

Life Insurance Terms

Absolute Assignment: The irrevocable transfer of ownership of a life insurance policy from one person to another.

Accelerated Benefits: Allows for the policyholder to receive their benefits before death, usually in cases of terminal illness or need for long-term care.

Accelerated Endowment: A dividend option allowing dividend accumulations to be applied to convert a life insurance policy into an endowment, or to shorten the endowment term.

Accelerative Endowment: An option to use policy dividends to mature a policy as an endowment before the regular maturity date.

Accidental Death and Dismemberment Insurance: Insurance policy that provides payment if the insured's death is the result of an accident, or if the insured accidentally severs a limb above the wrist or ankle joints, or totally and irreversibly loses his or her eyesight.

Accumulation Value: Describes the total of all premiums paid and interest credited to the Universal life account before deductions for any expenses, loans or surrenders.

Accumulations (or Accumulation Benefits): Percentage additions to policy benefits when the contract is continuously renewed.

AD&D: See Accidental Death and Dismemberment Insurance

Adjustable Life Insurance: A form of life insurance which allows changes on a policy's face amount, the amount of premium, period of protection, and the length of the premium payment period. Also known as Flexible Premium Adjustable Life Insurance Policy.

Adjustable Premium: The right of an insurer to change the premium rate at the time of policy renewal.

Age: Your current age, which is a determining factor for premium rates.

Age Change: The date on which a person's age changes, for insurance purposes. For life insurance, this is the date midway between the insured's natural birth dates. Health insurers frequently use the age of the previous birth date for rate determinations. On the date of age change, a person's age may change to that of the last birth date, the nearer birth date, or the next birth date, depending on the structure used by the insurer.

Amount At Risk: The difference between the Face Value of a Whole Life Insurance contract and the cash value which it has built up. It is the amount the insurer would have to draw from its own funds rather than the policy reserve were the contract to become a death claim.

Annual Payment Annuity: An annuity purchased by the payment of annual premiums for a specified period of time.

Assignment: The transfer of ownership of a life insurance policy from one person to another. Also refers to the document that effects the transfer.

Association Group Insurance: Group insurance issued to an association rather than to an employer or a union.

Attained Age: The age an insured has reached on a given date.

Automatic Premium Loan: A provision authorizing the insurer to use the loan value to pay any premiums still due at the end of the grace period.

Autopsy: The post-mortem medical examination to determine cause of death.

Aviation Accident Insurance: Protects individuals as passengers or pilots, usually on scheduled aircraft, or covers the flight travel of the employees of a company under a master policy.

Aviation Hazard: The extra hazard of death or injury resulting from participation in aeronautics, usually as other than a fare-paying passenger in licensed aircraft. This generally requires an extra premium rating or waiver of certain benefits or coverage.

Backdating: A procedure for making the effective date of a policy earlier than the application date.

Bad Faith: A breach of contract, on the part of either the insured or the insurer.

Beneficiary: The named person who receives the benefits of the policy upon the death of the policyholder.

Blackout Period: The period during which a surviving spouse no longer receives survivors benefits and before he or she is eligible for retirement benefits.

Cash Refund Annuity: An annuity contract which provides that if when the holder dies, installments paid to him have not totaled the amount of the premium paid for the annuity, the difference will be paid to a designated beneficiary in a lump sum.

Cash Value (Also Surrender Value): The amount available in cash for loans and/or withdrawals. Accessing Cash Value may reduce the death benefit and may increase the risk of lapse.

Cash Value Account: The forced savings account built up in whole life insurance policies and variations thereof. These savings are culled from premium payments, and can be borrowed against in times of emergency.

Child Life Insurance: A type of life insurance purchased to insure the life of a child.

Cleanup Fund: Commonly used term for policies whose express purpose is to pay the deceased's final expenses.

Collateral Assignment: The temporary transfer of some benefits of a life insurance policy from one person to another, usually used as collateral for a loan. In the event of default, the creditor would receive proceeds only to the extent of his interest.

Combination Plan: Combining life Insurance contracts with a side fund or auxiliary fund for the purpose of increasing the amount of money available for a pension or annuity at some future date.

Common Accident: An accident in which two or more persons are injured.

Common Disaster: When the insured and the beneficiary appear to die simultaneously with no clear evidence of who died first.

Common Disaster Clause: The clause in a life insurance policy that provides for how the insurer will distribute the proceeds of the policy in the event of a common disaster.

Commutation Rights: The right of a beneficiary to receive a lump sum of unpaid payments in an installment plan settlement.

Conditional Binding Receipt: Provides that if a premium payment accompanies an application, the coverage will be in force from the date of application or medical examination, if any, whichever is later, provided the insurer would have issued the coverage on the basis of the facts revealed on the application, medical examination and other usual sources of underwriting information. A policy without a conditional binding receipt is not effective until it is delivered to the insured and the premium is paid.

Contestable Clause: A provision setting forth the conditions where the insurer may contest or void the policy. After that time has lapsed, normally two years, the policy cannot be contested.

Contingent Beneficiary: A person named beneficiary in the event the primary beneficiary dies before the policyholder.

Contract: The policy itself, in which all coverage information and provisions and exclusions are laid out. Only valid upon signature.

Control Provision: A policy provision, usually for children's policies, providing that ownership control is to be exercised by a person other than the insured.

Convertible: A policy that may be changed to another form without evidence of insurability. Most Term policies are convertible into permanent insurance.

Convertible Term Insurance: Term insurance that the policy owner can exchange for a permanent insurance policy without evidence of insurability.

Conversion Privilege: The right of an individual to convert a group life policy to an individual policy should the individual stop being a member of the group.

Cost-of-Living Rider: Adjusts policy benefits in relation to the change in the economic climate. Most such riders are tied to changes in the Consumer Price Index (CPI). The amount of insurance may be automatically increased, without evidence of insurability, at predetermined periods up to a maximum.

Credit Life Insurance: A group life insurance contract whereby a creditor is protected in the event of death of the insured prior to the indebtedness being paid in full.

Death Benefit: The amount of money paid or due to be paid when a person insured under a life insurance policy dies.

Decreasing Term: A type of insurance in which the premium decreases over the period of the term, as does the coverage; usually used as a form of mortgage insurance.

Delivery: The actual placing of a Life Insurance policy in the hands of an insured.

Dependent Coverage: Insurance coverage on the head of a family which is extended to his or her dependents, including only the lawful spouse and unmarried children (age restrictions apply) who are not yet employed on a full-time basis.

Dependent Life Insurance: A benefit which is part of a group life insurance contract that provides death protection to the eligible dependents of a covered employee.

Dividend: A return of part of the insurance premium that is based on the insurer's investment, mortality and expense experience. Dividends are not guaranteed.

Dividend Accumulation: An option which allows the policyholder to leave any premium dividends with the insurer to accumulate at compound interest.

Dividend Additions: An option whereby the insured can leave dividends with the insurer, and each dividend is used to buy a single premium life insurance policy for whatever amount it will purchase.

Double Indemnity: Payment of twice the basic benefit in the event of loss resulting from specified causes or under specified circumstances such as accidental death. See also Multiple Indemnity.

Due Date: The date on which premium payment is due.

Endowment Insurance: A form of Life Insurance where the face amount is payable to the insured at the end of the contract period or to a beneficiary if the insured dies before that. An example would be an insured purchasing an endowment payable at age 65: If he reaches that age, the proceeds would be payable to him. If he dies prior to that age, the proceeds would be payable to the designated beneficiary as a Life Insurance benefit.

Excess Interest: Interest credited to an insured's contract in excess of the amount guaranteed by the terms of the contract.

Exclusion: A condition in an insurance policy that denies payment in the case of certain events.

Expiry: The termination of a term life insurance policy at the end of its period of coverage.

Extended Death Benefit: A group policy provision which will pay the life benefit when (a) the insured is totally and continuously disabled at the time the policyholder stops paying premium until the insured's death, and (b) if the insured dies within one year of the date the premium payments stopped, or prior to age 65.

Face Value: The amount stated on the face of the policy that will be paid upon the death of the policyholder. The Face Value does not include additional amounts payable under accidental death or other special provisions, or acquired through the application of policy dividends.

Facility-of-Payment Clause: A provision found in some life policies that lets the insurer pay a portion of the proceeds of the policy to any relative or person who has possession of the policy and appears entitled to it. It is designed to facilitate payment when some doubt may exist as to who the beneficiary is and to save legal expenses in the settling of an estate.

Family Income Policy: A policy that pays an income until a specific date to the beneficiary after the death of the insured at which time the beneficiary is paid the face value of the policy. The period of payment is measured from the date of the contract. If the insured lives beyond the income period, only the face amount is payable upon his death.

Family Maintenance Policy: A policy that pays an income to the beneficiary starting after the death of the insured and continuing for a stated period of time. At the end of the income period, the face amount of the policy is paid to the beneficiary.

Family Policy: A contract that provides insurance within a single policy for a father, mother, and born and unborn children. The father's coverage is typically whole life insurance, with the mother and children insured for smaller amounts of Term Insurance.

Financed Premium: The payment of insurance premiums with funds borrowed from elsewhere.

Fixed-Amount Installments: A settlement option under which fixed, periodic benefits payments are made until the principal and interest are exhausted.

Fixed Benefit: A benefit where the dollar amount does not vary.

Fixed-Period Installments: A settlement option under which the proceeds are guaranteed to be paid in equal installments for a specified period of time. See also Installments Certain.

Flexible Premium Adjustable Life Insurance Policy: Also called universal life type policies.

Flexible Premium Policy: A policy where the policyholder may vary the amount or timing of premium payments.

Free Look: A provision in which policyholders have up to twenty days to examine their policies at no obligation.

Grace Period: The amount of time that the policyholder has to pay a late premium, usually 30-31 days, during which time the insurance is in force.

Graded Death Benefits: When death benefits early in the contract are less than the face amount of the policy but increase over time. It is most commonly found in policies for infants.

Graded Premium: When the initial premium is low and increases in steps over a period of time (usually five years), after which it becomes a level premium.

Group Life Insurance: A type of insurance in which a group is covered--if you are part of the group, then you have insurance. Easily affordable and sometimes offered as part of an employee benefits package.

Guaranteed Insurability: An option in insurance contracts that allows the insured to buy additional prescribed amounts of insurance at prescribed future time intervals without evidence of insurability.

Income Policy: A life policy where proceeds are paid on a monthly basis, in contrast with a lump sum.

Incontestability: In which the insurance company cannot contest any terms and benefits of a policy due to misstatement or misrepresentation. Usually in effect after a period of two years.

Increasing premium: A type of life insurance in which the premiums increase over time, usually as the amount of coverage changes, and usually an annual policy.

Installment Settlement: Payment of the proceeds of a policy or its cash value in installments rather than in a lump sum.

Installments Certain: A settlement option under which the proceeds are guaranteed to be paid in equal installments for a specified period of time. See also Fixed-Period Installments.

Insurability: Acceptability of an applicant for insurance.

Insured (or Insured Life): The person on whose life the policy is issued; usually the same person who owns the policy.

Insurer: The insurance company.

Insuring clause: The portion of a policy which describes the degree of risk the insurer is willing to assume.

Intentionality: In which the death of an insured person results from intentional behavior; subsequently the insurance company does not have to pay the benefits of an accidental death policy.

Irrevocable beneficiary: A type of beneficiary that cannot be changed without their consent.

Jumping Juvenile: A popular name for a life insurance policy for a child where the face value increases automatically at a certain age (usually 21), without additional cost or a medical examination.

Juvenile Insurance: A life insurance policy for a child.

Lapse: When the policyholder fails to make the premium payments and the policy becomes null and void.

Level Death Benefit Option: For universal life policies, provides the greater of (1) the face amount of the policy, or (2) a stipulated percentage of the accumulation value.

Level Premium: A type of term insurance in which the premiums remain the same throughout the term of the policy. The premium is usually more than the actual cost of protection early in the policy, and less later in the policy. This reserve built up in the early years couples with earned interest to make up for the underpayment later in the policy.

Level Term Insurance: A type of term policy where the face value remains the same from the effective date until the expiration date. See also Term Life.

Life Income: A settlement option under which equal installments are paid as long as the beneficiary lives, even if the principal has been exhausted.

Life Insurance Trust: A type of Life Insurance policy where a trust company is named as the beneficiary and distributes the proceeds of the policy under the terms of the trust agreement.

Life Paid Up At Age: Limited Payment Life insurance where premium payments stop at a particular age, but coverage continues. A common form would be Life Paid Up At Age 65.

Limited Payment Life: A type of life insurance that provides protection for the whole of life with premiums paid for a set number of years. See also Life Paid Up At Age, Paid-up Insurance.

Limited Policies: Policies paid only upon the occurrence of certain contingencies, such as cancer, in contrast to policies covering all contingencies other than those excluded.

Loan (or Policy Loan): A loan taken from the cash value account of a whole life policy (or one of its various forms). Generally, loans may reduce the policy's death benefit and cash value.

Lump Sum: A settlement option where the beneficiary receives the entire proceeds of a policy at once rather than in installments.

Maturity Date: The date on which the face amount of a policy becomes payable.

Maturity Value: The amount payable to a living insured at the end of an endowment period or to the owner of a whole life policy if he lives past a certain age.

Medical Examination: In which the applicant must undergo a physical exam and give a blood and urine sample in order to determine their health before purchasing a policy.

Minimum Deposit Policy: A Cash Value policy that can be borrowed against immediately upon payment of the first-year premium. This is not the case with most Life Insurance policies due to high first-year expenses.

Misrepresentation: In which the policyholder/applicant does not reveal any or all of their current and former health conditions.

Misstatement of Age or Sex: In which the policyholder has intentionally or unintentionally given or recorded the wrong age or sex on the application for their policy.

Modification: In which no person save for those named in the policy can make any modifications to the policy.

Monthly Administration Fee: With universal life insurance, an administrative fee is charged each month to cover administrative expenses.

Mortality Table: A table that gives the average number of deaths per age group for both men and women. A determining factor when figuring up a premium rate.

Mortgage Insurance: A type of life insurance that provides for the coverage of the policyholder's mortgage and any interest and taxes.

Multiple Protection Insurance: A combination of term and whole life insurance that pays some multiple of the face during the period of the Term policy, becoming a regular Whole Life policy after the Term policy expires. The multiple protection period is thus the period during which both the Term and the Whole Life coverages are in effect.

Nonforfeiture Values: The values in a policy that, by law, the policy owner cannot forfeit even if he ceases to pay the premiums. These benefits are the cash surrender value, the loan value, the paid-up insurance value, and the extended term insurance value. The policy owner may choose one of these nonforfeiture options, but even if he fails to do so, the one specified in the contract for such a case automatically goes into effect.

Occupational Hazard: A condition in an occupation that increases the risk of accident, sickness, or death.

Paid-up Insurance: Insurance that will remain in force with no need to pay additional premiums.

Participating Policy: A life insurance policy that is eligible for the payment of dividends by the insurer (see also Dividend.)

Parties: The specific groups named in the policy, namely the insurer and the insured, plus any beneficiaries.

Permanent Life Insurance: Any form of life insurance except term; generally insurance that builds up a cash value, such as whole life.

Policy Loan: A loan taken from the cash value account of a whole life policy (or one of its various forms).

Policy Owner: The person who owns a life insurance policy. This is usually the insured person or policyholder, but it may also be a relative of the insured, a partnership or a corporation.

Premium: The amount of money paid by the insured in order to maintain their policy.

Primary Beneficiary: The first person named in the policy as beneficiary.

Principal Sum: The amount payable in one sum in the event of accidental death or certain accidental dismemberments.

Proceeds: The amount of money that the insurance company is obligated to pay for the settlement of a life insurance policy.

Provision: A condition in an insurance policy referring to a specific event or item.

Policy Change Provision: A provision in an insurance policy that allows the policyholder to change their coverage as needed.

Policy Date: The date the policy goes into effect.

Quantity Discount: A premium discount given for the purchase of a policy with a larger face value.

Reduced Paid-Up Insurance: A form of insurance available as a nonforfeiture option. Provides that the cash value of the policy be used as a single premium to purchase paid-up insurance in whatever amount the cash value will provide.

Reinstatement: In which a lapsed policy can be restored with evidence of insurability and paying past-due premiums required.

Renewable Term Insurance: Term insurance that can be renewed at the end of the term without evidence of insurability, for a limited number of successive terms. The rates generally increase at each renewal as the age of the insured increases.

Renewal: In which the policyholder renews an insurance policy. Can occur annually or upon expiration of the current policy. May have to prove eligibility, and premiums may be higher.

Retroactive Conversion: The conversion of a Term Life Insurance policy to a Cash Value form, effective from the original issue of the Term policy.

Return of Premium Rider: Provides that, in the event of the death of the insured within a specified period of time, the policy will give back all premiums paid, in addition to the face amount of the policy.

Revocable beneficiary: A type of beneficiary that can be changed as needed; most common type.

Rider: An addition to the original policy that covers a separate condition, such as dismemberment or disability, or provides additional coverage.

Secondary Beneficiary: The second person named to receive benefits upon the death of an insured if the primary beneficiary has already died.

Self-Funded Plan: Plan of insurance where an employer, which has fairly predictable claim costs, pays the claims rather than an insurance company.

Single Premium Policy: A Life Insurance policy paid for in one single premium rather than in annual premiums over a period of time.

Split Dollar Plan: A method of purchasing life insurance whereby an employer and employee jointly purchase the policy, pay premiums and share in the policy's benefits.

Suicide Cause: In which the policy owner causes his or her own death; usually not payable if occurring within two years.

Surrender: To give up a Whole Life policy. The insurer pays the insured the cash value which the policy has built up if it is surrendered.

Term life: A form of insurance that is pure insurance and has no cash value, which lasts for a specific pre-determined length of time, called a term.

Underwriter: A person who assesses the eligibility and risk factor of insurance applicants.

Uniform simultaneous death act: A law that states that if the policyholder and the primary beneficiary die under conditions in which it is impossible to determine which died first, it is assumed that the insured will have survived the beneficiary unless there is a provision in the policy to the contrary.

Universal Life: A flexible life insurance policy under which the policyholder may change the death benefit from time to time (with satisfactory evidence of insurability for increases) and vary the amount or timing of premium payments. Also has a cash value account which acts as a sort of savings account that builds interest and can be borrowed against.

Unscheduled Premium Payments: With Universal Life insurance, the policyowner can pay extra premiums in addition to the scheduled premium payment amount.

Variable Life: A form of whole life insurance under which the death benefit and the cash value of the policy fluctuate according to investment performance. Most variable life insurance policies guarantee that the death benefit will not fall below a specified minimum, but a minimum cash value (in the cash value account) is seldom guaranteed. These policies are similar to stocks and money market accounts.

Waiver of Premium: This provision allows the insured to stop paying premiums when he or she has been disabled. In most cases, the insured must be disabled for at least six months before the waiver can take effect.

War Clause: A provision excluding liability of an insurer if a loss is caused by war.

Whole Life Insurance: A basic type of permanent life insurance that, as long as the premiums are paid, can cover the policyholder over the course of their entire life. Premiums usually remain level with this type of policy.

Yearly Renewable Term (YRT) / Annual Renewable Term: Term Life Insurance that may be renewed annually without evidence of insurability until some stated age.