Section 1 – Life and Annuity Policies
Glossary

Absolute assignment – The owner gives up the policy irrevocably and cannot recover rights (permanent).

Accelerated Death Benefit – A rider that states the insured can collect on their own life insurance policy if diagnosed with a terminal illness. Generally, an attending physician must certify that the individual has one year (or less) to live.

Accidental Death – A death resulting directly and independently of all other causes from bodily injuries effected solely through external, violent, and accidental means and occurring within 90 days from the date of such accident.

Accidental Death Benefit – This rider provides for the payment of an amount in addition to the standard benefit payable in the event of an accidental death or a death resulting from a sudden, unexpected, and unintentional injury.

Administrator – A person appointed by a probate court to handle the disbursement and settlement of an estate if no executor is named in a will of the Estate of the Insured.

Annuitant – The individual whose life (mortality) is used to determine the payments during the payout phase (may or may not be the same person as the owner).

Annuity – An annuity is an insurance contract between a person (or trust) and an insurance company with the purpose of paying out invested funds (paid in monthly premium or lump-sum payment) in a fixed income stream in the future. The types of annuities are fixed, variable, and indexed.

Assignment of Life Contracts – A standard provision of a life insurance contract that states the policy owner has the right to assign a life policy. There are two types of assignments (absolute and collateral): the transfer of all or part of the policy owner's legal rights under the policy contract to another person or entity.

Beneficiary – The person(s) named to receive any policy death benefits.

Blackout period – The time during which a surviving spouse stops receiving Social Security survivor's benefits (when the youngest child turns age sixteen) and begins receiving Social Security retirement benefits.

Cash value – Accrues in the policy and is one of the six components of a Universal Life policy; this is what is left after the mortality charge and policy expense are subtracted from the premium payment.

Collateral assignment – The owner of a policy gives up some policy rights, but only temporarily, to fulfill the requirements of a loan; once the loan is satisfied, the total ownership reverts back to the owner.

Conditional Receipt – A conditional receipt to show coverage that is issued by the agent after the application is completed and money is received.

Contingent beneficiary – This person (or persons) will become the beneficiary if the primary beneficiary predeceases the named insured.

Common Disaster clause – If the named insured and beneficiary die in a common accident, and it cannot be determined who died first, this provision allows the benefits to be paid directly to the contingent beneficiary regardless of the sequence of deaths.

Death benefit – A payout to the beneficiary of a life insurance policy when the insured person dies; it is one of the six components of a Universal Life policy.

Death Claim Settlements – Elected by a beneficiary or pre-selected by the owner prior to death, some options can apply for distributions of cash values to the owner while still living. The insured may have accrued a substantial cash value over the contract's life, which may be paid out in a lump sum, fixed amount or installments, Life Income or Annuity, Life Income with Period Certain, or installment with Refund.

Decreasing term – In this type of Term Insurance, the face amount of the policy decreases as the premium remains level; it is commonly used for mortgage insurance.

Dividends – Dividends paid on a participating policy are classified as a return of excess premium. These include cash, accumulation of interest, reduction of premium, paid-up additional insurance or a one-year level term. Dividends are not guaranteed.

Entire Contract clause – A standard provision of a life insurance contract is that the application becomes part of the policy, so the insured has a copy. Without it, the incontestable clause could not be used. If a copy of the application was not attached to the policy, the company is prohibited from denying a death claim in the first two years due to a misstatement of a material fact.

Estate Tax – A tax payable to the Federal Government and, in some cases, State Governments on the death of an individual. There are Federal and State rules for calculating the tax. Life insurance can go to the beneficiary, free of income tax liability, but without proper planning, the amount of the death benefit may be included as part of the deceased's estate and subject to estate tax.

Executor – An individual named in a will and approved by a probate court to carry out the provisions of the will.

Extended Term Insurance – A non-forfeiture option in which value is used to "one-pay" for a term contract. The full death benefit will be paid if the insured dies within the scheduled time period. If the owner does not select a non-forfeiture option, this is the option the company usually invokes.

Face Amount – The amount stated in the policy that is payable at the death of the named insured or at policy maturity. The actual amount paid is the face amount less any unpaid policy loans and/or interest, plus any earned dividends. In Universal Life Insurance, the face amount may be changed (lowered or increased) by the policy owner, subject to contract and company guidelines.

Family Insurance – A family rider that allows the purchase of term insurance for a spouse and/or children of the insured.

Grace period – A standard part of a life insurance contract that states that claims cannot be denied after two years from the date of issue.

Grantor – An individual or entity that creates a trust, may function as the trustee, and may also be known as the settlor or trustor.

Group Term Life insurance plans – Available in a variety of supplement and contribution options, group term insurance provides benefits to employees' beneficiaries in the event of death or a disabling accident.

Guaranteed/Fixed – A type of Universal Life where a guaranteed principal with interest is credited on a fixed basis. Although the interest earned is considered fixed, the company may adjust the rate of interest payable based on current assumptions of the rate of investment return and/or mortality.

Guaranteed Insurability Rider (GIR) – A rider that can be attached to a whole life, endowment, or universal life contract. The policyholder is guaranteed the right to make periodic additions to their life insurance at standard rates without medical examination or occupational consideration. The options can be exercised at stated ages or events (marriage or childbirth) in specified amounts. This amount usually is the face amount of the original policy, not to exceed a contract-set maximum such as $50,000.

Incontestable clause – A standard provision of a life insurance contract is a clause that states that claims cannot be denied after two years from the date of issue.

Indexed – A form of fixed universal life insurance wherein the principal is guaranteed if the client holds the contract for a certain period of time. Gains can be attractive, with minimal investment risk.

Insurability – Attributes that applicants possess that qualify them as insurable risks.

Insured – The individual on whose life an insurance policy is underwritten and issued. The insured may or may not be the owner.

Insurable interest – The relationship that exists between parties that justifies one owning life insurance on the other at the time of application. People are said to have an unlimited insurable interest in their own lives. An insurable interest may exist in the life of another person if there is a chance of a financial or emotional loss at that person's death. The insurable interest could be between two or more individuals or an entity with one or more individuals. The insurable interest must exist at the time of policy issue.

Irrevocable – The owner may change the beneficiary designation on a policy only with the beneficiary's consent.

Level term – In a type of Term Insurance, the premium and face amount remain level, but the policy is only for a specified number of years—5, 10, 15, 20, or 30 years.

Lifetime Income (Guaranteed) – A lifetime immediate annuity converts an investment into a stream of payments that lasts as long the annuitant. In concept, the payments come from three "pockets." These are the investment, investment earnings, and money from a pool of people in the annuitant's group who do not live as long as actuarial tables forecast.

Limited Paid-up contracts – Contracts that provide for the payment of the face amount upon the death of the insured, regardless of the age at death. They differ from the whole life policy in that the premium payments are contractually charged for a limited number of years.

Misstatement of Age or Sex provision – A standard provision on a life insurance contract. If the age (or sex) of the insured has been misstated in the application, the contract stays in force. The future death benefit will be adjusted to reflect the benefit that the premium would have purchased had the age/sex been stated correctly (or, in event of overpayment, a refund is paid).

Mortality charge – One of the six components of a Universal Life policy, this is the cost of term life insurance needed to pay the death benefit that is deducted from the policy account.

Non-forfeiture options – After a life insurance contract has built cash value, an owner may wish to exercise one of a few options to stop premium payments or to terminate the contract in order to direct the disposition of the cash values when the policy is surrendered. The options are cash, reduced paid-up insurance, and extended paid-up insurance.

Owner – The owner of a policy is the person who has control of the policy during the insured's lifetime. A parent, a spouse, a business, or a trust can be an owner.

Ownership Rights – A standard provision of a life insurance contract that states that the owner of a life insurance does not have to be the named insured. A parent, a spouse, a business, or a trust can be an owner.

Paid-up additions – Amounts of permanent insurance with their own cash value, which generate their own dividends.

Payor Benefit – A rider that waives the premium should the "payor" (usually the mother or father) die or be totally disabled while paying the premium for an "insured" (child). This rider typically terminates at the insured's (child's) age of 25.

Per Capita – A method of paying life insurance proceeds to those equally related to the decedent without regard to the lines of descent.

Per Stirpes – A stipulation that, should a beneficiary predecease the named insured, the beneficiary's share of the proceeds will go to their heirs in equal percentages.

Policy expenses – One of the six components of a Universal Life policy, these are deducted from the policy account to cover the insurance company's administrative costs.

Primary beneficiary – The main beneficiary named by the owner of a policy; there may be more than one primary beneficiary.

Premium – The amount paid regularly to an insurer to keep a policy in force.

Reduced Paid-up Insurance – A non-forfeiture option, the cash value is used to purchase a reduced death benefit that is fully paid-up. No future premiums are payable by the owner.

Reinstatement – A standard provision of a life insurance contract that allows for the reinstatement of a lapsed policy generally up to 2–3 years. It does require that the owner repay all back premiums (plus interest), repay any loans, and prove to be insurable.

Return of Premium Rider – When a return of premium rider is attached to term life insurance policies, and the policy owner–the individual or entity controlling all rights, benefits, and privileges of a life insurance contract–returns the premium paid if the insured outlives the term.

Revocable – This gives the owner the freedom to change the beneficiary designation on a policy as desired.

Rider – An addition to an existing insurance contract that allows for further provisions to be added to the basic instrument.

Right to Examine – Also called the Free-Look Provision, this is a standard provision of a life insurance contract that allows the applicant a specified number of days following physical receipt of the policy to examine it and, if dissatisfied for any reason, the applicant can return the contract to the company for a full refund of the deposit premium (if any). The free-look period can vary by state and is generally no fewer than 10 days.

Suicide clause – A standard provision of a life insurance contract; it states a death benefit will not be paid if suicide occurs during the first one or two years of the contract. The company usually will refund all premiums.

Surrender charges – Charge designed to make moving money out of an annuity less attractive to the owner. With fixed annuities and some indexed annuities, a surrender charge allows the entire premium to go to work in the annuity (no up-front sales charges).

Term Insurance – This kind of insurance and its protection is only in place for a specified period of time, usually a limited number of years. It pays the face amount payable only if death occurs during those specified years. It pays nothing if the insured lives past the end of the term coverage period. It may be renewable and/or convertible.

Term Rider – A term insurance rider that provides an additional amount of temporary coverage, which may be attached to an existing permanent policy for a specified period of time. Typically, the insurer offers this option when the policy is issued initially.

Trust – A legal document, instrument, or agreement where ownership of property is transferred, and management of property is given to a named trustee for the intent expressed in the trust agreement.

Trustee – A trustee manages the benefits of a life insurance contract owned by a trust.

Uniform Simultaneous Death Act (USDA) of 1993 – The act provides rules for the passage of joint property when death legally occurs and exceptions to the 120-hour rule. It also provides for a presumption of death after five years.

Universal Life Insurance – A flexible premium, adjustable, death-benefit life insurance contract. These were introduced in the early 1970s because high interest rates on money market accounts and aggressive sales by competing financial services and other non-insurance financial products forced life insurance companies to become competitive regarding financial returns.

Variable – A type of Universal Life wherein the principal, for the most part, is not guaranteed; the individual investor assumes the investment risk in that they may lose principal if the market turns downward. The attraction for investors is that the dollars invested should be able to keep pace with inflation.

Waiver of Premium – If the insured becomes totally disabled by bodily injury or disease, the insurer may waive the payment of subsequent premium. There is usually a 90- or 180-day waiting period before the company will waive the premiums. If the insured is still totally disabled after the waiting period, most companies will reimburse the insured for the premiums paid during the waiting period. When this rider is attached to a UL Policy, it must define exactly what portion of the contribution is being waived since premiums to the plan can vary. Some waive only the cost of insurance, while others waive the entire planned periodic payment.

Whole Life Insurance – This policy type includes those forms where the face amount is paid on the death of the insured, whenever death occurs. If the owner pays all premiums—which contractually never increase—the policy will remain in force until death. This type of insurance pays the face amount regardless of the insured's age at death, has continuous or limited premium payments, grows cash value, and provides permanent protection. It is used for college planning, estate protection, and retirement planning.