancellation of the applicant’s previous license and the other state certifies that the applicant was licensed in good standing. The person must apply for a Georgia license within 90 days of moving to Georgia.

On page 177, replace paragraphs a and b of paragraph 5, “Issuance of license and continuing education,” with the following content:

- a. Residents who have been licensed for fewer than 20 years must complete at least 15 hours of continuing education each year.
- b. Residents who have been licensed for at least 20 years must complete at least 10 hours of continuing education each year.

- c. Continuing education courses may be in any area for which a person is licensed. Three of the hours required each year must be on the subject of ethics.
- d. Persons who are newly licensed will be considered to have met initial requirements for continuing education by filing their prelicensing course certificate with the renewal form. This exemption only applies for the first year of licensure.
- e. Licensees will not receive credit for taking the same continuing education course during a five-year period unless the course focuses on current issues, ethics, or legislative updates.
- f. Credit for continuing education courses earned during one compliance period that exceed the number of required hours can be applied to the next compliance period, as long as the credit does not exceed 50% of the annual continuing education requirement.
- g. Residents must file for license renewal by November 1 each year. Failing to file and pay the fee on time results in license expiration on December 31. All continuing education requirements must also be satisfied by that date. If a person fails to file for late renewal reinstatement within one year from the date on which the license expired, he will need to reapply for the license and meet prelicensing education requirements. In cases of extreme hardship, the Commissioner may make exceptions. [Ch. 120-2-3-.12 to .16]

On page 190, add the following content to paragraph A, “Credit Life, Accident, and Sickness Insurance,” before the bulleted list:

Credit insurance applies to or is appropriate for use with any loan, retail installment transaction, or any other credit transaction made in Georgia. It includes credit life insurance, credit accident and sickness insurance, credit unemployment insurance, credit casualty insurance, and credit property insurance.

Part II
New Sample Questions

There are no new questions at this time.

Part III

Answers and Rationales

There are no new answers or rationales at this time.

On page 148, replace the last sentence of paragraph 2 with the following:

A self-employed individual may deduct premiums paid for medical insurance, limited to the net earnings from self-employment in the business for which the plan coverage was established.

On page 217, replace the heading of the table at the top of the page with the following:

Amount of Each Monthly Payment per \$1,000 of Proceeds—Options C and D

To submit comments or suggestions, please send an email to errata@kaplan.com.

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