Glossary of Terms

Accidental Death Benefit: An optional provision that provides an additional payment for loss of life due to an accident that was the direct cause of death. If the additional amount equals the face amount of the policy, this provision is frequently called a "double indemnity" provision. Some companies issue "ADB" in multiples of two or three times the face amount. (See also: double indemnity.)

Accumulated Dividends: Dividends left with the insurer to accumulate at interest. These dividends are generally income tax free but the interest is taxable as earned.

Actuary: A professional highly educated in a number of fields such as mathematics, statistics, and accounting. An actuary must have superior knowledge as to the underlying principles of life insurance and their mirror image, annuities. Actuaries are responsible for creating new life insurance products and their pricing, value, and profit structures.

Adjustable Death Benefit: Certain life insurance products allow the policyowner to increase or decrease the face amount (within limits and often only with evidence of insurability). For instance, universal and adjustable life policyowners can increase or decrease the amount of death benefit payable by adjusting the level of their premium payments.

Adjustable Life Insurance: Many of the most attractive features of both term and whole life are contained in this highly flexible type of coverage. Premiums, death benefits, duration of coverage, and cash value levels can all be adjusted (both upward and downward within limits) by the policyowner to meet changing needs and circumstances.

Adjustable Premium: Term applicable to policies where the company has the contractual right to modify or change premium payments under certain specified conditions or to policies where the policyowner has the right to change scheduled premiums in universal or adjustable life.

American College: The only fully-accredited educational institution dedicated exclusively to financial services education. It confers the Chartered Life Underwriter (CLU) and the Master of Science in Financial Services (MSFS) degree. Concerned with continuing agent training, research and publication in areas related to the life insurance and other financial services such as estate planning, investments, employee benefits, pensions, retirement planning, and tax planning.

Amount At Risk: The pure insurance element of a life insurance policy. The net amount at risk is equal to the difference between the face value of a policy and its accrued cash value at a given time. The net amount at risk decreases as the cash value increases each year. If the cash value becomes the face value, the policy is said to mature or endow.

Annuity: A systematic liquidation of principal and interest over a specified period. An annuity can be measured by a fixed duration (e.g. 20 years) or by the lifetime of one or more persons. A second definition for the term is the contract providing such an arrangement. An annuity can be commercial (e.g., such as the annuity an individual can purchase from an insurer) or private (e.g., a son can promise to pay his father an income for life that the father can never outlive but that ends at the father's death).

Annuity Certain: An annuity that pays a specified amount for a definite and specified period of time, such as 5 or 10 years, with remaining payments going to a designated beneficiary if the annuitant dies before the end of the specified period.

Annuity Certain, Life: An annuity payable for a specified minimum number of periods or, if longer, for as long as the annuitant lives. A combination of an annuity certain and a life annuity.

Assumed Interest Rate: The rate of interest used by an insurance company to calculate its reserves.

Back-End Load: A load is a charge against policy values for business expenses of the insurer in issuing the contract. These charges can be imposed at the inception of the contract (i.e., a "front-end" load) or at the termination of the contractual relationship (i.e., a "back-end" load). In the case of most variable, universal, and current-assumption life insurance products, the load is imposed when the policy is surrendered. Back-end loads typically decrease each year and disappear completely after the number of years specified in the contract.

Beneficiary: The recipient of life insurance proceeds at the death of the insured is the policy's beneficiary. A primary beneficiary is first in line to receive that money. A secondary beneficiary is entitled to payment only if no primary beneficiary is alive when the insured dies. Final beneficiaries are those entitled to proceeds if no primary or secondary beneficiaries are alive at the death of the insured. These "backup" beneficiaries are often called "alternate" or "contingent" beneficiaries, since their claims are contingent on the deaths of everyone in the higher class of primary beneficiaries.

Capital Stock Insurance Company: An insurance company owned by its stockholders (similar to the ownership of IBM by its shareholders). This form of corporate ownership should be contrasted with a mutual insurance company that is owned by its policyowners and operated solely for their benefit. (See also: mutual company.)

Cash Surrender Value: Cash surrender value is the amount available to the policyowner when a life insurance policy is surrendered. It is also the amount upon which a policy loan is based. In the first 8 to ten years after a policy is issued, the cash value is typically the insurer's reserve to meet future liabilities reduced by a surrender charge that enables the insurer to recover expenses incurred in setting up the policy. If a policy is surrendered in later years, the cash surrender value usually equals or closely approximates the reserve value of the policy.

Collateral Assignment: When a life insurance contract is transferred to an individual or other party as security for a debt, this usually temporary assignment does not transfer all policy rights. Under a collateral assignment, the creditor is entitled to be reimbursed only to the extent "his interest may appear," i.e., policy proceeds will be payable only for the amount owed by the policyowner at that time. Any death benefit in excess of the debt owed by the policyowner to the creditor is paid to the policy's beneficiary. (For comparison, see: absolute assignment.)

Conditional Premium Receipt: This is the receipt given to a policy applicant if all or part of the premium is paid at the time of application. This receipt does not provide absolute interim insurance until the company acts on the application. It provides that the insurer will assume the risk of the death or a change in the health of the insured after the date of the application if it later approves the application or, more frequently, if the insured meets with the company's rules of insurability for the plan applied for as of the date of the application.

Contestable Clause: Sometimes called the incontestable clause. The provision in the insurance contract that states the time (called the contestable period) the insurer has to contest and the grounds under which the policy may be contested or voided by the insurer. By law, the maximum contestable period is two years, but many policies limit the period to one year.

Contingent Beneficiary: A contingent beneficiary is one who will receive death proceeds if the principal beneficiary predeceases the insured.

Contract of Insurance: A legally binding agreement in which an insurer agrees to pay a death benefit upon the death of the insured in return for the consideration of the policyowner's payment of an initial premium and the policy application. Once the insurer issues the contract, the policyowner pays premiums as a condition that precedes the insurer's duty to pay the death benefit upon the demise of the insured. This legally enforceable agreement comprises more than just the policy. The application and any attached supplements, riders, or endorsements form the entire contract.

Conversion: One type of life insurance contract can be exchanged for a different type assuming the contract is "convertible." For instance, term insurance can be converted to whole life or some other form of permanent insurance. Conversion occurs under a group policy when an insured individual applies for an individual policy without evidence of insurability within a stipulated period of time before the group insurance coverage terminates.

Conversion, Attained Age: The premiums for the converted policy are based on the insured's age attained at time of conversion.

Conversion, Original Age: Premiums for the converted policy are based on the insured's original age at issue. The policyowner must pay the difference in premiums, plus interest, for the time the policy has been in force.

Convertible Term Insurance: A term contract that may be converted to a permanent form of insurance without a medical examination, if conversion is made within a limited period as specified in the contract. The premium is usually based on the attained age of the insured at the time of conversion.

Credit Life Insurance: A policy issued on the life of a borrower with the creditor named as beneficiary to cover the repayment of a loan in the event the borrower dies before the loan has been repaid. Usually written using monthly decreasing term based on a relatively small, decreasing balance installment loan.

Date of Maturity: The date upon which a life insurance policy endows if the insured is still living.

Death Benefit: The amount stated in the policy as payable upon the death of the insured.

Decreasing Term Insurance: If the face value of term insurance decreases over time in scheduled increments until the policy expires, the insurance is a form of decreasing term. Typically in such policies, the premium remains level.

Deferred Annuity: A series of payments that are not begun until the lapse of a specified period of time or until the annuitant reaches a specific age.

Disability Premium Waiver Insurance: This is an important option or rider in a life insurance policy that provides that if an insured becomes totally disabled for six months or longer, no further premiums will be due and the policy will be continued in full force until death or recovery occurs. Upon recovery, the policyowner does not have to repay premium payments made by the insurer on behalf of the policyowner during the disability period.
(WARNING): This is a popular provision and it can provide a tremendous benefit if structured properly. The problem here is there are dozens of different definitions for disability. Example: Gainful employment, any occupation for compensation, your regular occupation, your occupation at time of disability, etc. As you can see, some of the wording in these definitions can make it very difficult to qualify for a benefit, hence you pay a premium for a benefit you most likely couldn't qualify for. The best definition is "your occupation" or "the material and substantial duties of your regular occupation". This definition usually applies for 2 years and a few companies have a 5 year period which would be ore preferable. After the 2 or 5 year initial period then the best I've seen would be an "occupation fitted by education training and experience". Also be aware that this benefit is totally different in Universal Life and Variable type products. Get a full explanation before you buy. The term "Waiver of Premium" has many different meanings. **(BEWARE!)**

Dividend: When a policy participates in the favorable investment, mortality, and expense experience of the insurer (so called "par" policies), the policyowner receives "dividends" as a refund of an "overcharge" in premiums. For tax and other purposes, these dividends are considered a return of capital rather than a profit payment. To make it simple the insurance company rewards present policyholders for good health and better mortality experience.

Dividend Additions: Participating policies provide that their dividends may be used as single premiums to purchase paid-up insurance at the insured's attained age as additions to the amount of insurance specified on the face of the contract. These additions are purchased at net rates (no commissions or other charges) to the policyowner. (See paid-up additions.)

Dividend Options: The different ways in which the insured, under a participating policy, may elect to receive dividends. The dividend options generally include receiving payments in cash, applying them to reduce premiums, purchasing additional paid-up insurance, having them held by the insurer to earn interest for the policyowner, or purchasing additional term insurance.

Double Indemnity: Usually will pay an extra benefit if death is a result of an accident. (Typically 2x's the face amount.)

Evidence of Insurablilty: A statement or proof of a person's physical condition, occupation, etc., affecting the acceptance of the applicant for insurance.

Expense Charge: In variable, universal life and other current-assumption policies, all costs are individually deducted and accounted for within the policies. These expense charges are fixed amounts or percentages deducted from gross premiums paid and cash value, as specified in the policy.

Extended Term Option: A nonforfeiture option that provides that the net cash surrender value of a policy may be used as a net single premium at the attained age of the insured to purchase term insurance at the face amount of the original policy for as long a period as possible.

Family Income Policy: A life insurance policy that combines whole life and decreasing term to provide income protection against the premature death of the family breadwinner. If the insured dies within a specified period, the family will receive a stated amount of income from date of death until the end of the period. The face amount of the policy is then paid to the family.

Family Income Rider: Similar to a family income policy except that the decreasing term coverage is written as a rider to a whole life policy rather than as combination of both coverages.

Family Policy: A policy that combines whole life and convertible term to provide insurance on each family member in units of coverage. Each unit generally consists of $5,000 of whole life on the wage earner, $1,250 of convertible term on the spouse and $1,000 of convertible term on each child.

Family Rider: An optional policy supplement attached to the insurance policy issued to the head of a family and insuring other members of the family, generally the spouse and children.

FIFO: This term refers to **F**irst **I**n **F**irst **O**ut and it simply means that First money in is your money and first money out is your money with no tax due. Any gain earned is still in account and won't be taxed until you receive your basis first.

Fifth Dividend Option: Because this option is usually listed after four other possibilities, it is often called the "fifth dividend" option. If selected, each year the insurer will use the prior year's dividend to purchase (at no commission or expense charge) one-year term insurance up to specified limits (usually no more than the policy's cash value) with the balance applied toward one or more of the other options. The fifth dividend option is useful to maintain level or increasing protection, to keep coverage high even if a policy loan has been taken out, or where the parties are involved in a split dollar arrangement.

Final Expenses: Costs incurred during a last illness, funeral and burial costs, debts, probate expenses, death taxes and any other taxes or obligations that must be paid in order to settle the estate of a decedent.

Fixed-Amount Settlement Option: A life insurance policy beneficiary can request that proceeds be paid in regular installments of a fixed dollar amount. The number of payment periods is determined by the policy's face amount, the amount of each payment, and the interest earned. (For contrast, see: fixed-period settlement option.)

Fixed Annuity: An annuity that provides fixed payments during the annuity period. (For contrast, see: variable annuity.)

Fixed-Period Settlement Option: A life insurance settlement option in which the number of payments is set by the payee, with the amount of each payment determined by the amount of proceeds. (For contrast, see: fixed-amount settlement option.)

Flexible Premium Annuity: An annuity which allows the owner of the contract to vary premium payments (within limits) from year to year.

Free-Look Provision: A provision in life insurance policies that gives the policyowner a stated amount of time (usually ten days) to review a new policy. It can be returned within this time for a 100 percent refund of premiums paid, but cancellation of coverage is effective from date of issue.

Grace Period: Most life insurance contracts provide that premiums may be paid at any time within a period of generally 30 or 31 days following the premium due date, during which time the policy remains in full force. If death occurs during the grace period, the insurer will pay the face amount less the amount of the earned but unpaid premium (and any outstanding loan). Generally, an insurer will not charge interest on overdue premiums if they are paid before the end of the grace period.

Graded Premium Life Insurance: To make life insurance premiums more affordable (and therefore marketable), some insurers sell a form of modified life insurance that starts with relatively low premiums which increase slowly each year. After a period of years, the premium remains level. The death benefit remains level throughout the term of coverage.

Group Life Insurance: A form of life insurance covering a group of persons generally having some common interest or activity, such as employees of the same company or members of the same union or association. Most group insurance is issued using yearly renewable term, without requiring medical examinations.

Guaranteed Cash Value: The guaranteed amount available to the insured on surrender of a policy according to a table of guaranteed values scaled to the number of years in which the policy is in force. In a universal or variable policy, there is no guaranteed cash value.

Guaranteed Cost: This is another term for nonparticipating (non par) insurance. Guaranteed cost can also be defined as the maximum costs that can be deducted from cash value under the terms of the policy in universal or variable life contracts.

Guaranteed Insurability Rider: A rider now offered on most life insurance policies that gives the policyowner the right to purchase additional insurance at specified future times without evidence of insurability. Rates are generally based on attained age at the time of purchase.

Guaranteed Interest Rate: The minimum annual rate of interest used in calculating policy reserves from year to year, or annual increases in dividend accumulations, or the interest factor in proceeds held under a settlement option, or the amount payable under the interest income option, etc. This term also refers to the minimum rate credited to cash value in interest-sensitive policies.

Human Life Value: One method of determining how much insurance a person should own is to measure his or her "human life" value, an estimate of the present value of a person's remaining economic worth. In general terms, this projects future net after-tax salary and other earnings, reduces them by future expenses, and then discounts these future net values at interest to determine a lump-sum present value.

Immediate Annuity: An annuity contract that pays the annuity at the end of each period of payment. The interval may be monthly, quarterly, semiannually or annually.

Increasing Term Insurance: Term life insurance coverage that increases in face value each year (or certain period) from the date of policy issue to the date of expiration. (For contrast, see: decreasing term insurance and level term insurance.)

Individual Life Insurance: Life insurance contract that covers only one insured, but that may sometimes cover several people, such as the members of a family, through the use of riders. The term "individual" is often used to distinguish this type of life insurance from group life insurance.

Insurability: The term insurability encompasses all conditions pertaining to an individual that affect his or her health, susceptibility to injury, as well as life expectancy and other factors considered by the insurer in its underwriting and rating process. If the risk is too high, the insurance company will refuse coverage.

Insurable Interest: A person who has a reasonable expectation of benefiting from the continuance of another person's life or of suffering a loss at his or her death is said to have an insurable interest in that life.

Insured: The individual or group covered by the contract of insurance.

Interest-Only Option: A settlement option under which all or part of the proceeds of a policy are left with the insurance company for a definite period at a guaranteed minimum rate of interest. Interest may be paid (usually subject to certain minimums) annually, semiannually, quarterly or monthly-or, in some cases, may be added to the proceeds left with the insurer.

Interest-Sensitive Whole Life: A traditional whole life policy with fixed premiums and traditional nonforfeiture values where interest is credited directly to the cash value at current rates. Often used somewhat erroneously to refer to current-assumption policies. Generally loads, mortality costs, and interest credits are separately stated. The cash value of the policy is the greater of this fund less surrender charges, and the guaranteed cash values.

Joint Life Annuity: A life annuity payable to two or more annuitants which continues payments until one of the two annuitants dies.

Level Premium: A life insurance premium that remains fixed through the life of a policy. It must be large enough so that in early years the insurer will develop a surplus large enough so that in later years - together with interest and future premiums - there will be enough to pay all death claims.

Level Term Insurance: Term life coverage on which the face value remains the same from the date the policy is issued to the date the policy expires. (For contrast, see: decreasing term insurance; increasing term insurance.)

Life Annuity: An annuity contract that pays only until the annuitant dies. Payments cease at that time even if the amount paid by the insurer does not equal the total premiums paid by the annuity owner.

Life Expectancy: The average remaining term of life for a number of persons of a given age, according to probability statistics of a mortality table.

Life Income Option: One of the settlement options under which the proceeds of a life insurance or annuity policy may be applied to buy an annuity payable to the beneficiary for life.

Life Income With Period Certain Option: A life insurance proceeds settlement option that will pay at least a minimum specified number of periodic installments in a guaranteed amount whether the named beneficiary lives or dies.

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Limited-Payment (limited-pay) Policy: A live insurance policy that provides for payment of the premium for a period of years less than the period of protection provided under the contract.

Minor Beneficiary: A beneficiary who is under the state's legal age of majority and, thus, not considered competent to make certain financial transactions on his or her own. A legal guardian must be appointed to accept death benefits on behalf of a minor beneficiary.

Misstatement Of Age: Giving the wrong age for oneself in an application for insurance or for a beneficiary who is to receive benefits on a basis involving a life contingency. Also, a provision in most life policies setting forth the action to be taken if a misstatement of age is discovered after policy issue.

Mortality Table: A table of the mortality experience of groups of individuals categorized by age and sex that is used to estimate how long a male or female of a given age is expected to live. Some tables are required to be unisex, i.e., those used for actuarial calculations involving qualified pension plans. The mortality table is the primary starting point for calculating the risk factor, which in turn determines the gross premium rate.

Mutual Company: A life insurance company that has no capital stock or stockholders. Rather, it is owned by its policyowners and managed by a board of directors chosen by the policyowners. Any earnings in addition to those necessary for the operation of the company and contingency reserves are returned to the policyowners in the form of policy dividends. (For contrast, see: stock company.)

Nonconvertible Term Insurance: A term policy that may not be converted to a permanent policy.

Nonforfeiture Values: Those values or benefits in a life insurance policy that by law, the policyowner doe not forfeit, even if he or she chooses to discontinue payment of premiums. It usually includes cash value, loan vale, paid-up insurance value, and extended term insurance value.

Nonparticipating Life Insurance: So called "non par" life insurance does not pay policy dividends. The policyowner is not in any way an owner and therefore is not entitled to share in any divisible surplus of the company. Any profits from the excess of the premium over the costs of insurance accrue to the nonpar company's stockholders which is fair since they would be the ones to absorb any losses. (For contrast, see: participating insurance.)

Ordinary Life: Also referred to as straight life and whole life insurance. These three synonymous terms refer to the type of life insurance policy that continues during the whole of the insured's life, generally with level premiums payable each year until death or until age 100 when the policy endows if the insured is still living.

Paid-Up Additions: A dividend option that allows the policyowner to use policy dividends to purchase paid-up additional insurance on a net single premium basis at the insured's attained age.

Paid-Up Policy: A policy on which the policyowner has completed payments, but that has not yet matured. This may be (1) reduced paid-up insurance provided under the nonforfeiture provision, (2) a limited payment policy under which all premiums have been paid, or (3) a policy on which accumulated dividends have been applied to pay the net single premium required to pay up the difference between the policy's reduced paid-up insurance and its face amount.

Participating Insurance: An insurance policy, usually issued by mutual companies, that shares a portion of the surplus of the company with policyowners through dividends. The dividends represent the difference between the premiums charged and the actual costs (i.e., claims, expenses, earnings, etc.) experienced during the period for which the premiums were charged. (For contrast, see: nonparticipating life insurance.)

Permanent Insurance: Any form of life insurance in which the insured has the guaranteed right to keep the policy in force as long as he or she pays the premium. Also refers to any life insurance policy that builds cash value. (For contrast, see: term insurance.)

Preferred Risk: A person whose physical condition, occupation, mode of living, and other characteristics (including the size of policy to be purchased) indicate an above-average life expectancy and, therefore, who qualifies for a premium rate that is more favorable than that offered to standard risks. (For contrast, see: standard risk.)

Rated: A rated policy is one issued on a substandard risk with higher than standard premiums.

Rating: The premium classification given to a person who applies for life insurance. The tem is usually used when an applicant is designated as a substandard risk. A higher premium reflects the increased risk.

Renewable and Convertible Term: Term life insurance offering the policyowner both the option to renew the coverage at the end of the term period and the option (within the term period) to convert it to a permanent form of insurance.

Standard Policy: A policy issued with standard provisions and at standard rates; not rated or with special restrictions.

Standard Risk: A person who meets the insurer's underwriting criteria for standard policies. (For contrast, see: substandard risk; rated.)

Stock Company: A company that is owned and controlled by stockholders rather than policyowners. (See also: mutual company.)

Straight Term: A basic form of term life insurance, written for a specific number of years, having a level premium and automatically terminating at the end of the period.

Substandard Insurance: Life insurance issued at premium rates higher than standard, to applicants who are rated or substandard risks. (For contrast, see: standard policy.)

Substandard Risk: A person whose mortality risk is greater than average for his or her age. Substandard rating factors include various medical conditions such as diabetes, hypertension, and heart ailments; high risk occupations such as airline pilots, race car drivers, miners, and high-altitude construction workers; high risk avocations or hobbies such as scuba diving or sky diving; detrimental habits or addictions such as smoking, a history of drug use or alcohol abuse; and possible moral turpitude as evidenced by excessive gambling, criminal convictions, and bankruptcy. Substandard risks, if covered at all, are usually charged additional premium.

Suicide Provision: Life insurance policies include a provision that if the insured commits suicide within a specified period, usually one or two years after date of issue, the company is not liable to pay the face amount of coverage. Generally, liability is limited to a return of premiums paid.

Surrender: The policyowner's return of a policy to the insurance company in exchange for the policy's cash surrender value or other equivalent nonforfeiture values. (See also: nonforfeiture values.)

Surrender Charge: In a variable or universal life policy a special charge is levied on the available cash value to reimburse the insurer for the unrecovered costs of issuing the policy.

Target Premium: The suggested or recommended annual premium for a universal life policy that will maintain the plan of insurance if the actual interest, mortality, and expense experience matches the underlying assumptions used to compute the premium.

Terminal Dividend: Dividends that may be payable upon termination of a policy at death, maturity, or surrender for its cash value, usually after the policy has been in force for at least a specified number of years.

Term Insurance: Life insurance protection that expires after a specified term without any residual value if the insured survives the stated period. The protection period may be as short as 30 days (as in temporary insurance agreements) or as long as 20 years or more. (For contrast, see: whole life insurance.)

Term Insurance Rider: A form providing term life insurance that is attached to a permanent life insurance policy, with the purpose of increasing the total amount of protection during the term period.

Universal Life: A flexible-premium, current-assumption, adjustable-death-benefit policy. Similar to traditional policies, universal life pays a death benefit and accumulates cash value. Unlike traditional products, universal life completely separates the protection element from the accumulation element of the policy.

Vanishing Premium: A feature in some cash value policies whereby the premium, which is based on premium amount and assumed interest rates, will end after a specified period of time, usually as a result of applying dividends as additional premiums.

Variable Annuity: An annuity that invests the contractholder's funds in security-type investments and that does not guarantee the level of payments. Instead, payments may fluctuate up and down in relation to the earnings and market value of the assets in a separate account. Thus, the investment risk is assumed by the contractholder.

Variable Life Insurance: Life insurance that provides a guaranteed minimum death benefit, but the actual benefit paid may be more, depending on the fluctuating market value of investments in the separate account backing the contract at the time of the insured's death. The cash surrender value generally fluctuates with the market value of the investment portfolio.

Whole Life Insurance: A form of life insurance offering protection for the whole of life, proceeds being payable at death. Premiums may be paid under a continuous premium arrangement or on a limited payment basis for virtually any desired period of years (e.g., 1, 10, 20, 30, or to ages 60 or 65). (See also: ordinary life.)

Yearly Renewable Term Insurance: A 1-year term insurance contract that may be renewed each year at, generally, successively higher premiums corresponding to the insured's attained age with no evidence of insurability. The right of renewal may extend to ten years or more or to an age such as 60 or 65.

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