Insurance Glossary

A

Absolute assignment: Policy assignment under which the assignee (person to whom the policy is assigned) receives full control over the policy and also full rights to its benefits. Generally, when a policy is assigned to secure a debt, the owner retains all rights in the policy in excess of the debt, even though the assignment is absolute in form. (See assignment)

Accelerated benefits rider: A life insurance rider that allows for the early payment of some portion of the policies face amount should the insured suffers from a terminal illness or injury.

Acceptance: (See offer and acceptance)

Accidental bodily injury provision: Disability income or accident policy provision that requires that the injury be accidental in order for benefits to be payable.

Accidental death and dismemberment (AD&D) : Insurance providing payment if the insured's death results from an accident, if the insured accidentally severs a limb above the wrist or ankle joints, or totally and irreversibly loses eyesight.

Accidental death and dismemberment (AD&D) : Insurance providing payment if the insured's death results from an accident, if the insured accidentally severs a limb above the wrist or ankle joints, or totally and irreversibly loses eyesight.

Accidental death benefit rider: A life insurance policy rider providing for payment of an additional benefit when death occurs by accidental means.

Accidental dismemberment: Often defined as "the severance of limbs at or above the wrists or ankle joints, or the entire irrevocable loss of sight." Loss of use in itself may or not be considered dismemberment.

Accidental means provision: Unforeseen, unexpected, unintended cause of an accident. Requirement of an accident-based policy that the cause of the mishap must be accidental for any claim to be payable.

Accident and health insurance: Under which benefits are payable in case of disease, accidental injury, or accidental death. Also called *health insurance, personal health insurance,* and *sickness and accident insurance.*

Accumulation unit: Premiums an annuitant pays into annuities are credited as accumulation units. At the end of the accumulation period, accumulation units are converted to annuity units.

Acquired immune deficiency syndrome (AIDS) : A life-threatening condition brought on by the human immunodeficiency virus; insurers must adhere to strict underwriting and claims guidelines in regard to AIDS risks and AIDS-related conditions.

Acute illness: A serious condition, such as pneumonia, from which the body can fully recover with proper medical attention.

Adhesion: A life insurance policy is a contract of adhesion because buyers must adhere to the terms of the contract already in existence. They have no opportunity to negotiate terms, rates, values, and so on.

Adjustable life insurance: Combines features of both term and whole life coverage with the length of coverage and amount of accumulated cash value as the adjustable factors. Premiums may be increased or decreased to fit the specific needs. Such adjustments are not retroactive and apply only to the future.

Administrative-services-only (ASO) Plan: Arrangement under which an insurance company or an independent organization, for a fee, handles the administration of claims, benefits, and other administrative functions for a self-insured group.

Admitted insurer: An insurance company that has met the legal and financial requirements for operation within a given state.

Adult day care: Type of care (usually custodial) designed for individuals who require assistance with various activities of daily living, while their primary caregivers are absent. Offered in care centers.

Adverse selection: Selection "against the company." Tendency of less favorable insurance risks to seek or continue insurance to a greater extent than others. Also, tendency of policy owners to take advantage of favorable options in insurance contracts.

Advertising Code: Rules established by the National Association of Insurance Commissioners (NAIC) to regulate insurance advertising.

Agency: Situation wherein one party (an agent) has the power to act for another (the principal) in dealing with third parties.

Agent: Anyone not a duly licensed broker who solicits insurance or aids in placing risks, delivering policies, or collecting premiums on behalf of an insurance company.

Agent's report: The section of an insurance application where the agent reports personal observations about the applicant.

Aleatory: Feature of insurance contracts in that there is an element of chance for both parties and that the dollar given by the policyholder (premiums) and the insurer (benefits) may not be equal.

Alien Insurer: Company incorporated or organized under the laws of any foreign nation, providence, or territory.

Ambulatory surgery: Surgery performed on an outpatient basis.

Amount at risk: Difference between the face amount of the policy and the reserve or policy value at a given time. In other words, the dollar amount over what the policy owner has contributed of cash value toward payment of the policyowner's own claim. Because the cash value increases every year, the net amount at risk naturally decreases until it finally reaches zero when the cash value or reserve become the faceamount.

Annually renewable term (ART) : A form of renewable term insurance that provides coverage for one year and allows the policy owner to renew coverage each year without evidence of insurability. Also called *yearly renewable term* (YRT).

Annuitant: One to whom an annuity is payable, or a person upon the continuance of whose life further payment depends.

Annuity: A contract that provides a stipulated sum payable at certain regular intervals during the lifetime of one or more persons, or payable for a specified period only.

Annuity unit: The number of annuity units denotes the share of the funds an annuitant will receive from a variable annuity account after the accumulation period ends and benefits begin. A formula is used to convert accumulation units to annuity units.

Any occupation: A definition of total disability that requires that for disability income benefits to be payable, the insured must be unable to perform any job for which the insured is "reasonably suited by reason of education, training, or experience."

Apparent authority: The authority an agent appears to have, based on the principal's (the insurer's) actions, words, deeds, or because of circumstances the principal (the insurer) created.

Application: Form supplied by the insurance company, usually filled in by the agent and medical examiner (if applicable) on the basis of information received from the applicant. It is signed by the applicant and is part of the insurance policy if it is issued. It gives information to the home office underwriting department, so it may consider whether an insurance policy will be issued and, if so, in what classification and at what premium rate.

Appointment: Authorization or certification of an agent to act for or represent an insurance company.

Approval receipt: Rarely used today, a type of conditional receipt that provides that coverage is effective as of the date the application is approved (before the policy is delivered).

Assessment mutual insurer: An insurance company characterized by member-insureds who are assessed an individual portion of each loss that occurs. No premium payment is payable in advance.

Assignee: Person (including corporation, partnership, or other organization) to whom a right or rights under a policy are transferred by means of an assignment.

Assignment provision (health contracts) : Commercial health policy provision that allows the policy owner to assign benefit payments from the insurer directly to the health care provider.

Assignment: Signed transfer of benefits of a policy by an insured to another party. The company does not guarantee the validity of an assignment.

Assignor: Person (including corporation, partnership, or other organization or entity) who transfers a right or rights under an insurance policy to another by means of an assignment.

Attained age: With reference to an insured, the current insurance age.

Authority: The actions and deeds an agent is authorized to conduct on behalf of an insurance company, as specified in the agent's contract.

Authorized company: Company duly authorized by the insurance department to operate in the state.

Automatic premium loan provision: Authorizes insurer to automatically pay any premium in default at the end of the grace period and charge the amount so paid against the life insurance policy as a policy loan.

Average Indexed Monthly Earnings (AIME) : The basis used for calculating the primary insurance amount (PIA) for Social Security benefits.

Average Monthly Wage (AMW) : The average wage base for computing virtually all Social Security benefits prior to.

Aviation exclusion: Either attached by rider or included in standard policy language excepting from coverage certain deaths or disabilities due to aviation, such as "other than a fare-paying passenger."

B

Backdating: The practice of making a policy effective at an earlier date than the present.

Basic medical expense policy: Health insurance policy that provides "first dollar" benefits for specified (and limited) health care, such as hospitalization, surgery, or physician services. Characterized by limited benefit periods and relatively low coverage limits.

Beneficiary: Person to whom the proceeds of a life or accident policy are payable when the insured dies. The various types of beneficiaries are primary beneficiaries (those first entitled to proceeds), secondary beneficiaries (those entitled to proceeds if no primary beneficiary is living when the insured dies), and tertiary beneficiaries (those entitled to proceeds if no primary or secondary beneficiaries are alive when the insured dies).

Benefit: May be either money or a right to the policy owner upon the happening of the conditions set out in the policy.

Benefit period: Maximum length of time that insurance benefits will be paid for any one accident, illness, or hospital stay.

Best's Insurance Report: A guide, published by A.M. Best, Inc. that rates insurers' financial integrity and managerial and operational strengths.

Binding receipt: Given by a company upon an applicant's first premium payment. The policy, if approved, becomes effective from the date of the receipt.

Blackout period: Period following the death of a family breadwinner during which no Social Security benefits are available to the surviving spouse.

Blanket policy: Covers a number of individuals who are exposed to the same hazards, such as members of an athletic team, company officials who are passengers in the same company plane, and so on.

Broker: Licensed insurance representative who does not represent a specific company, but places business among various companies. Legally, the broker is usually regarded as a representative of the insured rather than the company.

Business continuation plan: Arrangements between the business owners that provide that the shares owned by any one of them who dies or becomes disabled shall be sold to and purchased by the other co-owners or by the business.

Business overhead expense insurance: A form of disability income coverage designed to pay necessary business overhead expenses, such as rent, should the insured business owner become disabled.

Buyer's guides: Informational consumer guidebooks that explain insurance policies and insurance concepts; in many states, they are required to be given to applicants when certain types of coverages are being considered.

Buy-sell agreement: Agreement that a deceased business owner's interest will be sold and purchased at a predetermined price or at a price according to a predetermined formula.

C

Cafeteria plan: Employee benefit arrangements in which employees can select from a range of benefits.

Cancellable contract: Health insurance contract that may be terminated by the company or that is renew• able at its option.

Capital sum: Amount provided for accidental dismemberment or loss of eyesight. Indemnities for loss of one member or sight of one eye are percentages of the capital sum.

Career agency system: A method of marketing, selling, and distributing insurance, it is represented by agencies or branch offices committed to the ongoing recruitment and development of career agents.

Case management: The professional arrangement and coordination of health services through assessment, service plan development, and monitoring.

Cash or deferred arrangements: A qualified employer retirement plan under which employees can defer amounts of their salaries into a retirement plan. These amounts are not included in the employee's gross income and so are tax deferred. Also called *(k) plans.*

Cash refund annuity: Provides that, upon the death of an annuitant before payments totaling the purchase price have been made, the excess of the amount paid by the purchaser over the total annuity payments received will be paid in one sum to designated beneficiaries.

Cash surrender option: A nonforfeiture option that allows whole life insurance policy owners to receive a payout of their policy's cash values.

Cash surrender value: Amount available to the owner when a life insurance policy is surrendered to the company. During the early policy years, the cash value is the reserve less a "surrender charge"; in later policy years, it usually equals or closely approximates the reserve value at time of surrender.

Cash value: The equity amount or "savings" accumulation in a whole life policy.

Churning: The practice by which policy values in an existing life insurance policy or annuity contract are used to purchase another policy or contract with that same insurer for the purpose of earning additional premiums or commissions without an objectively reasonable basis for believing that the new policy will result in an actual and demonstrable benefit.

Class designation: A beneficiary designation. Rather than specifying one or more beneficiaries by name, the policy owner designates a class or group of beneficiaries. For example, "my children."

Classification: Occupational category of a risk.

Cleft lip: A congenital furrow or groove in the upper lip that results from incomplete embryonic development. This condition may be associated with a cleft palate. Also called *a hare lip.*

Cleft palate: A congenital furrow or groove in the roof of the mouth that results from incomplete embryonic development. This condition may be associated with a cleft lip.

Close corporation: A corporation owned by a small group of stockholders, each of whom usually has a voice in operating the business.

COBRA (Consolidated Omnibus Budget Reconciliation Act): Extends group health coverage to terminated employees and their families

Coinsurance (percentage participation): Principle under which the company insures only part of the potential loss, the policyowners paying the other part. For instance, in a major medical policy, the company may agree to pay % of the insured expenses, with the insured to pay the other %.

Collateral assignment: Assignment of a policy to a creditor as security for a debt. The creditor is entitled to be reimbursed out of policy proceeds for the amount owed. The beneficiary is entitled to any excess of
policy proceeds over the amount due the creditor in the event of the insured's death.

Combination company: Company whose agents sell both weekly premium life and health insurance and ordinary life insurance. Also called *a multi-line company.*

Commercial health insurers: Insurance companies that function on the reimbursement approach, which allows policy owners to seek medical treatment then submit the charges to the insurer for reimbursement.

Commissioner: Head of a state insurance department; public officer charged with supervising the insurance business in a state and administrating insurance laws. Called "superintendent" in some states, "director" in others.

Commissioner's Standard Ordinary (CSO) Table: Table of mortality based on intercompany experience over a period of time, which is legally recognized as the mortality basis for computing maximum reserves on policies issued within past years.

Common disaster provision: Sometimes added to a policy and designed to provide an alternative beneficiary in the event that the insured as well as the original beneficiary dies as the result of a common accident.

Competent parties: To be enforceable, a contract must be entered into by competent parties. A competent party is one who is capable of understanding the contract being agreed to.

Comprehensive major medical insurance: Designed to give the protection offered by both a basic medical expense and major medical policy. It is characterized by a low deductible amount, coinsurance clause, and
high maximum benefits.

Concealment: Failure of the insured to disclose to the company a fact material to the acceptance of the risk at the time application is made.

Conditional contract: Characteristic of an insurance contract in that the payment of benefits is dependent on or a condition of the occurrence of the risk insured against.

Conditionally renewable contract: Health insurance policy providing that the insured may renew the contract from period to period or continue it to a stated date or an advanced age, subject to the right of the insurer to decline renewal only under conditions defined in the contract.

Conditional receipt: Given to the policy owners when they pay a premium at time of application. Such receipts bind the insurance company if the risk is approved as applied for, subject to any other conditions stated on the receipt.

Consideration clause: The part of an insurance contract setting forth the amount of initial and renewal premiums and frequency of future payments.

Consideration: Element of a binding contract; acceptance by the company of payment of the premium and statements made by the prospective insured in the application.

Contestable period: Period during which the company may contest a claim on a policy because of misleading or incomplete information in the application.

Contingent beneficiary: Person(s) named to receive proceeds in case the original beneficiary is not alive. Also referred to as secondary.

Continuing care: Type of health or medical care designed to provide a benefit for elderly individuals who live in a retirement community; addresses full• time needs, both social and medical. Also known as residential care.

Contract: An agreement enforceable by law whereby one party binds itself to certain promises or deeds.

Contract of agency: A legal document containing the terms of the contract between the agent and company, signed by both parties. Also called *agency agreement.*

Contributory plan: Group insurance plan issued to an employer under which both the employer and employees contribute to the cost of the plan. Generally, % of the eligible employees must be insured. (See
noncontributory plan),

Conversion factor: A stated dollar-per-point amount used to determine benefit amounts paid for the cost of a procedure under a health insurance plan.

Conversion privilege: Allows the policy owner, before an original insurance policy expires, to elect to have a new policy issued that will continue the insurance coverage. Conversion may be affected at attained
age (premiums based on the age attained at time of conversion) or at original age (premiums based on age at time of original issue).

Convertible term: Contract that may be converted to a permanent form of insurance without medical examination.

Coordination of benefits (COB) provision: Designed to prevent duplication of group insurance benefits. Limits benefits from multiple group health insurance policies in a particular case to % of the expenses covered and designates the order in which the multiple carriers are to pay benefits.

Corridor deductible: In superimposed major medical plans, a deductible amount between the benefits paid by the basic plan and the beginning of the major medical benefits.

Cost of Living (COL) rider: A rider available with some policies that provides for an automatic increase in benefits (typically tied to the Consumer Price Index), offsetting the effects of inflation.

Coverage requirements: Standards of coverage that prevent retirement plans from discriminating in favor of highly compensated employees. A plan must pass an IRS coverage test to be considered qualified.

Credit accident and health insurance: If the insured debtor becomes totally disabled due to an accident or sickness, the policy premiums are paid during the period of disability or the loan is paid off. May be individual or group policy.

Credit life insurance: Usually written as decreasing term on a relatively small decreasing balance installment loan that may reflect direct borrowing or a balance due for merchandise purchased. If borrower dies, benefits pay balance due. May be individual or group policy.

Credit report: A summary of an insurance applicant’s credit history made by an independent organization that has investigated the applicant's credit standing.

Cross-purchase plan: An agreement that provides that upon a business owner's death, surviving owners will purchase the deceased's interest, often with funds from life insurance policies owned by each principal on the lives of all other principals.

Currently insured: Under Social Security, a status of limited eligibility that provides only death benefits.

Custodial care: Level of health or medical care given to meet daily personal needs, such as dressing, bathing, getting out of bed, and so on. Though it does not require medical training, it must be administered under a physician's order.

D

Death rate: Proportion of persons in each age group who die within a year; usually expressed as so many deaths per thousand persons. (See expected mortality)

Debit insurer: (See home service insurer)

Decreasing term insurance: Term life insurance on which the face value slowly decreases in scheduled steps from the date the policy comes into force to the date the policy expires, while the premium remains level. The intervals between decreases are usually monthly or annually.

Deductible: Amount of expense or loss to be paid by the insured before a health insurance policy starts paying benefits.

Deferred annuity: Provides for postponement of the commencement of an annuity until after a specified period or until the annuitant attains a specified age. May be purchased either on single-premium or flexible premium basis.

Deferred compensation plans: The deferral of an employee's compensation to some future age or date. These plans are frequently used to provide fringe benefits, such as retirement income, to selected personnel.

Defined benefit plan: A pension plan under which benefits are determined by a specific benefit formula.

Defined contribution plan: A tax-qualified retirement plan in which annual contributions are determined by a formula set forth in the plan. Benefits paid to a participant vary with the amount of contributions made on the participant's behalf and the length of service under the plan.

Delayed disability provision: A disability income policy provision that allows a certain amount of time after an accident for a disability to result, and the insured remains eligible forbenefits.

Dental insurance: A relatively new form of health insurance coverage typically offered on a group basis, it covers the costs of normal dental maintenance as well as oral surgery and root canal therapy.

Dependency period: Period following the death of the breadwinner up until the youngest child reaches maturity.

Deposit term: Has modest endowment feature. Normally is sold for -year terms with a higher first-year premium than for subsequent years. If policy lapses, insured forfeits the "deposit" and receives no refund.

Disability buy-sell agreement: An agreement between business co-owners that provides that shares owned by any one of them who becomes disabled shall be sold to and purchased by the other co-owners or by the business using funds from disability income insurance.

Disability income insurance: A type of health insurance coverage, it provides for the payment of regular, periodic income should the insured become disabled from illness or injury.

Disability income rider: Typically a rider to a life insurance policy, it provides benefits in the form of income in the event the insured becomes totally disabled.

Disability: Physical or mental impairment making a person incapable of performing one or more duties ofthat person's occupation.

Discrimination: In insurance, the act of treating certain groups of people unfairly in the sale and/or pricing of policies; treating any of a given class of risk differently from other like risks. Discrimination is expressly prohibited in most state insurance codes.

Dividend: Policy owner’s share in the divisible surplus of a company issuing insurance on the participating plan.

Dividend options: The different ways in which the insured under a participating life insurance policy may elect to receive surplus earnings: in cash, as a reduction of premium, as additional paid-up insurance, left on deposit at interest, or as additional term insurance.

Domestic insurer: Company within the state in which it is chartered and in which its home office is located.

Dread disease policy: (See limited risk policy)

E

Elimination period: Duration of time between the beginning of an insured's disability and the commencement of the period for which benefits are payable.

Employee benefit plans: Plans through which employers offer employees benefits such as coverage for medical expenses, disability, retirement, anddeath.

Endowment: Contract providing for payment of the face amount at the end of a fixed period, at a specified age of the insured, or at the insured's death before the end of the stated period.

Endowment period: Period specified in an endowment policy during which, if the insured dies, the beneficiary receives a death benefit. If the insured is still living at the end of the endowment period, the insured receives the endowment as a living benefit.

Enhanced whole life: A whole life insurance policy issued by a mutual insurer, in which policy dividends are used to provide extra death benefits or to reduce future premiums.

Enrollment period: Period during which new employees can sign up for coverage under a group insurance plan.

Entire contract provision: An insurance policy provision stating that the application and policy contain all provisions and constitute the entire contract.
Entity plan: An agreement in which a business assumes the obligation of purchasing a deceased owner's interest in the business, thereby proportionately increasing the interests of surviving owners.

Equity indexed annuity: A fixed deferred annuity that offers the traditional guaranteed minimum interest rate and an excess interest feature that is based on the performance of an external equities market index.

Errors and omissions insurance: Professional liability insurance that protects an insurance producer against claims arising from service the producer rendered or failed to render.

Estate: Most commonly, the quantity of wealth or property at an individual's death.

Estate tax: Federal tax imposed on the value of property transferred by an individual at death.

Estoppel: Legal impediment to denying the consequences of one's actions or deeds if they lead to detrimental actions by another.

Evidence of insurability: Any statement or proof regarding a person's physical condition, occupation, and so forth, affecting acceptance of the applicant for insurance.

Examiner: Physician authorized by the medical director of an insurance company to make medical examinations. Also, person assigned by a state insurance company to audit the affairs of an insurance company.
Excess interest: Difference between the rates of interest the company guarantees to pay on proceeds left under settlement options and the interest actually paid on such funds by the company.

Exclusion ratio: A fraction used to determine the amount of annual annuity income exempt from federal income tax. The exclusion ratio is the total contribution or investment in the annuity divided by the expected ratio.

Exclusion rider: Health insurance policy rider that waives insurer's liability for all future claims on a preexisting condition.
Exclusions Specified hazards listed in a policy for which benefits will not be paid.

Exclusive provider organization (EPO) : A variation of the PPO concept, an EPO contracts with an extremely limited number of physicians and typically only one hospital to provide services to members; members who elect to get health care from outside the EPO receive no benefits. (See also preferred provider organization)

Expected mortality: Number of deaths that theoretically should occur among a group of insured persons during a given period, according to the mortality table in use. Normally, a lower mortality rate is anticipated and generally experienced.

Experience rating: Review of the previous year's claims experience for a group insurance contract in order to establish premiums for the next period.

Express authority: The specific authority given in writing to the agent in the contract of agency.

Extended term insurance: Nonforfeiture option providing for the cash surrender value of a policy to be used as a net single premium at the insured's attained age to purchase term insurance for the face amount of the policy, less indebtedness, for as long a period as possible, but no longer than the term of the original policy.

Extra percentage tables: Mortality or morbidity tables indicating the percentage amount increase of premium for certain impaired health conditions.

F

Face amount: Commonly used to refer to the principal sum involved in the contract. The actual amount payable may be decreased by loans or increased by additional benefits payable under specified conditions or stated in a rider.

Facility-of-payment provision: Clause permitted under a uniform health insurance policy provision allowing the company to pay up to $ of benefits or proceeds to any relative appearing entitled to it if there is no beneficiary or if the insured or beneficiary is a minor or legally incompetent.
Fair Credit Reporting Act: Federal law requiring an individual to be informed if she is being investigated by an inspection company.

Family plan policy: Entire-family plan of protection, usually with permanent insurance on the primary wage earners life and with spouse and children automatically covered for lesser amounts of protection, usually term, all included for one premium.

FICA: Contributions made by employees and employers to fund Social Security benefits (OASDI).

Fiduciary: Person in a position of special trust and confidence (e.g. in handling or supervising affairs or funds of another).

Final expense fund: Basic use for life insurance; reserve to cover costs of last illness, burial, legal and administrative expenses, miscellaneous outstanding bills, and so on. Also called *cleanup fund.*

Fixed-amount settlement option: A life insurance settlement option whereby the beneficiary instructs 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.

Fixed annuity: A type of annuity that provides a guaranteed fixed benefit amount, payable for the life of the annuitant.

Fixed-period settlement option: A life insurance settlement option in which the number of payments is fixed by the payee, with the amount of each payment determined by the amount of proceeds.

Flat deductible: Amount of covered expenses payable by the insured before medical benefits are payable.

Foreign insurer: Company operating in a state in which it is not chartered and in which its home office is not located.

Franchise insurance: Life or health insurance plan for covering groups of persons with individual policies uniform in provisions, although perhaps different in benefits. Solicitation usually takes place in an employer's business with the employer's consent. Generally written for groups too small to qualify for regular group coverage. May be called wholesale insurance when the policy is life insurance.

Fraternal benefit insurer: Nonprofit benevolent organization that provides insurance to its members.

Fraud: An act of deceit; misrepresentation of a material fact made knowingly, with the intention of having another person rely on that fact and consequently suffer a financial hardship.

Free look: Provision required in most states whereby policyholders have either or days to examine their new policies at no obligation.

Fully insured: A status of complete eligibility for the full range of Social Security benefits: death benefits, retirement benefits, disability benefits, and Medicare benefits.

Funding: In a retirement plan, the setting aside of funds for the payment of benefits.

G

General agent: Independent agent with authority, under contract with the company, to appoint soliciting agents within a designated territory and fix their compensation.

Government insurer: An organization that, as an extension of the federal or state government, provides a program of social insurance.

Grace period: Period of time after the due date of a premium during which the policy remains in force without penalty.
Graded premium whole life: Variation of a traditional whole life contract providing for lower than normal premium rates during the first few policy years, with premiums increasing gradually each year. After the preliminary period, premiums level off and remain constant.

Gross premium: The total premium paid by the policyowner; it generally consists of the net premium plus the expense of operation minus interest.

Group credit insurance: A form of group insurance issued by insurance companies to creditors to cover the lives of debtors for the amounts of their loans.

Group insurance: Insurance that provides coverage for a group of persons, usually employees of a company, under one master contract.

Guaranteed insurability (guaranteed issue): Arrangement, usually provided by rider, whereby additional insurance may be purchased at various times without evidence of insurability.

Guaranteed renewable contract: Health insurance contract that the insured has the right to continue in force by payment of premiums for a substantial period of time during which the insurer has no right to make unilaterally any change in any provision, other than a change in premium rate for classes of insureds.

Guaranty association: Established by each state to support insurers and protect consumers in the case of insurer insolvency, guaranty associations are funded by insurers through assessments.

H

Hazard: Any factor that gives rise to a peril.

Health insurance: Insurance against loss through sickness or accidental bodily injury. Also called accident *and health, accident and sickness, sickness and accident,* or *disability insurance.*

Health Maintenance Organization (HMO): Health care management stressing preventive health care, early diagnosis, and treatment on an outpatient basis. Persons generally enroll voluntarily by paying a fixed fee periodically.

Holocaust Victims Insurance Act: Requires insurers that receive claims from Holocaust victims or beneficiaries, descendants, or heirs, to allow, investigate, and pay their rightful claims under the policy regardless of any statute of limitations. Claimants must have submitted their claims within years of the effective date of the law or by July.

Home health care: Skilled or unskilled care provided in an individual's home, usually on a part-time basis.

Home service insurer: Insurer that offers relatively small policies with premiums payable on a weekly basis, collected by agents at the policyowner's home.

Hospital benefits: Payable for charges incurred while the insured is confined to, or treated in, a hospital, as defined in a health insurance policy.

Hospital expense insurance: Health insurance benefits subject to a specified daily maximum for a specified period of time while the injured is confined to a hospital, plus a limited allowance up to a specified amount for miscellaneous hospital expenses, such as operating room, anesthesia, laboratory fees, and so on. Also called *hospitalization insurance.* (See medical expense insurance)

Hospital indemnity: Form of health insurance providing a stipulated daily, weekly, or monthly indemnity during hospital confinement; payable on an unallocated basis without regard to actual hospital expense.

Human life value: An individual’s economic worth measured by the sum of the individual's future earnings that is devoted to the individual's family.

I

Immediate annuity: Provides for payment of annuity benefit at one payment interval from date of purchase. Can only be purchased with a single payment.

Implied authority: Authority not specifically granted to the agent in the contract of agency, but which common sense dictates the agent has. It enables the agent to carry out routine responsibilities.

Incontestable clause: Provides that, for certain reasons such as misstatements on the application, the company may void a life insurance policy after it has been in force during the insured's lifetime, usually one or two years after issue.

Increasing term insurance: Term life insurance in which the death benefit increases periodically over the policy's term. Usually purchased as a cost of living rider to a whole life policy. (See cost of living rider)

Indemnity approach: A method of paying health policy benefits to insureds based on a predetermined, fixed rate set for the medical services provided, regardless of the actual expenses incurred.

Independent agency system: A system for marketing, selling, and distributing insurance in which independent brokers are not affiliated with any one insurer but represent any number of insurers.

Indexed whole life: A whole life insurance policy whose death benefit increases according to the rate of inflation. Such policies are usually tied to the Consumer Price Index (CPI).

Individual insurance: Policies providing protection to the policy owner, as distinct from group and blanket insurance. Also called *personal insurance.*

Individual retirement account (IRA): A personal qualified retirement account through which eligible individuals accumulate tax-deferred income up to a certain amount each year, depending on the person's tax bracket.

Industrial insurance: Life insurance policy providing modest benefits and a relatively short benefit period. Premiums are collected on a weekly or monthly basis by an agent calling at insured's homes. (See home service insurer)

Inspection receipt: A receipt obtained from an insurance applicant when a policy (upon which the first premium has not been paid) is left with the applicant for further inspection. It states that the insurance is not in effect and that the policy has been delivered for inspection only.

Inspection report: Report of an investigator providing facts required for a proper underwriting decision on applications for new insurance and reinstatements.

Installment refund annuity: An annuity income option that provides for the funds remaining at the annuitant's death to be paid to the beneficiary in the form of continued annuity payments.

Insurability: All conditions pertaining to individuals that affect their health, susceptibility to injury, or life expectancy; an individual's risk profile.

Insurability receipt: A type of conditional receipt that makes coverage effective on the date the application was signed or the date of the medical exam (whichever is later), provided the applicant proves to be insurable.

Insurable interest: Requirement of insurance contracts that loss must be sustained by the applicant upon the death or disability of another and loss must be sufficient to warrant compensation.

Insurance code: The laws that govern the business of insurance in a given state.

Insurance: Social device for minimizing risk of uncertainty regarding loss by spreading the risk over a large enough number of similar exposures to predict the individual chance of loss.

Insurer: Party that provides insurance coverage, typically through a contract of insurance.
Insuring clause: Defines and describes the scope of the coverage provided and limits of indemnification.

Integrated deductible: In superimposed major medical plans, a deductible amount between the benefits paid by the basic plan and those benefits paid by the major medical. All or part of the integrated deductible may be absorbed by the basic plan.

Interest adjusted net cost method: A method of comparing costs of similar policies by using an index that takes into account the time value of money.

Interest-only option (interest option) : Mode of settlement under which all or part of the proceeds of a policy are left with the company for a definite period at a guaranteed minimum interest rate. Interest may either be added to the proceeds or paid annually, semiannually, quarterly, or monthly.

Interest-sensitive whole life: Whole life policy whose premiums vary depending upon the insurer's underlying death, investment and expense assumptions.

Interim term insurance: Term insurance for a period of months or less by special agreement of the company; it permits a permanent policy to become effective at a selected future date.

Intermediate nursing care: Level of health or medical care that is occasional or rehabilitative, ordered by a physician, and performed by skilled medical personnel.

Irrevocable beneficiary: Beneficiary whose interest cannot be revoked without the beneficiary's written consent, usually because the policy owner has made the beneficiary designation without retaining the right to revoke or change it.

J

Joint and last survivor policy: A variation of the joint life policy that covers two lives but pays the benefit upon the death of the second insured.

Joint and survivor annuity: Covers two or more lives and continues in force so long as any one of them survives.

Joint life policy: Covers two or more lives and provides for the payment of the proceeds at the death of the first among those insured, at which time the policy automatically terminates.

Juvenile insurance: Written on the lives of children who are within specified age limits and generally under parental control.

K

Keogh plans: Designed to fund retirement of self-employed individuals; name derived from the author of the Keogh Act (HR-10), under which contributions to such plans are given favorable tax treatment.

Key-person insurance: Protection of a business against financial loss caused by the death or disablement of a vital number of the company, usually individuals possessing special managerial or technical skill or expertise.

L

Lapse: Termination of a policy upon the policy owner's failure to pay the premium within the grace period.

Law of large numbers: Basic principle of insurance that the larger the number of individual risks combined into a group, the more certainty there is in predicting the degree or amount of loss that will be incurred in any given period.

Legal purpose: In contract law, the requirement that the object of, or reason for, the contract must be legal.

Legal reserve: Policy reserves are maintained according to the standard levels established through the insurance laws of the various states.

Level premium funding method: The insurance plan (used by all regular life insurance companies) under which, instead of an annually increasing premium that reflects the increasing chance of death, an equivalent level premium is paid. Reserves that accumulate from more than adequate premiums paid in the early years supplement inadequate premiums in later years.

Level term insurance: Term coverage on which the face value remains unchanged from the date the policy comes into force to the date the policy expires.

License: Certification issued by a state insurance department that an individual is qualified to solicit insurance applications for the period covered; usually issued for one year, renewable on application without need to repeat the original qualifying requirements.

Licensed insurer: (See **admitted insurer)**

Lien system: Plan for issuing coverage for substandard risks. A standard premium is paid, but there is a lien against the policy to reduce the amount of insurance if the insured dies from a cause that resulted in the substandard rating.

Life annuity: Payable during the continued life of the annuitant. No provision is made for the guaranteed return of the unused portion of the premium.

Life expectancy: Average duration of the life remaining to a number of persons of a given age, according to a given mortality table. Not to be confused with "probable lifetime," which refers to the difference between a person's present age and the age at which death
is most probable (i.e. the age at which most deaths occur).

Life income settlement option: A settlement option providing for life insurance or annuity proceeds to be used to buy an annuity payable to the beneficiary for life-often with a specified number of payments certain or a refund if payments don't equal or exceed premiums paid.

Life insurance: Insurance against loss due to the death of a particular person (the insured) upon whose death the insurance company agrees to pay a stated sum or income to the beneficiary.

Limited pay life insurance: A form of whole life insurance characterized by premium payments only being made for a specified or limited number of years.

Limited policies: Restrict benefits to specified accidents or diseases, such as travel policies, dread disease policies, ticket policies, and so forth.

Limited risk policy: Provides coverage for specific kinds of accidents or illnesses, such as injuries received as a result of travel accidents or medical expenses stemming from a specified disease. (See special risk policy)

Lloyd's of London: An association of individuals and companies that underwrite insurance on their own accounts and provide specialized coverages.

Loading: Amount added to net premiums to cover the company's operating expenses and contingencies; includes the cost of securing new business, collection expenses, and general management expenses; excess of gross premiums over net premiums.

Loan value: Determinable amount that can be borrowed from the issuing company by the policyowner using the value of the life insurance policy as collateral.

Long-term care: Refers to the broad range of medical and personal services for individuals (often the elderly) who need assistance with daily activities for an extended period of time.

Long-term care policy: Health insurance policies that provide daily indemnity benefits for extended care confinement.

Loss sharing: (See risk pooling)

Lump sum: Payment of entire proceeds of an insurance policy in one sum. The method of settlement provided by most policies unless an alternate settlement is elected by the policy owner or beneficiary.

M

Major medical expense policy: Health insurance policy that provides broad coverage and high benefits for hospitalization, surgery, and physician services. Characterized by deductibles and coinsurance cost• sharing.

Managed care: A system of delivering health care and health care services, characterized by arrangements with selected providers, programs of ongoing quality control, and utilization review and financial incentives for members to use providers and procedures covered by the plan.

Mandatory second opinion: To control costs, many health policies provide that, in order to be eligible for benefits, insureds must get a second opinion before receiving non-life-threatening surgery.

Master contract: Issued to the employer under a group plan; contains all the insuring clauses defining employee benefits. Individual employees participating in the group plan receive individual certificates that outline highlights of the coverage. Also called *master policy.*

Maturity value: Proceeds payable on an endowment contract at the end of the specified endowment period, or payable on an ordinary life contract at the last age of the mortality table if the insured is still living at that age.
Maturity value of a policy is the same as the face amount of the policy and is equal
to the reserve value of the contract on this maturity date. Actual amount payable by the company may be increased by dividend additions or accumulated dividend deposits or decreased by outstanding loans.

McCarran-Ferguson Act: Also known as *Public Law*, the act exempting insurance from federal antitrust laws to the extent insurance is regulated by states.

Medicaid: Provides medical care for the needy under joint federal-state participation (Kerr-Mills Act).

Medical cost management: The process of controlling how policyholders utilize their policies. (See mandatory second opinion, precertification, ambulatory surgery, and case management)

Medical examination: Usually conducted by a licensed physician; the medical report is part of the application, becomes part of the policy contract, and is attached to the policy. A "nonmedical" is a short-form medical report filled out by the agent. Various company rules, such as amount of insurance applied for or already in force, or applicant's age, sex, past physical history, and data revealed by inspection report, and so on, determine whether the examination will be "medical" or "nonmedical."

Medical expense insurance: Pays benefits for nonsurgical doctors' fees commonly rendered in a hospital; sometimes pays for home and office calls.

Medical Information Bureau (MIB): A service organization that collects medical data on life and health insurance applicants for member insurance companies.

Medical report: A document completed by a physician or other approved examiner and submitted to an insurer to supply medical evidence of insurability (or lack of insurability) or in relation to a claim.

Medicare: Federally sponsored health insurance and medical program; administered under provisions of the Social Security Act.

Medicare Part A: Compulsory hospitalization insurance that provides specified in hospital benefits and related benefits. All workers covered by Social Security finance its operation through a portion of their FICA tax.

Medicare Part B: Voluntary program designed to provide supplementary medical insurance to cover physician services, medical services, and supplies not covered under Medicare Part A.

Medicare Part C: Medicare Part C is called Medicare Advantage. The program offers a variety of managed care plans, a private fee-for-service plan, and Medicare specialty plans. These specialty plans provide services that focus care on the management of a specific disease or condition.

Medicare Part D: A program that offers a prescription drug benefit to help Medicare beneficiaries pay for the drugs they need. The drug benefit is optional and is available to anyone who is entitled to Medicare Part A or enrolled in Part B. This benefit is available through private prescription drug plans (POPs) or Medicare Advantage (PPO) plans.

Medicare supplement policy: Health insurance that provides coverage to fill the gaps in Medicare cover• age.

Minimum deposit insurance: A cash value life insurance policy having a first-year loan value that is avail• able for borrowing immediately upon payment of the first-year premium.

Minimum premium plan (MPP): Designed to support a self-insured plan, a minimum premium plan helps insure against large, unpredictable losses that exceed the self-insured level.

Miscellaneous expenses: Hospital charges, other than for room and board (e.g. x-rays, drugs, laboratory fees, and so forth), in connection with health insurance.

Misrepresentation: Act of making, issuing, circulating, or causing to be issued or circulated, an estimate, illustration, circular, or statement of any kind that does not represent the correct policy terms, dividends, or share of the surplus or the name or title for any policy or class of policies that does not in fact reflect its true nature.

Misstatement of age or sex provision: If the insured's age or sex is misstated in an application for insurance, the benefit payable usually is adjusted to what the premiums paid should have purchased.

Misuse of premium: Improper use of premiums collected by an insurance producer.

Modified endowment contract (MEC): A life insurance policy under which the amount a policy owner pays in during the first years exceeds the sum of net level premiums that would have been payable to provide paid-up future benefits in seven years.

Modified whole life: Whole life insurance with premium payable during the first few years, usually five years, only slightly larger than the rate for term insurance. Afterwards, the premium is higher for the remainder of life than the premium for ordinary life at the original age of issue, but lower than the rate at the attained age at the time of charge.

Money purchase plan: A type of qualified plan under which contributions are fixed amounts or fixed percentages of the employee's salary. An employee's benefits are provided in whatever amount the accumulated or current contributions will produce for the employee.

Morale hazard: Hazard arising from indifference to loss because of the existence ofinsurance.

Moral hazard: Effect of personal reputation, character, associates, personal living habits, financial responsibility, and environment, as distinguished from physical health, upon an individual's general insurability.

Morbidity: The relative incidence of disability due to sickness or accident within a given group.

Morbidity rate: Shows the incidence and extent of disability that may be expected from a given large group of persons; used in computing health insurance rates.

Mortality: The relative incidence of death within a group.

Mortality table: Listing of the mortality experience of individuals by age; permits an actuary to calculate, on the average, how long a male or female of a given age group may be expected to live.

Mortgage insurance: A basic use of life insurance, so-called because many family heads leave insurance for specifically paying off any mortgage balance outstanding at their death. The insurance generally is made payable to a family beneficiary instead of to the mortgage holder.

Multiple employer trust (MET) : Several small groups of individuals that need life and health insurance but do not qualify for true group insurance band together under state trust laws to purchase insurance at a more favorable rate.

Multiple employer welfare arrangement (MEWA): Similar to a multiple employer trust (MET) with the exception that in a MEWA, a number of employers pool their risks and self-insure.

Multiple protection policy: A combination of term and whole life coverage that pays some multiple of the face amount of the basic whole life portion (such as $ per month per $,) throughout the multiple
protection period (such as to age).

Mutual insurer: An insurance company characterized by having no capital stock; it is owned by its policy owners and usually issues participating insurance.

N

National Association of Health Underwriters (NAHU) : NAHU is an organization of health insurance agents that is dedicated to supporting the health insurance industry and to advancing the quality of service provided by insurance professionals.

National Association of Insurance and Financial Advisors (NAIFA): NAIFA is an organization of life insurance agents that is dedicated to supporting the life insurance industry and advancing the quality of service provided by insurance professionals.

National Association of Insurance Commissioners (NAIC): Association of state insurance commissioners active in insurance regulatory problems and in forming and recommending model legislation and requirements.

Natural group: A group formed for a reason other than to obtain insurance.

Needs approach: A method for determining how much insurance protection a person should have by analyzing a family's or business's needs and objectives should the insured die, become disabled, or retire.

Net premium: Calculated on the basis of a given mortality table and a given interest rate, without any allowance for loading.

Nonadmitted insurer: An insurance company that has not been licensed to operate within a given state.

Noncancelable and guaranteed renewable contract: Health insurance contract that the insured has the right to continue in force by payment of premiums set forth in the contract for a substantial period of
time, during which the insurer has no right to make unilaterally any change in any contract provision.

Noncontributory plan: Employee benefit plan under which the employer bears the full cost of the employees' benefits; must insure % of eligible employees.

Nondisabling injury: Requires medical care but does not result in loss of time from work.

Nonduplication provision: Stipulates that insureds shall be ineligible to collect for charges under a group health plan if the charges are reimbursed under their own or spouse's group plan.

Nonforfeiture options: Privileges allowed under terms of a life insurance contract after cash values have been created.

Nonforfeiture values: Those benefits in a life insurance policy that by law, the policy owner does not forfeit even if the policy owner discontinues premium payments: usually cash value, loan value, paid-up insurance value, and extended term insurance value.

Nonmedical insurance: Issued on a regular basis with• out requiring a regular medical examination. In passing on the risk, the company relies on the applicant's answers to questions regarding the applicant's physical condition and on personal references or inspection reports.

Nonparticipating: Insurance under which the insured is not entitled to share in the divisible surplus of the company.

Nonqualified plan: A retirement plan that does not meet federal government requirements and is not eligible for favorable tax treatment.

Notice of claims provision: Policy provision that describes the policy owner’s obligation to provide notification of loss to the insurer within a reasonable period of time.

Notice of claims provision: Policy provision that describes the policy owner’s obligation to provide notification of loss to the insurer within a reasonable period of time.

Offer and acceptance: the offer may be made by the applicant by signing the application, paying the first premium, and if necessary, submitting to a physical examination. Policy issuance, as applied for, constitutes acceptance by the company. Or, the offer may be made by the company when no premium payment is submitted with application. Premium payment on the offered policy then constitutes acceptance by the applicant.

Old-Age, Survivors, Disability, and Hospital Insurance (OASDI): Retirement, death, disability income, and hospital insurance benefits provided under the Social Security system.

Optionally renewable contract: Health insurance policy in which the insurer reserves the right to terminate the coverage at any anniversary or, in some cases, at any premium due date, but does not have the right to terminate coverage between such dates.

Ordinary insurance: Life insurance of commercial companies not issued on the weekly premium basis; amount of protection usually is $, or more.

Other insureds rider: A term rider, covering a family member other than the insured, that is attached to the base policy covering the insured.

Outline of coverage: Informational material about a specific plan or policy of insurance that describes the policy's features and benefits; in many states, an outline of coverage is required to be given to consumers when certain types of coverages are being considered.

Overhead insurance: Type of short-term disability insurance reimbursing the insured for specified, fixed, monthly expenses; normal and customary in operating the insured's business.

Over insurance: An excessive amount of insurance; an amount of insurance that would result in payment of more than the actual loss or more than incurred expenses.

Own occupation: A definition of total disability that requires that in order to receive disability income benefits the insured must be unable to work at the insured's own occupation.

P

Paid-up additions: Additional life insurance purchased by policy dividends on a net single premium basis at the insured's attained insurance age at the time additions are purchased.
Paid-up policy: No further premiums are to be paid and the company is held liable for the benefits provided by the contract.

Parol evidence rule: Rule of contract law that brings all verbal statements into the written contract and disallows any changes or modifications to the contract by oral evidence.

Partial disability: Illness or injury preventing insured from performing at least one or more, but not all, of the insured's occupational duties.

Participating physician: A doctor or physician who accepts Medicare’s allowable or recognized charges and will not charge more than this amount.

Participating: Plan of insurance under which the policyowner receives shares (commonly called dividends) of the divisible surplus of the company.

Participation standards: Rules that must be followed for determining employee eligibility for a qualified retirement plan.

Partnership: A business entity that allows two or more people to strengthen their effectiveness by working together as co-owners.

Payor rider: Available under certain juvenile life insurance policies, upon payment of an extra premium. Provides for the waiver of future premiums if the person responsible for paying them dies or is disabled before the policy becomes fully paid or matures as a death claim, or as an endowment, or the child reaches a specific age.

Per capita rule: Death proceeds from an insurance policy are divided equally among the living primary beneficiaries.

Peril: The immediate specific event causing loss and giving rise to risk.

Period certain annuity: An annuity income option that guarantees a definite minimum period of payments.

Permanent flat extra premium: A fixed charge added per $, of insurance for substandard risks.

Personal producing general agency (PPGA): A method of marketing, selling, and distributing insurance in which personal producing general agents (PPGAs) are compensated for business they personally sell, and business sold by agents with whom they subcontract. Subcontracted agents are considered employees of the PPGA, not the insurer.

Per stirpes rule: Death proceeds from an insurance policy are divided equally among the named beneficiaries. If a named beneficiary is deceased, the beneficiary's share then goes to the living descendants of that individual.

Policy: In insurance, the written instrument in which a contract of insurance is set forth.

Policy loan: In life insurance, a loan made by the insurance company to the policy owner, with the policy's cash value assigned as security. One of the standard nonforfeiture options.

Policyowner (policyholder): These terms are used interchangeably to describe the person who pays for an insurance contract. This person is usually, but not necessarily, the applicant as well.

Policy provisions: The term or conditions of an insurance policy as contained in the policy clauses.

Portability: Provision in which a worker or dependent will have to meet the waiting period for an existing condition.

Precertification: The insurer's approval of an insured's entering a hospital. Many health policies require precertification as part of an effort to control costs.

Preexisting condition: An illness or medical condition that existed before a policy's effective date; usually excluded from coverage, through the policy's standard provisions or by waiver.

Preferred provider organization (PPO): Association of health care providers, such as doctors and hospitals, that agree to provide health care to members of a particular group at fees negotiated in advance.

Preferred risk: A risk whose physical condition, occupation, mode of living, and other characteristics indicate a prospect for longevity for unimpaired lives of the same age.

Preliminary term insurance: Term insurance attached to a newly issued permanent life insurance policy extending term coverage of a preliminary period of two months, until the permanent insurance becomes effective. The purpose is to provide full life insurance premium and the anniversary to a later date.

Premium factors: The three primary factors considered when computing the basic premium for insurance: mortality, expense, and interest.

Premium: The periodic payment required to keep an insurance policy in force.

Prescription drug coverage: Usually offered as an optional benefit to group medical expense plans, this coverage covers some or all of the cost of prescription drugs.

Presumptive disability benefit: A disability income policy benefit that provides that if an insured experiences a specified disability, such as blindness, the insured is presumed to be totally disabled and entitled to the full amount payable under policy, whether or not the insured is able to work.

Primary beneficiary: In life insurance, the beneficiary designated by the insured as the first to receive policy benefits.

Principal: An insurance company that, having appointed someone as its agent, is bound to the contracts the agent completes in its behalf.

Principal sum: The amount under an AD&D policy that is payable as a death benefit if death is due to an accident.

Private insurer: An insurer that is not associated with federal or state government.

Probationary period: Specified number of days after an insurance policy's issue date during which coverage is not afforded for sickness. Standard practice for group coverages.

Proceeds: Net amount of money payable by the company at the insured's death or at policy maturity.

Producer: A general term applied to an agent, broker, personal producing general agent, solicitor, or other person who sells insurance.

Professional liability insurance: (See errors and omissions insurance)

Profit-sharing plan: Any plan whereby a portion of a company's profits is set aside for distribution to employees who qualify under the plan.

Proof of loss: A mandatory health insurance provision stating that the insured must provide a completed claim form to the insurer within days of the date of loss.

Proper solicitation: High professional standards that require an agent to identify himself properly as an agent soliciting insurance on behalf of an insurance company.

Pure endowment: Contract providing for payment only upon survival of a certain person to a certain date and not in the event of that person's prior death. This type of contract is just the opposite of a term contract, which provides for payment only in the event the injured person dies within the term period specified.

Pure risk: Type of risk that involves the chance of loss only; there is no opportunity for gain; insurable.

Q

Qualified plan: A retirement or employee compensation plan established and maintained by an employer that meets specific guidelines spelled out by the IRS and consequently receives favorable tax treatment.

R

Rate-up in age System: of rating substandard risks that assumes the insured to be older than the insured really is and charging a correspondingly higher premium.

Rating: The making of insurance also creates the premium classification given an applicant for life or health insurance.

Reasonable and customary charge: Charge for health care service consistent with the going rate of charge in a given geographical area for identical or similar services.

Rebating: Returning part of the commission or giving anything else of value to the insured as an inducement to buy the policy. It is illegal and cause for license revocation in most states. In some states, it is an offense by both the agent and the person receiving the rebate.

Reciprocal insurer: Insurance company characterized by the fact its policyholders insure the risks of other policyholders.

Recurrent disability provision: A disability income policy provision that specifies the period of time during which the reoccurrence of a disability is considered a continuation of a prior disability.

Reduced paid-up insurance: A nonforfeiture option contained in most life insurance policies providing for the insured to elect to have the cash surrender value of the policy used to purchase a paid-up policy for a reduced amount of insurance.

Re-entry option: An option in a renewable term life policy under which the policyowner is guaranteed, at the end of the term, to be able to renew the policyowner's coverage without evidence of insurability, at a premium rate specified in the policy.

Refund annuity: Provides for the continuance of the annuity during the annuitant's lifetime and, in any event, until total payment equal to the purchase price has been made by the company.

Reimbursement approach: Payment of health policy benefits to insured based on actual medical expenses incurred.

Reinstatement: Putting a lapsed policy back in force by producing satisfactory evidence of insurability and paying any past-due premiums required.

Reinsurance: Acceptance by one or more insurers, called reinsurers, of a portion of the risk underwritten by another insurer who has contracted for the entire coverage.

Relative value scale: Method for determining benefits payable under a basic surgical expense policy. Points are assigned to each surgical procedure and a dollar per point amount, or conversion factor, is used to determine the benefit.

Renewable option: An option that allows the policyowner to renew a term policy before its termination date without having to provide evidence of insurability.

Renewable term: Some term policies prove that they may be renewed on the same plan for one or more years without medical examination, but with rates based on the insured's advanced age.

Replacement: Act of replacing one life insurance policy with another; may be done legally under certain conditions. (See twisting)

Representation: Statements made by applicants on their applications for insurance that they represent as being substantially true to the best of their knowledge and belief, but that are not warranted as exact in every detail. (See warranties)

Reserve: Fund held by the company to help fulfill future claims.

Reserve basis: Refers to mortality table and assumed interest rate used in computing rates.

Residual disability benefit: A disability income payment based on the proportion of income the insured has actually lost, taking into account the fact that the insured is able to earn some income.

Respite care: Type of health or medical care designed to provide a short rest period for a caregiver. Characterized by its temporary status.

Results provision: (See accidental bodily injury provision)

Revocable beneficiary: Beneficiary whose rights in a policy are subject to the policyowner’s reserved right to revoke or change the beneficiary designation and the right to surrender or make a loan on the policy without the beneficiary's consent.

Rider: Strictly speaking, a rider adds something to a policy. However, the term is used loosely to refer to any supplemental agreement attached to and made a part of the policy, whether the policy's conditions are expanded, and additional coverages added, or a coverage of conditions is waived.

Risk: Uncertainty regarding loss; the probability of loss occurring for an insured or prospect.

Risk pooling: A basic principle of insurance whereby a large number contribute to cover the losses of a few. (See loss sharing)

Risk selection: The method of a home office underwriter used to choose applicants that the insurance company will accept. The underwriter must determine whether risks are standard, substandard, or preferred and adjust the premium rates accordingly.

Rollover IRA: An individual retirement account established with funds transferred from another IRA or qualified retirement plan that the owner had terminated.

S

Salary continuation plan: An arrangement whereby an income, usually related to an employee's salary, is continued upon employee's retirement, death, or disability.

Salary reduction: SEPA qualified retirement plan limited to companies with or fewer employees. It allows employees to defer part of their pretax income to the plan, lowering their taxable income. (See simplified employee pension plan)

Savings Incentive Match Plan for Employees (SIMPLE): A qualified employer retirement plan that allows small employers to set up tax-favored retirement savings plans for their employees.

Schedule: List of specified amounts payable, usually for surgical operations, dismemberment, fractures, and so forth.

Secondary beneficiary: An alternative beneficiary designated to receive payment, usually in the event the original beneficiary predeceases the insured.

Section plans: Deferred compensation plans for employees of state and local governments in which amounts deferred will not be included in gross income until they are actually received or made available.

Self-Employed Individuals Retirement Act: Passed by Congress, this Act enables self-employed persons to establish qualified retirement plans similar to those available to corporations.

Self-insurance: Program for providing insurance financed entirely through the means of the policyowner, in place of purchasing coverage from commercial carriers.

Self-insured plan: A health insurance plan characterized by an employer (usually a large one), labor union, fraternal organization, or other group retaining the risk of covering its employees' medical expenses.

Service insurers: Companies that offer prepayment plans for medical or hospital services, such as health maintenance organizations.

Service providers: An organization that provides health coverage by contracting with service providers to provide medical services to subscribers who pay in advance through premiums. Examples of such coverages are HMOs and PPOs.

Settlement options: Optional modes of settlement provided by most life insurance policies in lieu of lump-sum payment. Usual options are lump-sum cash, interest-only, fixed-period, fixed-amount, and life income.

Simplified employee pension plan (SEP): A type of qualified retirement plan under which the employer contributes to an individual retirement account set up and maintained by the employee.

Single dismemberment: Loss of one hand or one foot, or the sight of one eye.

Single-premium whole life insurance: Whole life insurance for which the entire premium is paid in one sum at the beginning of the contract period.

Skilled nursing care: Daily nursing care ordered by a doctor; often medically necessary. It can only be performed by or under the supervision of skilled medical professionals and is available hours a day.

Sliding: The act of telling an insurance applicant that the law requires the applicant to buy a specific ancillary coverage or product with the purchase of insurance when that coverage or product is not required. It is also the act of telling an applicant that a policy includes a specific ancillary coverage or product without additional charge when such a charge is required. Sliding also occurs when an insurer charges for a specific ancillary coverage or product, in addition to the cost of the coverage applied for, without the applicant's informed consent.

Social Security: Programs first created by Congress in and now composed of Old-Age, Survivors, and Disability Insurance (OASDI), Medicare, Medicaid, and various grants-in-aid, which provide economic security to nearly all employed people.

Special agent: An agent representing an insurance company in a given territory.

Special class: Applicants who cannot qualify for standard insurance but may secure policies with riders waiving payment for losses involving certain existing health impairments.

Special questionnaires: Forms used when, for underwriting purposes, the insurer needs more detailed information from an applicant regarding aviation or avocation, foreign residence, finances, military service, or occupation.

Special risk policy: Provides coverage for unusual hazards normally not covered under accident and health insurance, such as a concert pianist insuring his hands for a million dollars. (See limited risk policy)

Specified disease insurance: (See limited risk policy)

Speculative risk: A type of risk that involves the chance of both loss and gain; it is not insurable.

Spendthrift provision: Stipulates that, to the extent permitted by law, policy proceeds shall not be subject to the claims of creditors of the beneficiary or policyowner.

Split-dollar life insurance: An arrangement between two parties where life insurance is written on the life of one party who names the beneficiary of the net death benefits (death benefits less cash value), and the other party is assigned the cash value, with both sharing premium payments.

Spousal IRA: An individual retirement account that persons eligible to set up IRAs for themselves may set up jointly with a non-working spouse.

Standard provisions: Forerunners of the Uniform Policy Provisions in health insurance policies today.

Standard risk: Person who, according to a company's underwriting standards, is entitled to insurance protection without extra rating or special restrictions.

Stock bonus plan: A plan under which bon uses are paid to employees in shares of stock.

Stock insurers: An insurance company owned and controlled by a group of stockholders whose investment in the company provides the safety margin necessary in issuance of guaranteed, fixed premium, nonparticipating policies.

Stock redemption plan: An agreement under which a close corporation purchases a deceased stockholder's interest.

Stop-loss provision: Designed to stop the company's loss at a given point, as an aggregate payable under a policy, a maximum payable for any one disability, or the like; also applies to individuals, placing a limit on the maximum out-of-pocket expenses an insured must pay for health care, after which the health policy covers all expenses.

Straight life income annuity (straight life annuity, life annuity): An annuity income option that pays a guaranteed income for the annuitant's lifetime, after which time payments stop.

Straight whole life insurance: (See whole life insurance)

Stranger-Originated Life Insurance (STOLl): Life insurance arrangements where investors persuade consumers (usually seniors) to take out new life insurance policies, with the investors named as beneficiary. Investors loan money to the insured to pay the premiums for a defined period. The insured ultimately assigns ownership of the policy to the investors, who receive the death benefit when the insured dies. The insured receives additional financial benefits, such as an upfront payment or a loan.

Subscriber: Policyowner of a health care plan underwritten by a service insurer.

Substandard risk: Person who is considered an under• average or impaired insurance risk because of physical condition, family or personal history of disease, occupation, residence in unhealthy climate, or dangerous habits. (See special class)

Successor beneficiary: (See secondary beneficiary)

Suicide provision: Most life insurance policies provide that if the insured commits suicide within a specified period, usually two years after the issue date, the company's liability will be limited to a return of premiums paid.

Supplemental accident coverage: Often included as part of a group basic or major medical plan; this type of coverage is designed to cover expenses associated with accidents to the extent they are not provided under other coverages.

Supplementary major medical policy: A medical expense health plan that covers expenses not included under a basic policy and expenses that exceed the limits of a basic policy.

Surgical expense insurance: Provides benefits to pay for the cost of surgical operations.

Surgical schedule: List of cash allowances payable for various types of surgery, with the respective maximum amounts payable based upon severity of the operations; stipulated maximum usually covers all professional fees involved (e.g. surgeon, anesthesiologist).

Surrender value: (See cash surrender value)

T

Taxable wage bases: The maximum amount of earnings upon which FICA taxes must be paid.

Tax-sheltered annuity: An annuity plan reserved for nonprofit organizations and their employees. Funds contributed to the annuity are excluded from current taxable income and are only taxed later, when benefits begin to be paid. Also called *tax-deferred annuity* and *(b) plan.*

Temporary flat extra premium: A fixed charge per $ of insurance added to substandard risks for a specified period of years.

Temporary insurance agreement: (See binding receipt)

Term insurance: Protection during limited number of years; expiring without value if the insured survives the stated period, which may be one or more years, but usually is to years because such periods generally cover the needs for temporary protection.

Term of policy: Period for which the policy runs. In life insurance, this is to the end of the term period for term insurance, to the maturity date for endowments, and to the insured's death (or age) for permanent insurance. In most other kinds of insurance, it is usually the period for which a premium has been paid in advance; however, it may be for a year or more, even though the premium is paid on a semiannual or other basis.

Tertiary beneficiary: In life insurance, a beneficiary designated as third in line to receive the proceeds or benefits if the primary and secondary beneficiaries do not survive the insured.

Third-party administrator (TPA) : An organization outside the members of a self-insurance group which, for a fee, processes claims, completes benefits paper• work, and often analyzes claims information.

Third-party applicant: A policy applicant who is not the prospective insured.

Time limit on certain defenses: A provision stating that an insurance policy is incontestable after it has been in force a certain period of time. Also limits the period during which an insurer can deny a claim on the basis of a preexisting condition.

Total disability: Disability preventing insureds from performing any duty of their usual occupations or any occupation for remuneration; actual definition depends on policy wording.

Traditional net cost method: A method of comparing costs of similar policies that does not take into account the time value of money.

Transacting insurance: The transaction of any of the following, in addition to other acts included under applicable provisions of the state code: solicitation or inducement, preliminary negotiations, affecting a con• tract of insurance, and transacting matters subsequent to affecting a contract of insurance and arising out of it.

Travel-accident policies: Limited to indemnities for accidents while traveling, usually by common carrier.
Trust: Arrangement in which property is held by a person or corporation (trustee) for the benefit of others (beneficiaries). The grantor (person transferring the property to the trustee) gives legal title to the trustee, subject to terms set forth in a trust agreement. Beneficiaries have equitable title to the trust property.

Trustee: One holding legal title to property for the benefit of another; may be either an individual or a company, such as a bank and trust company.

Twisting: Practice of inducing a policy owner with one company to lapse, forfeit, or surrender a life insurance policy for the purpose of taking out a policy in another company. Generally classified as a misdemeanor, subject to fine, revocation of license, and sometimes imprisonment. (See misrepresentation)

U

Unallocated benefit: Reimbursement provision, usually for miscellaneous hospital and medical expenses, that does not specify how much will be paid for each type of treatment, examination, dressing, and so forth, but only sets a maximum that will be paid for all such treatments.

Underwriter: Company receiving premiums and accepting responsibility for fulfilling the policy contract. Company employee who decides whether or not the company should assume a particular risk. The agent who sells the policy.

Underwriting: Process through which an insurer determines whether, and on what basis, an insurance application will be accepted.

Unfair Trade Practices Act: A model act written by the National Association of Insurance Commissioners (NAIC) and adopted by most states empowering state insurance commissioners to investigate and issue cease and desist orders and penalties to insurers for engaging in unfair or deceptive practices, such as misrepresentation or coercion.

Uniform Individual Accident and Sickness Policy Provisions Law: NAIC model law that established uniform terms, provisions, and standards for health insurance policies covering loss "resulting from sickness or from bodily injury or death by accident or both."

Uniform Simultaneous Death Act: Model law that states when an insured and beneficiary die at the same time, it is presumed that the insured survived the beneficiary.

Unilateral: Distinguishing characteristic of an insurance contract in that it is only the insurance company that pledges anything.

Uninsurable risk: One not acceptable for insurance due to excessive risk.

Universal life: Flexible premium, two-part contract containing renewable term insurance and a cash value account that generally earns interest at a higher rate than a traditional policy. The interest rate varies. Premiums are deposited in the cash value account after the company deducts its fee and a monthly cost for the term coverage.

Utilization review: A technique used by health care providers to determine after the fact if health care was appropriate and effective.

V

Valued contract: A contract of insurance that pays a stated amount in the event of a loss.

Variable annuity: Similar to a traditional, fixed annuity in that retirement payments will be made periodically to the annuitants, usually over the remaining years of their lives. Under the variable annuity, there is no guarantee of the dollar amount of the payments; they fluctuate according to the value of an account invested primarily in common stocks.

Variable life insurance: Provides a guaranteed minimum death benefit. Actual benefits paid may be more, however, depending on the fluctuating market value of investments behind the contract at the insured's death. The cash surrender value also generally fluctuates with the market value of the investment portfolio.

Variable universal life insurance: A life insurance policy combining characteristics of universal and variable life policies. A VUL policy contains unscheduled premium payments and death benefits and a cash value that varies according to the underlying funds whose investment portfolio is managed by the policyowner.

Vesting: Right of employees under a retirement plan to retain part or all of the annuities purchased by the employer's contributions on their behalf or, in some plans, to receive cash payments or equivalent value, on termination of their employment, after certain qualifying conditions have been met.

Viatical broker: An insurance producer licensed to solicit viatical settlement agreements between providers and policy owners of life insurance contracts.

Viatical provider: A company that buys a life insurance policy from a policy owner who is suffering from a terminal illness or a severe chronic illness.

Viatical settlement contract: An agreement under which the owner of a life insurance policy sells the policy to another person in exchange for a bargained for payment, which is generally less than the expected death benefit under the policy.

Viator: An individual suffering from a terminal illness or severe chronic illness who sells her life insurance policy to a viatical company. The company becomes the policyowner and assumes responsibility for paying premiums.
When the insured dies, the company receives the death benefits.

Vision insurance: Optional coverage available with group health insurance plans; vision insurance typically pays for charges incurred during eye exams; eyeglasses and contact lenses are usually excluded.

Voidable contract: A contract that can be made void at the option of one or more parties to the agreement.

Void contract: An agreement without legal effect: an invalid contract.

Voluntary group AD&D: A group accidental death and dismemberment policy paid for entirely by employees, rather than an employer.

W

Waiting period: (See elimination period)

Waiver: Agreement waiving the company's liability for a certain type or types of risk ordinarily covered in the policy; a voluntary giving up of a legal, given right.

Waiver of premium: Rider or provision included in most life insurance policies and some health insurance policies exempting the insured from paying premiums after the insured has been disabled for a specified period of time, usually six months in life policies and days or six months in health policies.

War clause: Relieves the insurer of liability, or reduces its liability, for specified loss caused by war.

Warranties: Statements made on an application for insurance that are warranted to be true; that is, they are exact in every detail as opposed to representations. Statements on applications for insurance are rarely warranties, unless fraud is involved. (See representation)

Whole life insurance: Permanent level insurance protection for the "whole of life," from policy issue to the death of the insured. Characterized by level premiums, level benefits, and cash values.

Wholesale insurance: (See franchise insurance)

Workers' compensation Benefits paid to workers for injury, disability, or disease contracted in the course of their employment. Benefits and conditions are set by law, although in most states the insurance to provide the benefits may be purchased from regular insurance companies. A few states have monopolistic state compensation funds.

Y

Yearly renewable term insurance (YRT) (See annually renewable term)