

Glossary

401(k) plan. A type of qualified retirement plan that employers establish for the benefit of employees and that allows both employers and employees to make specified contributions to the plan that reduce current taxable income. [14]

403(b) plan. A tax-advantaged retirement plan available only to tax-exempt organizations established for religious, charitable, and educational purposes and public schools. [14]

457(b) plan. A deferred compensation plan established by a state or local government or a tax-exempt organization. [14]

absolute assignment. An irrevocable assignment of a life insurance policy under which a policyowner transfers all of his policy ownership rights to the assignee. *Contrast with collateral assignment.* [9]

ACA. *See Patient Protection and Affordable Care Act.*

accelerated death benefit. A supplemental life insurance policy benefit that typically provides that a policyowner may elect to receive all or part of the policy's death benefit before the insured's death, if certain conditions are met. Also known as a *living benefit*. [7]

acceptance. The offeree's unqualified agreement to be bound to the terms of the offer. [3]

accidental death and dismemberment (AD&D) benefit. A supplemental life insurance policy benefit that provides an accidental death benefit and also provides a dismemberment benefit payable if an accident causes the insured to lose any two limbs or sight in both eyes. [7]

accidental death benefit. A supplemental life insurance policy benefit that requires the insurer to pay a specified amount of money in addition to the policy's basic death benefit if the insured dies as a result of an accident. [7]

account value. *See accumulated value.*

accumulated value. For a deferred annuity, the amount paid for the annuity, plus the interest earned, minus the amount of any withdrawals and fees. Also known as the *accumulation value*, *contract value*, or *account value*. [10]

accumulation at interest dividend option. A policy dividend option under which the policy dividends are left on deposit with the insurer to accumulate at interest. Sometimes called *dividends on deposit option*. [9]

accumulation period. The period between the contract owner's purchase of a deferred annuity and either the date when the annuity's payout period begins or the date when the annuity is terminated. [10]

accumulation unit. An ownership share in a selected subaccount held during the accumulation period of a variable deferred annuity. [10]

accumulation value. *See accumulated value.*

actively-at-work provision. A group insurance policy provision that states that, to be eligible for coverage, an employee must be actively at work—rather than ill or on leave—on the day the insurance coverage is to take effect. [13]

activities of daily living (ADLs). Activities used to measure a person's functional status, such as eating, bathing, dressing, continence, toileting, and transferring into or out of a bed, chair, or wheelchair. *Contrast with instrumental activities of daily living.* [12]

actuary. An expert in financial risk management and the mathematics and modeling of insurance, annuities, and financial instruments. [4]

AD&D benefit. *See accidental death and dismemberment benefit.*

additional insured rider. *See second insured rider.*

additional term insurance dividend option. A policy dividend option under which the insurer uses each policy dividend to purchase one-year term insurance on the insured's life. [9]

ADLs. *See activities of daily living.*

advanced life deferred annuity. *See longevity annuity.*

adverse selection. *See antiselection.*

Affordable Care Act. *See Patient Protection and Affordable Care Act.*

aleatory contract. A contract in which one party provides something of value to another party in exchange for a conditional promise. *Contrast with commutative contract.* [3]

annually renewable term insurance. *See yearly renewable term insurance.*

Annual Statement. An accounting statement that every U.S. insurer prepares each calendar year and files with the insurance department in each state in which it operates. [2]

annuitant. The person whose lifetime the insurer uses to determine the amount and duration of annuity payments under an annuity contract. [10]

annuity. A series of periodic payments. [10]

annuity benefit payments. *See annuity payments.*

annuity certain. *See fixed period annuity.*

annuity commencement date. *See annuity start date.*

annuity contract. A contract under which an insurer promises to make a series of periodic payments to a named individual in exchange for a premium or series of premiums. [1]

annuity income payments. *See annuity payments.*

annuity options. The choices a contract owner has as to how the insurer will distribute the annuity payments. Also known as *payout options*. [11]

annuity payments. The monthly, quarterly, semiannual, or yearly payments that the insurer promises to make under an annuity contract. Also known as *annuity benefit payments*, *annuity income payments*, and *periodic income payments*. [10]

annuity period. For an annuity, the time span between each of the annuity payments. [10]

annuity start date. The date when the insurer is required to begin making annuity payments under the contract. Also known as the *annuity commencement date*, *income date*, or *maturity date*. [10]

annuity unit. A share in an insurer's subaccount that is used in the calculation of variable annuity payments. [11]

antiselection. The tendency of individuals who believe they have a greater-than-average likelihood of loss to seek insurance protection to a greater extent than do other individuals. Also known as *adverse selection* or *selection against the insurer*. [1]

APL option. *See automatic premium loan option.*

applicant. The person or business that applies for an insurance policy. [1]

assets. Items of value, such as cash, buildings, and investments, that a company owns. [2]

assignee. The party to whom life insurance property rights are transferred. [9]

assignment. An agreement under which the policyowner transfers some or all of his ownership rights in a life insurance policy to another party. [9]

assignment provision. A life insurance policy provision that describes the roles of the insurer and the policyowner when the policy is assigned. [9]

assignor. The policyowner who makes an assignment of a life insurance policy. [9]

assuming company. *See reinsurer.*

attained age. The age the insured has reached (attained) on a specified date. [5]

attained age conversion. A conversion of a term life insurance policy to a cash value insurance policy in which the premium rate for the cash value policy is based on the insured's age at the time the policy is converted. [5]

automatic dividend option. A specified policy dividend option that the insurer will apply if the owner of a participating policy does not choose an option. [9]

automatic nonforfeiture benefit. A specific nonforfeiture benefit that becomes effective automatically when a renewal premium for a cash value life insurance policy is not paid by the end of the grace period *and* the policyowner has not elected another nonforfeiture option. [8]

automatic premium loan (APL) option. A cash value life insurance policy nonforfeiture option under which the insurer will automatically pay an overdue premium for the policyowner by making a loan against the policy's cash value as long as the cash value equals or exceeds the amount of the premium due. [8]

bargaining contract. A contract in which both parties, as equals, set the terms and conditions of the contract. *Contrast with* **contract of adhesion**. [3]

basic medical expense coverage. Medical expense insurance coverage that provides separate benefits for each type of covered medical care cost: hospital expenses, surgical expenses, and physicians' expenses. [12]

beneficiary. (1) For a life insurance policy, the person or party the policyowner names to receive the policy benefit. [1] (2) For an annuity, the person or legal entity who may receive benefits accrued or values remaining in an annuity contract upon the death of the contract owner or annuitant. [10]

benefit formula. A formula that describes the calculation of a plan's financial obligation to participants in a retirement plan. [14]

benefit period. In a disability income insurance policy, the time period during which the insurer agrees to pay income benefits to the insured. [12]

benefit schedule. A schedule included in group life insurance policies to define the amount of life insurance the policy provides for each group insured. [13]

benefit trigger. A long-term care insurance policy feature specifying the conditions that establish an insured's eligibility to receive long-term care benefits. [12]

benefit waiting period. *See* **elimination period**.

bilateral contract. A contract in which both parties make legally enforceable promises when they enter into the contract. *Contrast with* **unilateral contract**. [3]

blended rating. A method of setting group insurance premium rates in which the insurer uses a combination of manual rating and experience rating. *Contrast with* **manual rating** and **experience rating**. [13]

block of policies. A group of policies issued to insureds who are all the same age, the same sex, and in the same risk classification. [4]

business continuation insurance plan. An insurance plan designed to ensure the continued financial viability of a business when faced with the death or disability of the business owner or other key person. [5]

buy-sell agreement. An agreement in which (1) one party agrees to purchase the financial interest that a second party has in a business following the second party's death, and (2) the second party agrees to direct his estate to sell his interest in the business to the purchasing party. [5]

calendar-year deductible. In medical expense insurance, a deductible that applies to the total of all allowable expenses an insured incurs during a given calendar year. [12]

capital. The amount of money that a company's owners have invested in the company, usually through the purchase of company stock. [2]

cash dividend option. A policy dividend option under which the insurance company sends the policyowner a check in the amount of the policy dividend that was declared. [9]

cash payment nonforfeiture option. A cash value life insurance policy nonforfeiture option under which the policyowner discontinues premium payments, surrenders the policy, and receives the policy's cash surrender value in a lump-sum payment. [8]

cash surrender value. The amount that a policyowner is entitled to receive upon surrendering a cash value life insurance policy, before adjustments for factors such as policy loans and applicable charges. Also known as the *surrender value* or the *surrender benefit*. [6]

cash value. The savings element of a cash value life insurance policy. [1]

cash value life insurance. Life insurance that provides coverage throughout the insured's lifetime and also provides a savings element, known as the cash value. Also known as *permanent life insurance*. *Contrast with* **term life insurance**. [1]

CDHP. *See* **consumer-driven health plan**.

ceding company. *See* **direct writer**.

certificate holder. An individual who is insured under a group insurance plan and who has received a certificate of insurance. [13]

certificate of authority. A document that grants an insurer the right to conduct an insurance business and sell insurance products in the jurisdiction that grants the certificate. Also known as a *license*. [2]

certificate of insurance. A document that is provided to each person insured by a group insurance plan that describes (1) the coverage that the master group insurance contract provides and (2) the group insured's rights under the contract. [13]

children's insurance rider. A supplemental life insurance policy benefit that provides term life insurance coverage on the insured's children. [7]

claim. A request for payment under the terms of an insurance policy. [1]

class designation. A life insurance beneficiary designation that identifies a certain group of people rather than naming each person individually. [9]

closed contract. A contract for which only those terms and conditions that are printed in—or attached to—the contract are considered to be part of the contract. *Contrast with* **open contract**. [8]

cognitive impairment. A reduction in a person's ability to think, reason, or remember. *Contrast with* **physical impairment**. [12]

coinsurance. In medical expense insurance, an expense participation requirement in which the insured must pay a specified percentage of all allowable expenses that remain after he has paid the deductible. [12]

COLA benefit. *See* **cost-of-living-adjustment benefit**.

collateral assignment. A temporary assignment of the monetary value of a life insurance policy as collateral—or security—for a loan. *Contrast with* **absolute assignment**. [9]

commutative contract. A contract in which the parties specify in advance the values that they will exchange, and the parties generally exchange items or services that they think are of relatively equal value. *Contrast with aleatory contract.* [3]

compounding. Calculating interest on both the principal and the accrued interest. [4]

compound interest. Interest on both the principal and accrued interest. *Contrast with simple interest.* [4]

conditional promise. A promise to perform a stated act if a specified, uncertain event occurs. [3]

consideration. A requirement for the formation of a valid informal contract that is met when each party gives or promises something that is of value to the other party. [3]

consolidation. In the financial services industry, typically refers to the combination of financial institutions within or across sectors. [2]

consumer-driven health plan (CDHP). An employer-sponsored health benefit plan that gives individuals the freedom to choose health care providers and benefits, but also requires them to assume the financial risk for their choices. [12]

contingent beneficiary. The party named to receive the policy proceeds only if all designated primary beneficiaries have predeceased the insured. Also called a *secondary beneficiary* or *successor beneficiary*. [9]

contingent deferred sales charge. *See surrender charge.*

contingent payee. For a life insurance policy, the person or party who will receive any proceeds still payable at the time of the payee's death. Also known as the *successor payee*. [9]

continuous-premium whole life insurance policy. A whole life insurance policy under which premiums are payable until the death of the insured. Also called a *straight life insurance policy* or *ordinary life insurance policy*. [6]

contract. A legally enforceable agreement between two or more parties. [3]

contract fee. For fixed deferred annuities, a periodic charge that an insurer assesses to cover the general expenses of administering the contract, such as the preparation of account statements. [11]

contract maintenance fee. For variable deferred annuities, a periodic charge that an insurer assesses to cover the general expenses of administering the contract, such as the preparation of account statements. [11]

contract of adhesion. A contract that one party prepares and that the other party must accept or reject as a whole, generally without any bargaining between the parties to the agreement. *Contrast with bargaining contract.* [3]

contract of indemnity. An insurance policy under which the amount of the policy benefit payable for a covered loss is based on the actual amount of the financial loss that results from the covered event, as determined at the time of the event. [1]

contract owner. The person or other entity who owns and exercises all the rights and privileges of an annuity contract. [10]

contract value. *See accumulated value.*

contractual capacity. The legal capacity to make a contract. [3]

contractual reserves. *See policy reserves.*

contributory plan. A group insurance plan in which group members are required to pay part or all of the premium for their coverage. *Contrast with noncontributory plan.* [13]

convergence. A movement toward a single financial institution being able to serve a customer's banking, insurance, and securities needs. [2]

conversion privilege. (1) For individual life insurance, a term life insurance provision that gives the policyowner the option to change—or convert—the term insurance policy to a cash value policy without providing evidence of insurability. [5] (2) In group life insurance, a policy provision that allows a group insured whose coverage terminates for certain reasons to convert her group life insurance coverage to an individual life insurance policy, usually without presenting evidence of insurability. [14]

convertible term insurance policy. A term insurance policy that gives the policyowner the option to convert the term policy to a cash value life insurance policy without providing evidence of insurability. [5]

cooling-off provision. *See free-look provision.*

copayment. In managed care plans, a specified, fixed amount that a plan member must pay to a network provider for certain medical services at the time the services are received. [12]

corporation. A legal entity that is created by the authority of a governmental unit, through a process known as *incorporation*, and that is separate and distinct from its owners. [2]

cost of benefits. The value of all the contractually required benefits a product promises to pay. Sometimes known as the *cost of insurance*. [4]

cost of insurance. *See cost of benefits.*

cost-of-living-adjustment (COLA) benefit. In disability income insurance policies, a benefit that provides for periodic increases in the disability income benefit amount that the insurer will pay to a disabled insured. [12]

credit life insurance. A type of term life insurance designed to pay the balance due on a loan other than a mortgage if the borrower dies before the loan is repaid. [5]

critical illness benefit. *See dread disease (DD) benefit.*

current interest-crediting rate. (1) For universal life (UL) insurance policies, the rate of interest that an insurer declares and pays on the policy's cash value for a specified period of time. [6] (2) For fixed deferred annuities, the rate of interest that an insurer declares and pays on the annuity's accumulated value for a specified period of time. [10]

DD benefit. *See* **dread disease benefit.**

death benefit. (1) For a life insurance policy, the primary policy benefit payable by an insurer when an insured dies while the policy is in force. [4] (2) For a deferred annuity, an amount of money payable to a beneficiary designated by the contract owner if the contract owner or annuitant (depending on the contract) dies before the annuity payments begin. Also known as a *survivor benefit*. [10]

declined risk. A proposed insured who presents a risk that is too great for the insurer to cover. [1]

decreasing term life insurance. Term life insurance that provides a death benefit that decreases in amount over the policy term. [5]

deductible. In medical expense insurance, a flat dollar amount of eligible medical expenses that an insured must pay before the insurer begins making any benefit payments under the policy. [12]

deferred annuity. An annuity under which the annuity payments are postponed for at least one year after the annuity is purchased. *Contrast with immediate annuity.* [10]

deferred income annuity (DIA). A fixed annuity that an individual typically buys in the years nearing retirement that locks in a guaranteed stream of income when it is purchased, although the annuity payments do not begin until a specified future date. [10]

defined benefit formula. A retirement plan benefit formula that specifies the amount of the retirement benefit a plan sponsor agrees to provide to each plan participant. *Contrast with defined contribution formula.* [14]

defined benefit pension plan. A type of qualified retirement plan that provides plan participants with a lifetime monthly income benefit at retirement. [14]

defined benefit plan. A retirement plan that specifies the amount of the benefit that each plan participant will receive at retirement. *Contrast with defined contribution plan.* [14]

defined contribution formula. A retirement plan benefit formula that specifies the contributions that the plan sponsor agrees to make to the plan. *Contrast with defined benefit formula.* [14]

defined contribution plan. A retirement plan that describes the annual contribution that the plan sponsor will deposit into the plan on behalf of each plan participant. *Contrast with defined benefit plan.* [14]

dental expense coverage. A type of medical expense coverage that provides benefits for routine dental examinations, preventive dental work, and dental procedures needed to treat tooth decay and diseases of the tooth and jaw. [12]

DIA. *See* **deferred income annuity.**

director of insurance. *See* **insurance commissioner.**

direct writer. In a reinsurance transaction, the insurance company that purchases reinsurance to transfer all or part of the risks on insurance policies the company issued. Also known as a *ceding company*. *Contrast with reinsurer.* [1]

disability buyout coverage. A type of disability income insurance coverage that provides benefits designed to fund the buyout of a partner's or owner's interest in a business should he become disabled. [12]

disability income benefit. A supplemental life insurance policy benefit that provides a monthly income benefit to the insured if she becomes totally disabled while the policy is in force. [7]

disability income coverage. A type of health insurance coverage that provides income replacement benefits if an insured is unable to work because of illness or injury. [1]

distribution period. *See* payout period.

dividend options. Specified methods by which the owner of a participating life insurance policy or the contract owner of a participating annuity may receive dividends. [9, 10]

dividends on deposit option. *See* accumulation at interest dividend option.

divisible surplus. A portion of an insurance company's surplus set aside specifically for distribution to owners of participating policies. [9]

Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank). A U.S. federal law designed to (1) promote the financial stability of the United States by improving accountability and transparency in the financial system and (2) protect consumers from abusive financial services practices. [2]

Dodd-Frank. *See* Dodd-Frank Wall Street Reform and Consumer Protection Act.

domicile. The jurisdiction in which a company incorporates. [2]

dread disease (DD) benefit. An accelerated death benefit under which the insurer agrees to pay a portion of the policy's death benefit to the policyowner if the insured suffers from one of a number of specified diseases. Also known as a *critical illness benefit*. [7]

eligibility period. In contributory group insurance plans, the period of time—usually 31 days—during which a new group member may first enroll for contributory group insurance coverage without providing evidence of insurability. Also called the *enrollment period*. [13]

elimination period. (1) In a disability income insurance policy, the specific amount of time that the insured must be disabled before becoming eligible to receive policy benefits. Also known as a *waiting period* or a *benefit waiting period*. [12] (2) In a long-term care insurance policy, the number of days that the insured must receive care before becoming eligible to receive benefits. [12]

Employee Retirement Income Security Act (ERISA). A U.S. federal law designed to protect covered employees and their beneficiaries by ensuring that employee benefit plans, such as retirement plans, meet specified requirements. [14]

employee stock ownership plan (ESOP). A type of qualified retirement plan in which employer contributions are invested primarily in the employer's stock. [14]

endorsement. *See* policy rider.

endowment insurance. Life insurance that provides a policy benefit payable either when the insured dies or on a stated date if the insured is still alive on that date. [1]

enrollment period. *See* **eligibility period.**

entire contract provision. An insurance policy or annuity contract provision that defines the documents that constitute the contract between the insurance company and the policyowner or contract owner. [8, 10]

equity indexed universal life insurance. *See* **indexed universal life insurance.**

ERISA. *See* **Employee Retirement Income Security Act.**

ESOP. *See* **employee stock ownership plan.**

estate. The accumulated assets that an individual owns when he dies. [5]

estate plan. A plan that considers the amount of assets and debts that a person is likely to have when he dies and how best to preserve those assets so that they can be distributed as he desires. [5]

evidence of insurability. Proof that a given person is an insurable risk. [5]

exchange. *See* **health insurance exchange.**

exclusion. An insurance policy provision that describes circumstances under which the insurer will not pay the policy benefit following an otherwise covered loss. [8]

experience rating. A method of setting group insurance premium rates in which the insurer considers the particular group's prior claims and expense experience. *Contrast with* **manual rating** and **blended rating.** [13]

extended term insurance nonforfeiture option. A cash value life insurance policy nonforfeiture option under which the policyowner discontinues paying premiums and uses the policy's net cash surrender value as a net single premium to purchase term insurance for the full coverage amount provided under the original policy, for as long a term as the net cash surrender value can provide. [8]

face amount. The amount of life insurance policy benefits for which an individual applies and that the insurer approves. [5]

family income coverage. A plan of decreasing term life insurance that pays the beneficiary a stated monthly income benefit amount if the insured dies during the policy term. [5]

family income policy. A cash value life insurance policy with a decreasing term insurance benefit that usually pays the death benefit as a lump sum when the insured dies and provides a stated monthly income benefit amount for a predetermined period to the insured's beneficiary—typically the surviving spouse. [5]

family insurance rider. *See* **spouse and children's insurance rider.**

family policy. A whole life insurance policy that includes term life insurance coverage on the primary insured's spouse and children. [6]

Federal Insurance Office (FIO). Created by Dodd-Frank, a U.S. federal agency authorized to monitor the insurance industry, identify areas with inadequate state regulation, and handle international insurance issues. [2]

federal system. A system of government in which a federal government and a number of lower-level governments share governmental powers. [2]

FIA. *See* **fixed indexed annuity.**

financial institution. A business that owns primarily financial assets, such as stocks and bonds, rather than fixed assets, such as equipment and raw materials. [2]

financial intermediary. An organization that collects funds from one group of people, businesses, and governments, known as *suppliers*, and channels them to another group, known as *users*. [2]

financial model. A computer-based mathematical model that approximates the operation of real-world financial processes. [4]

financial services industry. The industry that offers financial products and services to help individuals, businesses, and governments meet their financial goals of protecting against financial losses, accumulating and investing money and other assets, and managing debt and payments. [2]

Financial Stability Oversight Council (FSOC). Created by Dodd-Frank, a U.S. independent agency responsible for monitoring the safety and stability of the nation's financial system, identifying threats to the system, and coordinating regulatory responses to any such threats. [2]

FIO. *See* **Federal Insurance Office.**

first beneficiary. *See* **primary beneficiary.**

first-dollar coverage. Medical expense coverage under which the insurer begins to reimburse the insured for eligible medical expenses without first requiring an out-of-pocket contribution from the insured. [12]

first-to-die life insurance. *See* **joint whole life insurance.**

fixed account. For variable annuities, an account that guarantees payment of a fixed rate of interest for a specified period of time. [10]

fixed amount annuity. An annuity option in which the insurer provides annuity payments of a specified amount. *Contrast with* **fixed period annuity.** [11]

fixed amount option. A life insurance policy settlement option under which the insurance company pays equal installments of a stated amount until the policy proceeds, plus the interest earned, are exhausted. [9]

fixed annuity. An annuity contract under which the insurer guarantees (1) the minimum interest rate that it will apply to any accumulated value and (2) the minimum amount of the annuity payments that it will make. *Contrast with* **variable annuity.** [10]

fixed indexed annuity (FIA). A fixed deferred annuity that offers principal and interest rate guarantees as well as the possibility of additional earnings based on changes in an index. Also known as an *indexed annuity*. [10]

fixed period annuity. An annuity option in which the insurer provides annuity payments for a specified period of time. Also known as a *period certain annuity* or *annuity certain*. *Contrast with fixed amount annuity.* [11]

fixed period option. A life insurance policy settlement option under which the insurance company agrees to pay policy proceeds in equal installments to the payee for a specified period of time. [9]

fixed-premium universal life insurance policy. A universal life insurance policy that requires a series of scheduled premium payments of a specified amount for a specified length of time (typically 8 to 10 years) or until the insured's death, whichever comes first. [6]

flexible-premium annuity. An annuity that allows the contract owner to make additional premium payments after the contract is purchased. *Contrast with single-premium annuity.* [10]

flexible-premium variable life insurance. *See variable universal life (VUL) insurance.*

flexible-premium universal life insurance policy. A universal life insurance policy that allows the policyowner to alter the amount and frequency of premium payments, within specified limits. [6]

formal contract. A written contract that is enforceable because the parties met certain formalities concerning the form of the agreement. *Contrast with informal contract.* [3]

fraternal benefit society. A nonprofit organization that is operated solely for the benefit of its members and that provides social, as well as insurance, benefits to its members. Also known as a *fraternal insurer*. [2]

fraternal insurer. *See fraternal benefit society.*

fraudulent misrepresentation. A misrepresentation that was made with the intent to induce another party to enter into a contract that results in the giving up of something of value or a legal right and that did induce the innocent party to enter the contract. [8]

free-examination provision. *See free-look provision.*

free-look provision. An insurance policy or annuity contract provision that gives the policyowner or contract owner a stated period of time—usually at least 10 days—after the policy is delivered within which to cancel the policy. For an insurance policy, the policyowner receives a refund, and for an annuity contract, the contract owner receives a refund of the premiums paid or the contract's accumulated value. Also called a *free-examination provision* or *cooling-off provision*. [8, 10]

front-end load. For deferred annuities, a charge that an insurer imposes when a contract owner pays an initial premium and any additional premiums to help cover the costs of selling the annuity. [11]

FSOC. *See Financial Stability Oversight Council.*

fund operating expense charge. For variable deferred annuities, an annual charge that each investment fund underlying a subaccount assesses to cover the advisory and administrative expenses of the fund. [11]

funding instrument. *See* **funding vehicle.**

funding vehicle. An arrangement for investing a retirement plan's assets as the assets are accumulated. Also known as an *investment vehicle* or a *funding instrument*. [14]

future purchase option benefit. In certain disability income policies that specify a flat benefit amount, an option that grants the insured the right to increase the benefit amount in accordance with increases in the insured's earnings. [12]

general account. An asset account in which an insurer maintains funds that support its contractual obligations to pay benefits under its guaranteed insurance products, such as whole life insurance, fixed annuities, and other nonvariable products. [6]

GI benefit. *See* **guaranteed insurability benefit.**

GLBs. *See* **guaranteed living benefit riders.**

GLWB. *See* **guaranteed lifetime withdrawal benefit.**

GMAB. *See* **guaranteed minimum accumulation benefit.**

GMDB. *See* **guaranteed minimum death benefit rider.**

GMIB. *See* **guaranteed minimum income benefit.**

GMWB. *See* **guaranteed minimum withdrawal benefit.**

grace period. A specified time (often 31 days) following each premium due date during which the contract remains in effect regardless of whether the premium is paid. [8]

grace period provision. An insurance policy provision that specifies a length of time following each renewal premium due date within which the premium may be paid without loss of coverage. [8]

group annuity. In a retirement plan, an annuity that is purchased by a plan sponsor to provide annuity payments to plan participants at retirement. *Contrast with* **individual annuity**. [10]

group creditor life insurance. Group life insurance issued to a creditor, such as a bank, to insure the lives of the creditor's current and future debtors. [14]

group insurance. A method of providing life or health insurance coverage for a group of people under one contract. [13]

group insurance policy. A policy that insures the lives or health of a specific group of people, such as a group of employees. [1]

group insured. In most jurisdictions, an individual covered by a group insurance policy. Also known simply as the *insured*. [13]

group policyholder. The person or organization that decides what types of group insurance coverage to purchase for a specific group, negotiates the terms of the group insurance contract, and purchases the group insurance coverage. [3]

guaranteed insurability (GI) benefit. A supplemental life insurance policy benefit that gives the policyowner the right to purchase additional insurance of the same type as the basic life insurance policy—for an additional premium amount—on specified option dates (typically every three years) during the life of the policy without supplying evidence of the insured's insurability. Also known as a *guaranteed insurability option*. [7]

guaranteed insurability option. *See* **guaranteed insurability (GI) benefit.**

guaranteed lifetime withdrawal benefit (GLWB). A guaranteed living benefit rider that allows the contract owner to take withdrawals for life without annuitizing the contract, even if the accumulated value is completely depleted. [11]

guaranteed living benefit riders (GLBs). For many variable annuities and some fixed indexed annuities, riders that offer contract owners protection from downturns in the market by guaranteeing certain income, withdrawal, or accumulation amounts. [11]

guaranteed minimum accumulation benefit (GMAB). A guaranteed living benefit rider that offers the contract owner a minimum protected amount if the annuity stays in force for a specified period of time, regardless of the investment performance of the accumulated value. [11]

guaranteed minimum death benefit rider (GMDB). A variable deferred annuity rider that guarantees that, if the annuitant dies before the annuity payments begin, the beneficiary will receive a stated minimum amount, regardless of the contract's accumulated value at the time. [11]

guaranteed minimum income benefit (GMIB). A guaranteed living benefit rider that offers a lifetime minimum annuity payment amount when the benefit base is annuitized, regardless of the investment performance of the accumulated value. [11]

guaranteed minimum interest-crediting rate. (1) For universal life (UL) insurance policies, the minimum interest rate that an insurer must pay on the policy's cash value. [6] (2) For fixed deferred annuities, the minimum interest rate that an insurer must pay on the annuity's accumulated value. [10]

guaranteed minimum withdrawal benefit (GMWB). A guaranteed living benefit rider that allows the contract owner to withdraw a specified percentage of the benefit base annually—but not for life—regardless of the investment performance of the accumulated value. [11]

HCFSA. *See* **health care flexible spending account.**

HDHP. *See* **high-deductible health plan.**

health care flexible spending account (HCFSA). An employer-sponsored health plan that allows employees to set aside a predetermined amount of their pre-tax wages to pay for qualified medical expenses. [12]

health insurance. Insurance that provides protection against the risk of financial loss resulting from illness, injury, or disability. [1]

health insurance exchange. Created as a result of the Patient Protection and Affordable Care Act, an online insurance marketplace in which individuals and small businesses can purchase medical expense insurance coverage. Also known as an *insurance marketplace* or an *exchange*. [12]

health maintenance organization (HMO). In the United States, a health care financing and delivery system that provides comprehensive health care services to plan members, often referred to as *subscribers*, in a particular geographic area. [12]

health reimbursement arrangement (HRA). An employer-sponsored health plan that is used to pay for qualified medical expenses and that allows contributions only by the employer. [12]

health savings account (HSA). A tax-advantaged account in which an individual can accumulate money to pay for qualified medical expenses. [12]

high-deductible health plan (HDHP). A medical expense insurance plan that has a high deductible (usually at least \$1,300 or more) and typically costs less than traditional medical expense insurance. [12]

HMO. *See* **health maintenance organization.**

hospital expenses. Medical expenses that include charges for specific inpatient and outpatient hospital services, such as room and board, medications, laboratory services, and other fees associated with a hospital stay. [12]

HRA. *See* **health reimbursement arrangement.**

HSA. *See* **health savings account.**

IADLs. *See* **instrumental activities of daily living.**

immediate annuity. An annuity that provides annuity payments that begin no later than one year after the annuity is purchased. *Contrast with* **deferred annuity**. [10]

income date. *See* **annuity start date.**

incontestability provision. A life insurance policy or annuity contract provision that denies the insurer the right to rescind—or cancel—the contract on the grounds of a material misrepresentation in the application after the contract has been in force for a specified period of time. [8, 10]

increasing term life insurance. Term life insurance that provides a death benefit that starts at one amount and increases by some specified amount or percentage at stated intervals over the policy term. [5]

indemnity benefit method. In long-term care insurance policies, a benefit payment method in which the insurer pays a stated benefit amount to the insured, regardless of the amount of expenses incurred. Also known as the *per diem method*. [12]

indemnity benefits. Contractual benefits that are based on the actual amount of the insured's financial loss. Also known as *reimbursement benefits*. [12]

index account. The portion of the cash value of an indexed universal life insurance policy for which the crediting rate is determined by changes in an index. [6]

indexed annuity. *See fixed indexed annuity.*

indexed universal life (IUL) insurance. A type of universal life insurance that offers the same features as universal life insurance, but also offers the possibility of additional earnings based on changes in a published index. Also called *equity indexed universal life (EIUL) insurance*. [6]

individual annuity. An annuity that is purchased and owned by a person or purchased by a legal entity, such as a trust, on behalf of a person. *Contrast with group annuity*. [10]

individual insurance policy. A policy that insures the life or health of a named person. [1]

individual retirement account. An individual retirement arrangement that takes the form of a trust or custodial account created in the United States for the exclusive benefit of a taxpayer or a taxpayer's beneficiaries. *Contrast with individual retirement annuity*. [11]

individual retirement annuity. An individual retirement arrangement that takes the form of an annuity issued by an insurance company. *Contrast with individual retirement account*. [11]

individual retirement arrangement (IRA). In the United States, a tax-favored retirement savings vehicle that allows a person with taxable compensation to deposit a stated amount of that compensation into the vehicle. [11]

informal contract. An oral or a written contract that is enforceable because the parties met requirements concerning the substance of the agreement rather than requirements concerning the form of the agreement. *Contrast with formal contract*. [3]

initial premium. The first premium paid for an insurance policy. [3]

instrumental activities of daily living (IADLs). Activities that are necessary for an individual to live independently but that are not essential to daily functioning, such as managing finances, cooking, doing laundry, shopping for food and clothing, using transportation, taking medications, and using the telephone. *Contrast with activities of daily living*. [12]

insurable interest. The interest an insurance policyowner has in the risk that is insured. A policyowner has an insurable interest if he is likely to suffer a genuine loss or detriment should the event insured against occur. [1]

insurance commissioner. The individual who is responsible for directing the operations of the state insurance department. Also known as the *superintendent of insurance* or *director of insurance*. [2]

insurance company. *See insurer.*

insurance contract. *See insurance policy.*

insurance marketplace. *See health insurance exchange.*

insurance policy. A written document that contains the terms of the agreement between the insurer and the owner of the policy. Also known as a *policy* or an *insurance contract*. [1]

insured. (1) The person whose life, health, or property is insured under an insurance policy. [1] (2) In group insurance plans, an alternate term for a group insured. [13]

insurer. A company that accepts risk and makes a promise to pay a policy benefit if a covered loss occurs. Also known as an *insurance company*. [1]

insurer-administered group plan. A group insurance plan in which the insurer is responsible for handling the administrative and recordkeeping aspects of the plan. *Contrast with self-administered group plan*. [13]

interest. A payment for the use of money. [4]

interest option. A life insurance policy settlement option under which the insurance company invests the policy proceeds and periodically pays interest on those proceeds to the payee. [9]

investment earnings. The money an insurer earns from investing the funds it receives from customers. [4]

investment vehicle. *See funding vehicle.*

IRA. *See individual retirement arrangement.*

IUL insurance. *See indexed universal life insurance.*

irrevocable beneficiary. A life insurance policy beneficiary whose designation as beneficiary cannot be changed by the policyowner unless the beneficiary gives written consent. *Contrast with revocable beneficiary*. [9]

joint and survivor annuity. An annuity option in which the insurer provides a series of annuity payments based on the life expectancies of two or more annuitants, with payments continuing until the last annuitant dies. [11]

joint mortgage life insurance. A variation of mortgage life insurance that provides the same benefit as a mortgage life insurance policy except the joint policy insures the lives of two people. [5]

joint whole life insurance. A plan of whole life insurance that has the same features and benefits as individual whole life insurance, except that it insures two people under the same policy. Often referred to as *first-to-die life insurance*. [6]

juvenile insurance policy. An insurance policy that is issued on the life of a child but is owned and paid for by an adult, usually the child's parent or legal guardian. [7]

key employee life insurance. *See key person life insurance.*

key person. For insurance purposes, any person or employee whose continued participation in a business is vital to the success of the business and whose death or disability would cause the business to incur a significant financial loss. [5]

key person disability coverage. A type of disability income insurance coverage that provides benefit payments to the business if an insured key person becomes disabled. [12]

key person life insurance. Individual life insurance that a business purchases on the life of a key person. Also known as *key employee life insurance*. [5]

lapse. The termination of an insurance policy for nonpayment of premium. [4]

lapse rate. The percentage of a specified group of policies in force at the beginning of a specified period, such as a year, that are terminated by the end of that period for reasons other than the death of the insured. [4]

last survivor life insurance. A variation of joint whole life insurance under which the death benefit is paid only after both people insured by the policy have died. Also known as *second-to-die life insurance* or *survivorship life insurance*. [6]

law of large numbers. A concept that states that, typically, the more times we observe a particular event, the more likely that our observed results will approximate the true probability that the event will occur in the future. [1]

legal reserves. *See* **policy reserves.**

legal reserve system. The system insurers use to set financial values for life insurance products. [4]

level premium system. A life insurance premium system that allows a policyowner to pay the same premium amount each year a policy is in force. [4]

level term life insurance. Term life insurance that provides a death benefit that remains the same over the policy term. [5]

liabilities. A company's debts and future obligations. [2]

license. *See* **certificate of authority.**

life and health insurance company. A company that issues and sells products that insure against financial losses that result from personal risks. [1]

life annuity. An annuity that provides annuity payments for *at least* the lifetime of a named individual. [9]

life income option. A life insurance policy settlement option under which the insurance company agrees to pay the policy proceeds in periodic installments over the payee's lifetime. [9]

life income with period certain annuity. An annuity option that guarantees that the insurer will make annuity payments throughout the annuitant's life and for at least a specified period, even if the annuitant dies before the end of that period. [11]

life income with refund annuity. An annuity option that provides annuity payments throughout the annuitant's lifetime and guarantees that at least the purchase price of the annuity will be paid out. Also known as a *refund annuity*. [11]

life insurance. Insurance that provides protection against the economic loss caused by the death of the person whose life is insured. [1]

life only annuity. An annuity option in which the insurer provides annuity payments for only as long as the annuitant lives. Also known as a *single life annuity* or a *straight life annuity*. [11]

limited-payment whole life insurance policy. A whole life insurance policy for which premiums are payable only for a stated period of time or until the insured's death, whichever occurs first. [6]

liquidation period. *See* payout period.

living benefit. *See* accelerated death benefit.

longevity annuity. A fixed annuity that an individual at or near retirement purchases with a lump sum that at the time of purchase locks in a guaranteed stream of income to begin at a specified advanced age—typically age 80 or 85. Also known as an *advanced life deferred annuity* or *longevity insurance*. [10]

longevity insurance. *See* longevity annuity.

longevity risk. The risk that a person will live longer than expected and will exhaust her assets. [10]

long-term care insurance (LTCI). A type of health insurance that pays benefits for medical or other health-related services needed by an individual who, because of his advanced age or the effects of a serious illness or injury, needs care in his own home or a qualified facility. [1]

long-term care (LTC) insurance benefit. An accelerated death benefit under which the insurer agrees to pay a monthly benefit to a policyowner if the insured requires constant care for a medical condition. [7]

long-term group disability income coverage. Group disability income coverage that provides a maximum benefit period of more than one year. *Contrast with* short-term group disability income coverage. [12]

long-term individual disability income coverage. Individual disability income coverage that provides a maximum benefit period of five years or more. *Contrast with* short-term individual disability income coverage. [12]

LTC insurance benefit. *See* long-term care insurance benefit.

LTCI. *See* long-term care insurance.

lump-sum distribution. For deferred annuities, an annuity option in which the contract owner chooses to have the accumulated value of the annuity distributed in a single payment. [11]

M&E charge. *See* mortality and expense risks (M&E) charge.

major medical expense coverage. Medical expense insurance that provides substantial benefits for (1) basic hospital expenses, surgical expenses, and physicians' expenses; (2) additional medical services related to illness or injuries; and (3) preventive care. [12]

managed care plan. An arrangement that integrates the financing and management of health care with the delivery of health care services to a group of individuals who have enrolled in the plan. [12]

manual rating. A method of setting group insurance premium rates in which the insurer establishes rates for very broad classifications of group insureds using its own experience with a product and information collected by various governmental and trade associations rather than the experience of one particular group. *Contrast with* experience rating and blended rating. [13]

market conduct law. A law designed to make sure that insurance companies conduct their businesses fairly and ethically. [2]

market-value-adjusted (MVA) annuity. A type of fixed deferred annuity that adjusts withdrawal and surrender values based on changes in market interest rates. [10]

master group insurance contract. A contract that describes the relationship between an insurer and a group policyholder and specifies the benefits provided by the contract to the insured group members. [13]

material misrepresentation. A statement made in an application for insurance that is not true and that caused the insurer to enter into a contract it would not have agreed to if it had known the truth. [8]

maturity date. (1) The date on which the insurer will pay an endowment policy's face amount to the policyowner if the insured is still living. [6] (2) For annuities, an alternate term for **annuity start date**. [10]

maximum out-of-pocket provision. A major medical expense insurance policy provision that states that the policy will cover 100 percent of allowable medical expenses after the insured has paid a specified amount out of pocket to satisfy the deductible and coinsurance requirements. Also known as a *stop-loss provision*. [12]

McCarran-Ferguson Act. A U.S. federal law under which Congress left insurance regulation to the state governments, as long as Congress considers this regulation to be adequate. [2]

Medicaid. In the United States, a joint federal and state program that provides basic medical expense and nursing home coverage to low-income individuals and to certain elderly and disabled individuals. [12]

medical expense insurance. A type of health insurance coverage that provides benefits to pay for the treatment of an insured's illnesses and injuries and some preventive care. [1]

Medicare. In the United States, a federal government program that provides medical expense benefits to people age 65 and older and those with certain disabilities. [12]

minor. A person who has not attained the age of majority. [3]

misrepresentation. A false or misleading statement in an application for insurance. [8]

misstatement of age or sex provision. An insurance policy or annuity contract provision that describes the action the insurer will take in the event that the age or sex of the insured or annuitant is incorrectly stated. [8, 10]

modified coverage whole life insurance policy. A whole life insurance policy under which the amount of insurance provided decreases by specific percentages or amounts either when the insured reaches certain stated ages or at the end of stated time periods. [6]

modified-premium whole life insurance policy. A whole life insurance policy for which the annual premium amount changes after a specified initial period (typically 5 or 10 years). [6]

moral hazard. A characteristic that exists when the reputation, financial position, or criminal record of an applicant or a proposed insured indicates that the person may act dishonestly in the insurance transaction. *Contrast with physical hazard.* [1]

morbidity rate. The incidence of sickness and accidents, by age, occurring among a given group of people. *Contrast with mortality rate.* [1]

morbidity tables. Charts that show the incidence of sickness and accidents, by age, occurring among a given group of people. *Contrast with mortality tables.* [1]

mortality and expense risks (M&E) charge. For variable deferred annuities, a charge that covers various risks and expenses assumed by the insurer, such as the risk of providing the death benefit and certain other guarantees. [11]

mortality charge. The insurer's cost to cover the mortality risk assumed in issuing a life insurance policy. [6]

mortality rate. The rate at which death occurs among a specified group of people during a specified period, typically one year. *Contrast with morbidity rate.* [1]

mortality tables. Charts that indicate the number of people in a large group who are likely to die at each age. *Contrast with morbidity tables.* [1]

mortgage life insurance. A plan of decreasing term insurance designed to provide a benefit amount that corresponds to the decreasing amount owed on a mortgage loan. Also known as *mortgage redemption insurance*. [5]

mortgage redemption insurance. *See mortgage life insurance.*

mutual assent. A meeting of the minds about the terms of an agreement. [3]

mutual insurance company. An insurance company that is owned by its policyowners. *Contrast with stock insurance company.* [2]

MVA annuity. *See market-value-adjusted annuity.*

NAIC. *See National Association of Insurance Commissioners.*

National Association of Insurance Commissioners (NAIC). In the United States, a nongovernmental association of the insurance commissioners of all the states whose primary function is to promote the uniformity of state insurance regulation by developing model laws and regulations as guidelines for the states. [2]

net cash surrender value. The amount the policyowner actually receives—after the insurer makes any additions or subtractions to the cash surrender value—upon surrendering the policy. [8]

network. A group of physicians, hospitals, and ancillary service providers that a specific managed care plan has contracted with to deliver health care services to plan members. [12]

noncontributory plan. A group insurance plan in which group members are not required to pay any part of the premium for their coverage. *Contrast with contributory plan.* [13]

nonforfeiture provision. A cash value life insurance policy provision that sets forth the options available to the owner of a cash value policy if the policy lapses or if the policyowner decides to surrender—or terminate—the policy. [8]

nonpar policy. *See nonparticipating policy.*

nonparticipating policy. A type of insurance policy under which the policyowner does not share in the insurance company's divisible surplus. Also called a *nonpar policy*. [9]

nonqualified annuity. An annuity that is purchased outside of a tax-advantaged retirement plan or individual retirement arrangement. *Contrast with qualified annuity.* [11]

offer. A proposal to enter into a binding contract with another party. [3]

open contract. A contract that identifies the documents that constitute the contract between the parties, but all the enumerated documents are not necessarily attached to the contract. *Contrast with closed contract.* [8]

open enrollment period. In group insurance, a period of time—typically a specified 30 or 31 days per year—during which eligible people who did not join the group insurance plan at the first opportunity may join the plan without providing evidence of insurability. [13]

operating expenses. The costs of operations other than expenses for contractual benefits, or the cost of benefits. [4]

Option 1 plan. *See Option A plan.*

Option 2 plan. *See Option B plan.*

Option A plan. A universal life insurance policy under which the amount of the death benefit at any given time is level; the death benefit payable is always equal to the policy's face amount. Also known as an *Option 1 plan*. [6]

Option B plan. A universal life insurance policy under which the amount of the death benefit at any given time is equal to the policy's face amount plus the amount of the policy's cash value. Also known as an *Option 2 plan*. [6]

optional insured rider. *See second insured rider.*

optional modes of settlement. *See settlement options.*

ordinary life insurance policy. *See continuous-premium whole life insurance policy.*

original age conversion. A conversion of a term life insurance policy to a cash value insurance policy in which the premium rate for the cash value policy is based on the insured's age when the original term policy was issued. [5]

other insured rider. *See second insured rider.*

owners' equity. The owners' financial interest in a company, which is the difference between the amount of the company's assets (what it owns) and the amount of its liabilities (what it owes). [2]

ownership of property. The sum of all the legal rights that exist in a piece of property. [3]

P&C insurance company. *See* **property/casualty insurance company.**

paid-up additional insurance dividend option. A policy dividend option under which the insurer uses any declared policy dividend to purchase paid-up additional insurance on the insured's life. [9]

paid-up additions option benefit. A supplemental life insurance policy benefit offered in connection with a whole life insurance policy that allows the policyowner to purchase single-premium paid-up additions to the policy on stated dates in the future without providing evidence of the insured's insurability. [7]

paid-up policy. A life insurance policy that requires no further premium payments but continues to provide coverage. [6]

par policy. *See* **participating policy.**

partial disability. A disability that prevents the insured either from performing some of the duties of his usual occupation or from engaging in that occupation on a full-time basis. [12]

partial surrender provision. *See* **policy withdrawal provision.**

participating policy. A type of insurance policy under which the policyowner shares in the insurance company's divisible surplus. Also called a *par policy*. [9]

partnership. A business that is owned by two or more people, who are known as the partners. [2]

Patient Protection and Affordable Care Act. Enacted by the U.S. Congress in 2010, legislation intended to make health insurance more affordable for and accessible to Americans. Also known as the *Affordable Care Act* or the *ACA*. [12]

payee. (1) For a life insurance policy, the person or party who is to receive the policy proceeds under a settlement option. [9] (2) For an annuity, the person or entity designated by an annuity contract owner to receive the annuity payments. [10]

payout factor. The amount of each annuity payment per thousand dollars of premium (for an immediate annuity) or accumulated value (for a deferred annuity). [11]

payout options. *See* **annuity options.**

payout period. For an annuity, the period during which the insurer makes annuity payments. Also known as the *liquidation period* or the *distribution period*. [10]

PCP. *See* **primary care provider.**

pension. A lifetime monthly income benefit paid to a person upon her retirement. [14]

per diem method. *See* **indemnity benefit method.**

period certain. For a fixed period annuity, the stated period over which the insurer will make the annuity payments. *See fixed period annuity.* [11]

period certain annuity. *See fixed period annuity.*

periodic income payments. *See annuity payments.*

permanent life insurance. *See cash value life insurance.*

personal property. All property other than real property. *Contrast with real property.* [3]

personal risk. The risk of economic loss associated with death, poor health, injury, and outliving one's economic resources. [1]

physical hazard. A physical characteristic that may increase the likelihood of loss. *Contrast with moral hazard.* [1]

physical impairment. A treatable, but generally incurable, chronic condition such as arthritis, emphysema, heart disease, diabetes, and hypertension. *Contrast with cognitive impairment.* [12]

physicians' expenses. Medical expenses that include charges associated with physicians' visits both in and out of the hospital. [12]

plan administrator. The party responsible for handling the administrative aspects of a retirement plan. [14]

plan document. A detailed legal agreement that establishes the existence of a retirement plan and specifies the rights and obligations of the various parties to the plan. [14]

plan participant. A member of a covered group who is eligible to participate in a retirement plan and who actually chooses to take part in the plan or whose participation is automatic. [14]

plan sponsor. A business, government entity, educational institution, nonprofit organization, or other group that establishes a retirement plan for the benefit of its members. [14]

point-of-service (POS) plan. A managed care plan that offers incentives for plan members to use providers who belong to the plan's network of providers, but allows plan members to choose, at the point of service, whether to seek medical care from inside or outside the network. [12]

policy. *See insurance policy.*

policy anniversary. The anniversary of the date on which coverage under an insurance policy became effective. [5]

policy benefit. A specific amount of money an insurer agrees to pay under an insurance policy when a covered loss occurs. [1]

policy dividend. An amount of money that an insurer pays to the owner of a participating policy from the insurer's divisible surplus. [9]

policy loan. A loan a policyowner receives from an insurer using the cash value of a life insurance policy as security. [6]

policy loan provision. A cash value life insurance policy provision that specifies the terms under which the policyowner of a cash value insurance policy can obtain a loan from the insurer against the policy's cash value. [8]

policy loan repayment dividend option. A policy dividend option under which the insurer applies policy dividends toward the repayment of an outstanding policy loan. [9]

policyowner. The person or business that owns an insurance policy. [1]

policy proceeds. The total monetary amount paid by an insurer if the insured dies while the policy is in force. [9]

policy reserves. Liabilities that represent the amount an insurer estimates it needs to pay future benefits. Sometimes referred to as *contractual reserves*, *legal reserves*, or *statutory reserves*. [4]

policy rider. An amendment to an insurance policy that becomes part of the insurance contract and changes its terms. Also known as an *endorsement*. [5]

policy term. The specified period of time during which a term life insurance policy provides coverage. [5]

policy withdrawal provision. A universal life insurance policy provision that permits the policyowner to reduce the amount of the policy's cash value by withdrawing up to the amount of the cash value in cash. Also called a *partial surrender provision*. [8]

portability provision. A provision in a group insurance policy that allows a group insured whose coverage terminates for certain reasons to continue her coverage under the group plan. [14]

portable coverage. Group insurance coverage that can be continued if an insured employee leaves the group. [14]

POS plan. *See point-of-service plan.*

PPO. *See preferred provider organization.*

preference beneficiary clause. A provision included in some life insurance policies that states that if the policyowner does not name a beneficiary, then the insurer will pay the policy proceeds in a stated order of preference. Also called a *succession beneficiary clause*. [9]

preferred premium rate. A lower-than-standard premium rate charged to insureds who are classified as preferred risks. [1]

preferred provider organization (PPO). A managed health care plan that arranges with providers for the delivery of health care at a discounted cost and that provides incentives for PPO members to use the providers who have contracted with the PPO, but also provides some coverage for services rendered by providers who are not part of the PPO network. [12]

preferred risk. A proposed insured who presents a significantly lower-than-average likelihood of loss. [1]

premium. A specified amount of money an insurer charges in exchange for agreeing to pay a policy benefit when a covered loss occurs. [1]

premium payment mode. The frequency at which an insurance policy's renewal premiums are payable. [9]

premium rate. The amount an insurer charges per unit of insurance coverage. [4]

premium reduction dividend option. A policy dividend option under which the insurer applies policy dividends toward the payment of renewal premiums. [9]

prescription drug coverage. A type of medical expense coverage that provides benefits for the purchase of drugs and medicines that are prescribed by a physician and are not available over the counter. [12]

presumptive disability. According to the terms of some disability income policies, a stated condition that, if present, automatically causes an insured to be considered totally disabled and thus eligible to receive disability income benefits. [12]

primary beneficiary. The party designated to receive a life insurance policy's proceeds following the death of the insured. Also known as a *first beneficiary*. [9]

primary care physician. *See* **primary care provider**.

primary care provider (PCP). In a managed care plan, a network member selected by a plan member who coordinates the plan member's medical care and treatment. Also known as a *primary care physician*. [12]

principal. The sum of money originally invested, loaned, or borrowed. [4]

probability. The likelihood that a given event will occur in the future. [1]

probationary period. In group insurance, the length of time—typically, from one to six months—that a new group member must wait before becoming eligible to enroll in a group insurance plan. [13]

profit. The money or revenue that a business receives for its products minus the expenses it incurs to create and support the products. [2]

profit sharing plan. A type of qualified retirement plan that allows the plan sponsor to make discretionary contributions funded primarily from its profits. [14]

property. A bundle of rights that a person has with respect to something. *See* **real property** and **personal property**. [3]

property and liability insurer. *See* **property/casualty (P&C) insurance company**.

property/casualty (P&C) insurance company. An insurer that issues and sells insurance policies that cover property damage risk and liability risk. Also known as a *property and liability insurer*. [1]

pure risk. A risk that involves no possibility of gain; either a loss occurs or no loss occurs. [1]

qualified annuity. An annuity that is purchased to fund or distribute funds from a tax-advantaged retirement plan or individual retirement arrangement. *Contrast with* **nonqualified annuity**. [11]

rate of return. The investment earnings expressed as a percentage of the principal. [4]

real property. Land and whatever is growing on or attached to the land. *Contrast with personal property.* [3]

reduced paid-up insurance nonforfeiture option. A cash value life insurance policy nonforfeiture option under which the policyowner discontinues paying premiums and uses the policy's net cash surrender value as a net single premium to purchase paid-up life insurance of the same plan as the original policy. [8]

refund annuity. *See life income with refund annuity.*

regular individual retirement arrangement. *See traditional individual retirement arrangement.*

reimbursement benefits. *See indemnity benefits.*

reimbursement method. In long-term care insurance policies, a benefit payment method in which the insurer reimburses eligible expenses that are incurred by the insured, up to the policy's daily or monthly benefit amount. [12]

reinstatement. The process by which an insurer puts back into force an insurance policy that either has been terminated because of nonpayment of renewal premiums or has been continued under the extended term or reduced paid-up insurance nonforfeiture option. [8]

reinstatement provision. An individual life insurance policy provision that describes the conditions that the policyowner must meet for the insurer to reinstate a policy. [8]

reinsurance. Insurance that one insurance company, known as the *direct writer* or *ceding company*, purchases from another insurance company, known as the *reinsurer* or *assuming company*, to transfer all or part of the risk on insurance policies that the direct writer issued. [1]

reinsurer. An insurance company that accepts risks transferred from another insurer in a reinsurance transaction. Also known as an *assuming company*. *Contrast with direct writer.* [1]

renewable term insurance policy. A term life insurance policy that gives the policyowner the option to continue the coverage at the end of the specified term without presenting evidence of insurability, although typically at a higher premium because the premium amount is based on the insured's attained age. [5]

renewal premium. An insurance policy premium payable after the initial premium. [3]

renewal provision. A term life insurance policy provision that gives the policyowner the option to continue the coverage for an additional policy term without providing evidence of insurability. [5]

return of premium (ROP) term insurance. A form of term life insurance that provides a death benefit if the insured dies during the policy term and promises a return of all or a portion of the premiums paid for the policy if the insured does not die during the policy term. [5]

revocable beneficiary. A life insurance policy beneficiary whose designation as beneficiary can be changed by the policyowner at any time before the insured's death. *Contrast with irrevocable beneficiary.* [9]

right of revocation. A life insurance policyowner's right to change the beneficiary designation at any time during the insured's lifetime. [9]

risk. The chance or possibility of an unexpected result, either a gain or a loss. [1]

risk class. A grouping of insureds who represent a similar level of risk to an insurer. [1]

risk management. The process in which individuals and businesses identify and assess the risks they face and determine how to deal with their exposure to these risks. [1]

risk selection. *See underwriting.*

ROP term insurance. *See return of premium term insurance.*

Roth individual retirement arrangement (Roth IRA). A type of individual retirement arrangement that permits people within certain income limits to make nondeductible contributions and to withdraw money on a tax-free basis, provided certain requirements are met. *Contrast with traditional individual retirement arrangement (IRA).* [11]

Roth IRA. *See Roth individual retirement arrangement.*

savings incentive match plan for employees (SIMPLE) IRA. For small businesses with 100 or fewer employers, a tax-advantaged retirement plan that offers retirement benefits through employee salary reductions and employer contributions. [14]

secondary beneficiary. *See contingent beneficiary.*

second insured rider. A supplemental life insurance policy benefit that provides term insurance coverage on the life of a person other than the policy's insured. Also known as an *optional insured rider*, *other insured rider*, or *additional insured rider*. [7]

second-to-die life insurance. *See last survivor life insurance.*

security. A financial asset that represents either (1) an obligation of indebtedness owed by a business, a government, or an agency, which is known as a *debt security*, or (2) an ownership interest, which is known as an *equity security*. [2]

segregated account. *See separate account.*

selection against the insurer. *See antiselection.*

self-administered group plan. A group insurance plan in which the group policyholder is responsible for handling the administrative and recordkeeping aspects of the plan. *Contrast with insurer-administered group plan.* [13]

SEP. *See simplified employee pension.*

separate account. An asset account the insurer maintains separately from its general account to isolate and help manage the funds placed in its variable products. Also called a *segregated account*. [6]

service fee. For deferred annuities, a fee that is charged for specific services or transactions requested by the contract owner. [11]

settlement options. Alternative methods that the owner or beneficiary of a life insurance policy can elect for receiving payment of the policy proceeds. Also known as *optional modes of settlement*. [9]

settlement options provision. A life insurance policy provision that grants a policyowner or a beneficiary several choices as to how the insurance company will distribute the proceeds of a life insurance policy. [9]

share. A unit of ownership in a stock corporation. Also known as a *share of stock*. [2]

shareholder. *See stockholder.*

share of stock. *See share.*

short-term group disability income coverage. Group disability income coverage that provides a maximum benefit period of one year or less. *Contrast with long-term group disability income coverage.* [12]

short-term individual disability income coverage. Individual disability income coverage that provides a maximum benefit period of one to five years. *Contrast with long-term individual disability income coverage.* [12]

SIFI. *See systemically important financial institution.*

simple interest. Interest on the principal only. *Contrast with compound interest.* [4]

SIMPLE IRA. *See savings incentive match plan for employees IRA.*

simplified employee pension (SEP). A written arrangement that allows a plan sponsor to make deductible contributions to a traditional IRA—referred to as a *SEP IRA*—set up for each plan participant. [14]

simultaneous death act. A law in many jurisdictions that governs how insurance companies evaluate common-disaster situations. [9]

single life annuity. *See life only annuity.*

single-premium annuity. An annuity that is purchased with the payment of a single, lump-sum premium amount. *Contrast with flexible-premium annuity.* [10]

single-premium deferred annuity (SPDA). An annuity that is purchased with a lump-sum premium payment and provides annuity payments that are postponed for at least one year after the annuity is purchased. [10]

single-premium immediate annuity (SPIA). An annuity that is purchased with a lump-sum premium payment and provides annuity payments that begin no later than one year after the annuity is purchased. [10]

single-premium whole life insurance policy. A type of limited-payment whole life insurance policy that requires only one premium payment. [6]

social insurance program. A welfare plan that is established by law and administered by a government and that provides assistance to specified groups of the population, such as the elderly, disabled, and unemployed. [2]

Social Security. A U.S. federal insurance program that provides specified benefits—such as monthly retirement income benefits—to eligible individuals. [14]

sole proprietorship. A business that is owned and operated by one person. [2]

solvent. A term used to describe an insurance company that is able to meet its debts and pay policy benefits when they come due. [2]

SPDA. *See* **single-premium deferred annuity.**

special class rate. *See* **substandard premium rate.**

special class risk. *See* **substandard risk.**

speculative risk. A risk that involves three possible outcomes: loss, gain, or no change. [1]

SPIA. *See* **single-premium immediate annuity.**

spouse and children's insurance rider. A supplemental life insurance policy benefit offered by some insurers that provides term life insurance coverage on the insured's spouse and children. Also known as a *family insurance rider*. [7]

spouse insurance rider. A supplemental life insurance policy benefit that provides term life insurance coverage on the insured's spouse. [7]

standard premium rate. A premium rate charged to insureds who are classified as standard risks. [1]

standard risk. A proposed insured who has a likelihood of loss that is not significantly greater than average. [1]

state insurance code. A set of laws in each state that regulates insurance in that state. [2]

state insurance department. An administrative agency in each state that is responsible for making sure that companies operating in the state comply with applicable regulatory requirements. [2]

statutory reserves. *See* **policy reserves.**

stock corporation. A corporation whose ownership is divided into units known as *shares* or *shares of stock*. [2]

stockholder. A person or organization that owns shares of stock in a corporation. Also known as a *shareholder*. [2]

stockholder dividend. A portion of a corporation's earnings paid to the owners of its stock. *Contrast with* **policy dividend**. [2]

stock insurance company. An insurance company that is owned by the people and organizations that own shares of the company's stock. *Contrast with* **mutual insurance company**. [2]

stop-loss provision. *See* **maximum out-of-pocket provision.**

straight life annuity. *See* **life only annuity.**

straight life insurance policy. *See* **continuous-premium whole life insurance policy.**

subaccount. (1) One of several investment funds to which a variable life insurance policyowner allocates the premiums she has paid and the cash values that have accumulated under her policy. [6] (2) An investment fund within an insurance company's separate account; used with variable life insurance policies and variable annuities. [6, 10]

substandard premium rate. A higher-than-standard premium rate charged to insureds who are classified as substandard risks. Also known as a *special class rate*. [1]

substandard risk. A proposed insured who has a significantly greater-than-average likelihood of loss but is still found to be insurable. Also known as a *special class risk*. [1]

succession beneficiary clause. *See preference beneficiary clause.*

successor beneficiary. *See contingent beneficiary.*

successor payee. *See contingent payee.*

suicide exclusion provision. A life insurance policy provision that states that the insurance company does not have to pay the death benefit if the insured dies as the result of suicide as defined by the policy within a specified period following the date of policy issue. [8]

superintendent of insurance. *See insurance commissioner.*

surgical expenses. Medical expenses that include charges for inpatient and outpatient surgical procedures. [12]

surplus. The amount by which a company's assets exceed its liabilities and capital. [2]

surrender benefit. *See cash surrender value.*

surrender charge. (1) For a cash value life insurance policy, a specific charge imposed if the owner surrenders the policy for its cash surrender value. [8] (2) For a deferred annuity, a fee an insurer imposes if the contract owner makes excess withdrawals as defined in the contract or fully surrenders the contract before the surrender period is over. Also known as a *contingent deferred sales charge*. [10]

surrender value. (1) For cash value life insurance, an alternate term for **cash surrender value**. [6] (2) For deferred annuities, the amount of the annuity's accumulated value, less any surrender charges, that the contract owner is entitled to receive if the contract is surrendered during its accumulation period. [10]

survivor benefit. For annuities, an alternate term for **death benefit**. [10]

survivorship clause. A provision included in some life insurance policies that states that the beneficiary must survive the insured by a specified period, usually 30 or 60 days, to be entitled to receive the policy proceeds. [9]

survivorship life insurance. *See last survivor life insurance.*

systemically important financial institution (SIFI). As identified by the Financial Stability Oversight Council, a financial institution whose failure could potentially pose a risk to the U.S. financial system and that is therefore subject to more stringent regulatory standards than other institutions. [2]

terminal illness (TI) benefit. A supplemental life insurance policy benefit under which the insurer typically pays a portion of the policy's death benefit to a policyowner if the insured suffers from a terminal illness and has a physician-certified life expectancy of less than a stated time, generally 12 or 24 months. [7]

term life insurance. Life insurance that provides a policy benefit only if the insured dies during the period specified in the policy. *Contrast with* **cash value life insurance.** [1]

third-party policy. A policy purchased by one person or business on the life of another person. [1]

TI benefit. *See* **terminal illness benefit.**

total disability. A disability that meets the requirements of a disability benefit provision in an insurance policy or policy rider and that qualifies a covered person to receive disability income benefits. [12]

traditional individual retirement arrangement (IRA). A type of individual retirement arrangement into which a person with taxable compensation can make annual contributions, which may be tax deductible. Also known as a *regular individual retirement arrangement*. *Contrast with* **Roth individual retirement arrangement (IRA).** [11]

traditional IRA. *See* **traditional individual retirement arrangement.**

UCR fee. *See* **usual, customary, and reasonable fee.**

UL insurance. *See* **universal life insurance.**

underwriter. An insurance company employee who is responsible for evaluating proposed risks. [1]

underwriting. The process of assessing and classifying the degree of risk represented by a proposed insured and making a decision to accept or decline that risk. Also known as *risk selection*. [1]

underwriting guidelines. The general rules that an insurer uses when assigning proposed insureds to an appropriate risk class. [1]

unilateral contract. A contract in which only one of the parties makes a legally enforceable promise when entering into the contract. *Contrast with* **bilateral contract.** [3]

universal life (UL) insurance. A form of cash value life insurance that is characterized by its separation of the three primary policy elements and its flexible face amount, death benefit amount, and premiums. [6]

usual, customary, and reasonable (UCR) fee. The amount that medical care providers within a particular geographic region commonly charge for a particular medical service. [12]

valid contract. A contract that is enforceable at law. *Contrast with void contract and voidable contract.* [3]

valued contract. An insurance policy that specifies the amount of the policy benefit that will be payable when a covered loss occurs, regardless of the actual amount of the loss that was incurred. [1]

variable annuity. An annuity under which the amount of any accumulated value and the amount of the annuity payments fluctuate in accordance with the performance of one or more specified investment funds. *Contrast with fixed annuity.* [10]

variable life (VL) insurance. A form of cash value life insurance in which premiums are fixed, but the death benefit and other values may vary, reflecting the performance of the investment subaccounts that the policyowner selects. [6]

variable universal life (VUL) insurance. Cash value life insurance that combines the premium and death benefit flexibility of universal life insurance with the investment flexibility and risk of variable life insurance. Also called *flexible-premium variable life insurance.* [6]

vested interest. A property right that has taken effect and cannot be altered or changed without the consent of the person who owns the right. [9]

vesting requirements. For a retirement plan, requirements that define when a plan participant is entitled to receive partial or full benefits under the plan even if he terminates employment prior to retirement. [14]

vision care coverage. A type of medical expense coverage that provides the insured with benefits for expenses incurred in obtaining eye examinations and corrective lenses. [12]

VL insurance. *See variable life insurance.*

voidable contract. A contract under which one party has the right to avoid his obligations under the contract. *Contrast with valid contract and void contract.* [3]

void contract. A contract that does not meet one or more of the legal requirements to create a valid contract and, thus, is never enforceable. *Contrast with valid contract and voidable contract.* [3]

VUL insurance. *See variable universal life insurance.*

waiting period. *See elimination period.*

waiver of premium for disability (WP) benefit. A supplemental life insurance policy benefit under which the insurer promises to give up—to waive—its right to collect premiums that become due when the insured is totally disabled according to the policy or rider's definition of disability. [7]

waiver of premium for payor benefit. A supplemental life insurance policy benefit that provides that the insurer will waive its right to collect a renewal premium if the payor—the person who pays the policy premiums—dies or becomes totally disabled. [7]

whole life insurance. A type of cash value life insurance that provides lifetime insurance coverage, usually at a level premium rate that does not increase as the insured ages. [6]

will. A legal document that directs how an individual's property is to be distributed after her death. [5]

withdrawal provision. For deferred annuities, a provision that gives the contract owner the right to receive a portion of the contract's accumulated value during the accumulation period. [10]

WP benefit. *See waiver of premium for disability benefit.*

yearly renewable term (YRT) insurance. A one-year term insurance policy or rider that is renewable for a stated number of years. Also known as *annually renewable term (ART) insurance*. [5]

YRT insurance. *See yearly renewable term insurance.*