## Glossary of Selected Insurance Terms

## Source: Life Office Management Association & Insurance Information Institute



## ADDITIONAL TERM INSURANCE OPTION*

An option available to owners of participating insurance policies under which the insurer uses a policy dividend as a net single premium to purchase one-year term insurance on the insured's life. Also known as fifth dividend option.

## ADJUSTABLE LIFE INSURANCE*

A form of life insurance that allows policy owners to vary the type of coverage provided by their policies as their insurance needs change.

## ADVERSE SELECTION

The tendency of those exposed to a higher risk to seek more insurance coverage than those at a lower risk. Insurers react either by charging higher premiums or not insuring at all, as in the case of floods. (Flood insurance is provided by the federal government but sold mostly through the private market.) In the case of natural disasters, such as earthquakes, adverse selection concentrates risk instead of spreading it. Insurance works best when risk is shared among large numbers of policyholders.

## AGENT

Insurance is sold by two types of agents: independent agents, who are self-employed, represent several insurance companies and are paid on commission; and exclusive or captive agents, who represent only one insurance company and are either salaried or work on commission. Insurance companies that use exclusive or captive agents are called direct writers.

## ANNUITANT

The person who receives the income from an annuity contract. Usually the owner of the contract or his or her spouse.

## ANNUITIZATION

The conversion of the account balance of a deferred annuity contract to income payments.

## ANNUITY

A life insurance product that pays periodic income benefits for a specific period of time or over the course of the annuitant's lifetime. There are two basic types of annuities: deferred and immediate. Deferred annuities allow assets to grow tax-deferred over time before being converted to payments to the annuitant. Immediate annuities allow payments to begin within about a year of purchase.

## BENEFICIARY*

The person or legal entity the owner of an insurance policy names to receive the policy benefit if the event insured against occurs.

## BROKER

An intermediary between a customer and an insurance company. Brokers typically search the market for coverage appropriate to their clients. They work on commission and usually sell commercial, not personal, insurance. In life insurance, agents must be licensed as securities brokers/dealers to sell variable annuities, which are similar to stock market-based investments.

## CASH SURRENDER VALUE or CASH VALUE*

1. For life insurance, the amount, before adjustments for factors such as policy loans, that the owner of a permanent life insurance policy is entitled to receive if the policy does not remain in force until the insured's death.
2. For annuities, the amount of a deferred annuity's accumulated value, less any surrender charges, that the contract holder is entitled to receive if the policy is surrendered during its accumulation period. Also known as cash value and surrender value.

## CONTINGENT BENEFICIARY*

The party designated to receive the proceeds of a life insurance policy following the insured's death if the primary beneficiary predeceased the insured. Also known as secondary beneficiary and successor beneficiary. (See Primary beneficiary )

## CROP-HAIL INSURANCE

Protection against damage to growing crops from hail, fire or lightning provided by the private market. By contrast, multiple peril crop insurance covers a wider range of yield reducing conditions, such as drought and insect infestation, and is subsidized by the federal government

## DEATH BENEFIT*

(1) For a life insurance contract, the amount of money paid by an insurer to a beneficiary when a person insured under the life insurance policy dies. (2) For an annuity contract, the amount of money paid to a beneficiary if the contract owner dies before the annuity payments begin.

## DEDUCTIBLE

The amount of loss paid by the policyholder. Either a specified dollar amount, a percentage of the claim amount, or a specified amount of time that must elapse before benefits are paid. The bigger the deductible, the lower the premium charged for the same coverage.

## DEFERRED ANNUITY

An annuity contract, also referred to as an investment annuity, that is purchased either with a single tax-deferred premium or with periodic tax-deferred premiums over time. Payments begin at a predetermined point in time, such as retirement. Money contributed to such an annuity is intended primarily to grow tax-deferred for future use.

## DEFINED BENEFIT PLAN

A retirement plan under which pension benefits are fixed in advance by a formula based generally on years of service to the company multiplied by a specific percentage of wages, usually average earnings over that period or highest average earnings over the final years with the company.

## DEFINED CONTRIBUTION PLAN

An employee benefit plan under which the employer sets up benefit accounts and contributions are made to it by the employer and by the employee. The employer usually matches the employee’s contribution up to a stated limit.

## DISABILITY INCOME INSURANCE*

A type of health insurance designed to compensate an insured person for a portion of the income lost because of a disabling injury or illness. Benefit payments are made either weekly or monthly for a specified period during the continuance of an insured’s disability. (See income protection insurance )

## DISABILITY*

In disability insurance, the inability of an insured person to work due to an injury or sickness. Each disability policy has a definition of disability that must be satisfied in order for the insured to receive the policy's benefits. (See Residual disability, Total disability )

## DIVIDEND

Money returned to policyholders from an insurance company's earnings. Considered a partial premium refund rather than a taxable distribution, reflecting the difference between the premium charged and actual losses. Many life insurance policies and some property/casualty policies pay dividends to their owners. Life insurance policies that pay dividends are called participating policies.

## ELIMINATION PERIOD

A kind of deductible or waiting period usually found in disability policies. It is counted in days from the beginning of the illness or injury.

## ENDORSEMENT

A written form attached to an insurance policy that alters the policy's coverage, terms, or conditions. Sometimes called a rider.

## EXCLUSION

A provision in an insurance policy that eliminates coverage for certain risks, people, property classes, or locations.

## FACE AMOUNT*

For a fixed-amount whole life insurance policy, the amount of the death benefit payable if the insured person dies while the policy is in force.

## FARMOWNERS-RANCHOWNERS INSURANCE

Package policy that protects the policyholder against named perils and liabilities and usually covers homes and their contents, along with barns, stables and other structures.

## FIXED ANNUITY

An annuity that guarantees a specific rate of return. In the case of a deferred annuity, a minimum rate of interest is guaranteed during the savings phase. During the payment phase, a fixed amount of income, paid on a regular schedule, is guaranteed.

## FLEXIBLE PREMIUM*

A premium payment method sometimes offered in connection with annuities and with some types of life insurance that allows the contract owner or policy owner to alter the amount and the frequency of payments, within specified boundaries defined by the insurer and the law.

## FLOOD INSURANCE

Coverage for flood damage is available from the federal government under the National Flood Insurance Program but is sold by licensed insurance agents. Flood coverage is excluded under homeowners policies and many commercial property policies. However, flood damage is covered under the comprehensive portion of an auto insurance policy.

## FRATERNAL INSURER*

A nonprofit organization that is operated solely for the benefit of its members and that provides its members with social and insurance benefits. Also known as fraternal benefit society

## GRACE PERIOD*

(1) For insurance premium payments, a specified length of time following a premium due date within which the renewal premium may be paid without penalty. The length of the grace period is specified in a grace period provision that is found in a life insurance, health insurance, or annuity policy. (2) For purchases made on credit, a period of time between the date of a purchase and the date the lender begins to charge interest during which no interest accrues.

## GROUP INSURANCE

A single policy covering a group of individuals, usually employees of the same company or members of the same association and their dependents. Coverage occurs under a master policy issued to the employer or association.

## GUARANTEED DEATH BENEFIT

Basic death benefits guaranteed under variable annuity contracts

## HOMEOWNERS INSURANCE POLICY

The typical homeowners insurance policy covers the house, the garage and other structures on the property, as well as personal possessions inside the house such as furniture, appliances and clothing, against a wide variety of perils including windstorms, fire and theft. The extent of the perils covered depends on the type of policy. An all-risk policy offers the broadest coverage. This covers all perils except those specifically excluded in the policy.

Homeowners insurance also covers additional living expenses. Known as Loss of Use, this provision in the policy reimburses the policyholder for the extra cost of living elsewhere while the house is being restored after a disaster. The liability portion of the policy covers the homeowner for accidental injuries caused to third parties and/or their property, such as a guest slipping and falling down improperly maintained stairs. Coverage for flood and earthquake damage is excluded and must be purchased separately.

## IMMEDIATE ANNUITY

A product purchased with a lump sum, usually at the time retirement begins or afterwards. Payments begin within about a year. Immediate annuities can be either fixed or variable.

## INDEMNIFY

Provide financial compensation for losses.

## INDEPENDENT AGENT

Agent who is self-employed, is paid on commission, and represents several insurance companies.

## INDETERMINATE PREMIUM LIFE INSURANCE POLICY*

A type of nonparticipating whole life policy that specifies two premium rates—both a maximum guaranteed rate and a lower rate. The insurer charges the lower premium rate when the policy is purchased and guarantees that rate for at least a stated period of time, after which the insurer uses its actual mortality, interest, and expense experience to establish a new premium rate that may be higher or lower than the previous premium rate. Also known as nonguaranteed premium life insurance policy and variable premium life insurance policy.

## INDIVIDUAL RETIREMENT ACCOUNT/IRA

A tax-deductible savings plan for those who are self-employed, or those whose earnings are below a certain level or whose employers do not offer retirement plans. Others may make limited contributions on a tax-deferred basis. The Roth IRA, a special kind of retirement account created in 1997, may offer greater tax benefits to certain individuals.

## INSURABLE INTEREST*

In insurance, a person exhibits an insurable interest in a potential loss if that person will suffer a genuine economic loss if the event insured against occurs. Without the presence of insurable interest, an insurance contract is not formed for a lawful purpose and, thus, is not a valid contract.

## INSURABLE RISK

Risks for which it is relatively easy to get insurance and that meet certain criteria. These include being definable, accidental in nature, and part of a group of similar risks large enough to make losses predictable. The insurance company also must be able to come up with a reasonable price for the insurance.

## INSURANCE

A system to make large financial losses more affordable by pooling the risks of many individuals and business entities and transferring them to an insurance company or other large group in return for a premium.

## IRREVOCABLE BENEFICIARY*

A life insurance policy beneficiary who has a vested interest in the policy proceeds even during the insured's lifetime because the policy owner has the right to change the beneficiary designation only after obtaining the beneficiary's consent. Contrast with revocable beneficiary

## JOINT AND SURVIVOR ANNUITY

An annuity with two annuitants, usually spouses. Payments continue until the death of the longest living of the two.

## KEY PERSON INSURANCE

Insurance on the life or health of a key individual whose services are essential to the continuing success of a business and whose death or disability could cause the firm a substantial financial loss.

## LAPSE*

The termination of an insurance policy because a renewal premium is not paid by the end of the grace period.

## LIABILITY INSURANCE

Insurance for what the policyholder is legally obligated to pay because of bodily injury or property damage caused to another person.

## LIFE ANNUITY WITH PERIOD CERTAIN*

A type of annuity contract that guarantees periodic income payments throughout the lifetime of a named individual—the annuitant—and guarantees that the payments will continue for at least a specified period. If the annuitant dies before the end of that specified period, the payments will continue to be paid until the end of the period to a beneficiary designated by the annuitant. (See Life annuity )

## LIFE ANNUITY*

A type of annuity contract that guarantees periodic income payments throughout the lifetime of a named individual—the annuitant. If a life annuity provides no further benefits after the death of the annuitant, the annuity is known as a straight life annuity. However, some life annuities provide that income payments will be paid either for the life of the annuitant or for a guaranteed period—life income with period certain—or at least until a guaranteed amount has been paid—life income with refund annuity. (See Life annuity with period certain, Life income with refund annuity, Straight life annuity) )

## LIFE INCOME WITH REFUND ANNUITY*

A type of annuity contract that guarantees specified periodic income payments throughout the lifetime of a named individual—the annuitant— and guarantees that a refund will be made if the annuitant dies before the total of the periodic payments made equals the amount paid for the annuity. Also known as refund annuity. (See Life annuity )

## LIFE INSURANCE

See Ordinary life insurance; Term insurance; Variable life insurance; Whole life insurance

## LIQUIDITY

The ability and speed with which a security can be converted into cash.

## LONG-TERM CARE INSURANCE

Long-term care (LTC) insurance pays for services to help individuals who are unable to perform certain activities of daily living without assistance, or require supervision due to a cognitive impairment such as Alzheimer's disease. LTC is available as individual insurance or through an employer-sponsored or association plan.

## LONG-TERM DISABILITY INCOME INSURANCE*

A type of disability income insurance that provides disability income benefits after short-term disability income benefits terminate and continues until the earlier of the date when the insured person returns to work, dies, or becomes eligible for pension benefits. Contrast with short-term disability income insurance.

## MEDICAID

A federal/state public assistance program created in 1965 and administered by the states for people whose income and resources are insufficient to pay for health care.

## MEDICARE

Federal program for people 65 or older that pays part of the costs associated with hospitalization, surgery, doctors' bills, home health care, and skilled-nursing care.

## MEDIGAP/MEDSUP

Policies that supplement federal insurance benefits particularly for those covered under Medicare.

## MORAL HAZARD*

The possibility that a person may act dishonestly in an insurance transaction.

## MORBIDITY RATE*

The rate at which sickness and injury occur within a defined group of people. Insurers base health insurance premiums in part on the morbidity rate for a proposed insured's age group. Contrast with mortality rate.

## MORTALITY RATE*

A percentage rate at which death occurs among a defined group of people of a specified age and sometimes of a specified gender. Insurers base the premiums for life insurance in part on the mortality rate for a proposed insured's age group. Contrast with morbidity rate.

## MORTGAGE INSURANCE

A form of decreasing term insurance that covers the life of a person taking out a mortgage. Death benefits provide for payment of the outstanding balance of the loan. Coverage is in decreasing term insurance, so the amount of coverage decreases as the debt decreases. A variant, mortgage unemployment insurance pays the mortgage of a policyholder who becomes involuntarily unemployed. (See Term insurance )

## MUTUAL INSURANCE COMPANY

A company owned by its policyholders that returns part of its profits to the policyholders as dividends. The insurer uses the rest as a surplus cushion in case of large and unexpected losses.

## NAMED PERIL

Peril specifically mentioned as covered in an insurance policy.

## NATIONAL FLOOD INSURANCE PROGRAM

Federal government-sponsored program under which flood insurance is sold to homeowners and businesses. (See Adverse selection, Flood insurance )

## NEGLIGENCE

Failure to act with the legally required degree of care for others, resulting in harm to them.

## NURSING HOME INSURANCE

A form of long-term care policy that covers a policyholder's stay in a nursing facility

## ORDINARY LIFE INSURANCE

A life insurance policy that remains in force for the policyholder's lifetime.

## PAID-UP ADDITIONAL INSURANCE OPTION*

An option, available to the owners of participating life insurance policies, that allows the policy owner to use policy dividends to purchase additional insurance on the insured's life; the paid-up additional insurance is issued on the same plan as the basic policy and in whatever face amount the dividend can provide at the insured's attained age.

## PAID-UP POLICY*

An insurance policy that requires no further premium payments but continues to provide coverage

## PARTICIPATING POLICY*

A type of insurance policy that allows policy owners to receive policy dividends. Also known as par policy

## PENSION BENEFIT GUARANTY CORPORATION

An independent federal government agency that administers the Pension Plan Termination Insurance program to ensure that vested benefits of employees whose pension plans are being terminated are paid when they come due. Only defined benefit plans are covered. Benefits are paid up to certain limits.

## PENSIONS

Programs to provide employees with retirement income after they meet minimum age and service requirements. Life insurers hold some of these funds. Since the 1970s responsibility for funding retirement has increasingly shifted from employers (defined benefit plans that promise workers a specific retirement income) to employees (defined contribution plans financed by employees that may or may not be matched by employer contributions).

## PER STIRPES BENEFICIARY DESIGNATION*

A type of life insurance policy beneficiary designation in which the life insurance benefits are divided among a class of beneficiaries; for example, children of the insured. The living members of the class and the descendants of any deceased members of the class share in the benefits equally. Contrast with per capita beneficiary designation.

## PERIL

A specific risk or cause of loss covered by an insurance policy, such as a fire, windstorm, flood, or theft. A named-peril policy covers the policyholder only for the risks named in the policy in contrast to an all-risk policy, which covers all causes of loss except those specifically excluded.

## PERIOD CERTAIN*

The stated period over which an insurer makes periodic benefit payments under an annuity certain.

## POLICY

A written contract for insurance between an insurance company and policyholder stating details of coverage.

## PRE-EXISTING CONDITION*

(1) According to most group health insurance policies, a condition for which an individual received medical care during the three months immediately prior to the effective date of her coverage. (2) According to most individual health insurance policies, an injury that occurred or a sickness that first appeared or manifested itself within a specified period—usually two years—before the policy was issued and that was not disclosed on the application for insurance.

## PREMIUM

The price of an insurance policy, typically charged annually or semiannually.

## PRIMARY BENEFICIARY*

The party designated to receive the proceeds of a life insurance policy following the death of the insured. Also known as first beneficiary.

## PURE ENDOWMENT*

A life insurance contract that pays a periodic income benefit for the life of the owner of the annuity. The payment can be monthly, quarterly, semiannually or annually.

## PURE LIFE ANNUITY

A form of annuity that ends payments when the annuitant dies. Payments may be fixed or variable.

## RATE

The cost of a unit of insurance, usually per $1,000. Rates are based on historical loss experience for similar risks and may be regulated by state insurance offices.

## REINSTATEMENT*

The process by which an insurer puts back into force an insurance policy that has either been terminated for nonpayment of premiums or continued as extended term or reduced paid-up coverage.

## RENEWABLE TERM INSURANCE POLICY*

A term life insurance policy that gives the policy owner the option to continue the coverage at the end of the specified term without presenting evidence of insurability, although typically at a higher premium based on the insured's attained age.

## RENTERS INSURANCE

A form of insurance that covers a policyholder's belongings against perils such as fire, theft, windstorm, hail, explosion, vandalism, riots, and others. It also provides personal liability coverage for damage the policyholder or dependents cause to third parties. It also provides additional living expenses, known as loss-of-use coverage, if a policyholder must move while his or her dwelling is repaired. It also can include coverage for property improvements. Possessions can be covered for their replacement cost or the actual cash value that includes depreciation.

## REPLACEMENT COST

Insurance that pays the dollar amount needed to replace damaged personal property or dwelling property without deducting for depreciation but limited by the maximum dollar amount shown on the declarations page of the policy

## REVOCABLE BENEFICIARY*

A life insurance policy beneficiary whose right to the policy's proceeds can be cancelled or reduced by the policy owner at any time before the insured's death. Contrast with irrevocable beneficiary.

## RIDER

An attachment to an insurance policy that alters the policy's coverage or terms.

## RISK

The chance of loss or the person or entity that is insured.

## RISK MANAGEMENT

Management of the varied risks to which a business firm or association might be subject. It includes analyzing all exposures to gauge the likelihood of loss and choosing options to better manage or minimize loss. These options typically include reducing and eliminating the risk with safety measures, buying insurance, and self-insurance.

## SELF-INSURANCE

The concept of assuming a financial risk oneself, instead of paying an insurance company to take it on. Every policyholder is a self-insurer in terms of paying a deductible and co-payments. Large firms often self-insure frequent, small losses such as damage to their fleet of vehicles or minor workplace injuries. However, to protect injured employees state laws set out requirements for the assumption of workers compensation programs. Self-insurance also refers to employers who assume all or part of the responsibility for paying the health insurance claims of their employees. Firms that self insure for health claims are exempt from state insurance laws mandating the illnesses that group health insurers must cover.

## SHORT-TERM DISABILITY INCOME INSURANCE*

A type of disability income coverage that provides disability income benefits for a maximum benefit period of from one to five years. Contrast with long-term disability income insurance.

## SINGLE PREMIUM ANNUITY

An annuity that is paid in full upon purchase.

## SINGLE PREMIUM POLICIES*

A type of life insurance or annuity contract that is purchased by the payment of one lump sum. (1) A single-premium deferred annuity (SPDA) is an annuity contract purchased with a single premium payment whose periodic income payments generally do not begin until several years in the future. (2) A single premium immediate annuity (SPIA) contract is an annuity contract that is purchased with a single premium payment and that will begin making periodic income payments one annuity period after the contract’s issue date.

## STRAIGHT LIFE ANNUITY*

A type of life annuity contract that provides periodic income payments for as long as the annuitant lives but provides no benefit payments after the annuitant’s death.

## SUBROGATION

The legal process by which an insurance company, after paying a loss, seeks to recover the amount of the loss from another party who is legally liable for it.

## TAX SHELTERED ANNUITY (TSA)*

In the United States, a retirement annuity sold only to organizations offering qualified retirement plans under section 403(b) of the U.S. Internal Revenue Code. (See 403(b) plan )

## TERM CERTAIN ANNUITY

A form of annuity that pays out over a fixed period rather than when the annuitant dies.

## TERM LIFE INSURANCE

A form of life insurance that covers the insured person for a certain period of time, the "term" that is specified in the policy. It pays a benefit to a designated beneficiary only when the insured dies within that specified period which can be one, five, 10 or even 20 years. Term life policies are renewable but premiums increase with age.

## TWISTING*

An illegal insurance sales practice, in which a sales agent misrepresents the features of a contract in order to induce the contract owner to replace his current contract, often to the disadvantage of the contract owner

## UMBRELLA POLICY

Coverage for losses above the limit of an underlying policy or policies such as homeowners and auto insurance. While it applies to losses over the dollar amount in the underlying policies, terms of coverage are sometimes broader than those of underlying policies.

## UNDERWRITING

Examining, accepting, or rejecting insurance risks and classifying the ones that are accepted, in order to charge appropriate premiums for them.

## UNIVERSAL LIFE INSURANCE

A flexible premium policy that combines protection against premature death with a type of savings vehicle, known as a cash value account that typically earns a money market rate of interest. Death benefits can be changed during the life of the policy within limits, generally subject to a medical examination. Once funds accumulate in the cash value account, the premium can be paid at any time but the policy will lapse if there isn't enough money to cover annual mortality charges and administrative costs.

## VARIABLE ANNUITY

An annuity whose contract value or income payments vary according to the performance of the stocks, bonds and other investments selected by the contract owner.

## VARIABLE LIFE INSURANCE

A policy that combines protection against premature death with a savings account that can be invested in stocks, bonds, and money market mutual funds at the policyholder's discretion.

## VARIABLE PREMIUM LIFE INSURANCE POLICY*

See Indeterminate premium life insurance policy

## VARIABLE UNIVERSAL LIFE (VUL) INSURANCE*

A form of permanent life insurance that combines the premium and death benefit flexibility of universal life insurance with the investment flexibility and risk of variable life insurance. With this type of policy, the death benefit and the cash value fluctuate according to the contract's investment performance. Also known as universal life II.

## WAITING PERIOD*

For a health insurance policy, the period of time that must pass from the date of policy issue before benefits are payable to an insured. Also known as elimination period and probationary period.

## WAIVER

The surrender of a right or privilege. In life insurance, a provision that sets certain conditions, such as disablement, which allow coverage to remain in force without payment of premiums.

## WAIVER OF PREMIUM FOR DISABILITY (WP) BENEFIT*

A supplementary life insurance policy or annuity contract benefit under which the insurer promises to give up its right to collect premiums that become due while the insured is disabled according to the policy or rider's definition of disability.

## WHOLE LIFE INSURANCE

The oldest kind of cash value life insurance that combines protection against premature death with a savings account. Premiums are fixed and guaranteed and remain level throughout the policy's lifetime.

## WORKERS COMPENSATION

Insurance that pays for medical care and physical rehabilitation of injured workers and helps to replace lost wages while they are unable to work. State laws, which vary significantly, govern the amount of benefits paid and other compensation provisions.

Links to Other Insurance Education Sites:

Missouri Insurance Education Foundation www.mief.org

American Institute for CPCU and Insurance Institute of America, www.aicpcu.org/

American Insurance Association www.aiadc.org/aiapub

Insurance Information Institute   www.iii.org/

Life and Health Insurance Foundation for Education   http://lifehappens.org/

LOMA   www.loma.org/