

Life Insurance: Glossary of Terms

Accumulation Value: Term used in Universal Life policies to describe the total of all premiums and earnings credited to the account before deductions for any expenses, loans, and surrenders.

Adjustable Life: Form of life insurance allowing the owner to change the face amount, premium amount, period of protection, or the length of the premium payment period.

Attained Age: The age of the insured on a given date.

Automatic Premium Loan: Provision in a life insurance policy authorizing the insurer to use the loan value to pay any premiums still due at the end of the grace period.

Beneficiary: Individual or entity (e.g., trust, corporation) designated to receive the proceeds of a life insurance policy upon the death of the insured.

Cash Value: Generally, the amount of cash due an owner upon surrendering a policy.

Contingent Beneficiary: Individual or legal entity designated to receive the proceeds of a life insurance policy if the primary beneficiary is deceased at the time the benefits become payable.

Contributory: Term used to describe a plan of employee coverage in which the employee pays at least part of the premium.

Cost-of-Living Rider: Designed to adjust benefits in relation to changes in the cost of living. The majority of such riders are tied to changes in the Consumer Price Index (CPI). Generally, the amount of insurance is automatically increased, without evidence of insurability, at predetermined periods for a maximum amount.

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

Death Benefit: Amount stated in a policy contract as payable upon the death of the person whose life is being insured.

Decreasing Term: Form of life insurance that provides a death benefit which declines throughout the term of the contract, reaching zero at the end of the term.

Dependent Coverage: Coverage on the head of a family which is extended to his or her dependents, including only the lawful spouse and unmarried children who are not yet employed on a full-time basis. "Children" may be step, foster, adopted, or natural.

Dependent Life Insurance: Benefit that is part of a group life insurance contract, providing death protection to the eligible dependents of a covered employee.

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Dividend Accumulation: Option in a life insurance policy allowing the policyholder to leave any premium dividends with the insurer to accumulate at compound interest.

Dividend Additions: Option whereby the owner can leave policy dividends with the insurer, and each dividend is used to buy a single premium life insurance policy for whatever amount it will purchase. Also called paid-up additions.

Dividend Option: Alternative ways in which an insured under a participating life insurance policy may elect to receive policy dividends.

Extended Term Insurance: Provision found in most policies which provides the option of continuing the existing amount of insurance as term insurance for as long a period of time as the contract's cash value will purchase. This is one of the nonforfeiture options available to the insured in case a premium is not paid within the grace period.

Face Amount: Amount that will be paid in the case of death or maturity of a policy.

Family Income Policy: Policy that pays an income up to a future date designated in the policy to the beneficiary after the death of the insured. The period of payment is measured from the date of the inception of the contract, and at the end of the income period the face amount of the policy is paid to the beneficiary. If the insured lives beyond the income period, only the face amount is payable in the event of his death.

Flexible Premium: Policy allowing the owner to vary the amount or timing of premiums.

Free Look: Period of time (usually 10, 20 or 30 days) during which a policyholder may examine a newly issued individual policy and surrender it in exchange for a full refund of premium if not satisfied for any reason.

Grace Period: Prescribed period, usually 30 to 31 days after the premium due date, during which an insurance contract remains in force and the premium may be paid.

Group Life Insurance: Life Insurance provided for members of a group. It is most often issued to a group of employees but may be issued to any group provided it is not formed for the purpose of buying insurance. The cost is typically lower than for individual policies because administrative expenses per life are decreased, there are certain tax advantages, and measures taken against adverse selection are effective.

Guaranteed Renewable: Contract in which the insured has the right to keep a policy in force by the timely payment of premiums for a period of time as set forth in the contract. During that period of time, the insurer has no right to make any change in any provision of the contract other than a change in the premium rate for all insureds in the same class.

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Incidents of Ownership: Various rights which may be exercised under the policy contract by the policy owner. These include: (1) the right to cash in the policy; (2) to receive a loan on the cash value of the policy; and (3) to change the beneficiary.

Incontestable Clause: Clause in a policy providing that after a policy has been in effect for a given length of time (typically two or three years), the insurer shall not be able to contest the statements contained in the application.

Irrevocable Beneficiary: Beneficiary that cannot be changed without his or her consent.

Loan Value: The amount of money a policy owner can borrow using the cash value of the life insurance policy as security.

Maturity Date: Date at which the face amount of a life insurance policy becomes payable by reason of endowment.

Net Surrender Value: Amount of cash due an owner upon surrendering a policy.

Noncontributory: Plan or program of insurance, usually a group program, for which the employer or sponsor pays the entire premium.

Nonforfeiture Values: Values in a life insurance policy that by law the policy owner cannot forfeit, even if ceasing to pay the premiums. Depending on state law, these benefits may include the cash surrender value, the loan value, the paid-up insurance value, and the extended term insurance value.

Ordinary Life Policy: Life insurance policy for which premiums are paid continuously as long as the insured lives.

Permanent Life Insurance: One of three basic types of life insurance (whole life, universal life, and endowment) that remains in force until the policy matures, unless the owner fails to pay the premium and the cash value is insufficient to cover policy charges and expenses. The policy cannot be cancelled by the insurer for any reason except fraud in the application; that cancellation must occur within a period of time defined by law (usually two years). Over time, permanent insurance builds cash values which the owner can borrow against.

Policy Loan: Loan made by an insurer to a policy owner of part of or all of the cash value of the policy assigned as security for the loan.

Policy Proceeds: Amount paid on a life insurance policy at death or when the owner receives payment at surrender or maturity. This includes any dividends left on deposit and the value of any additional insurance purchased with dividends; it excludes any loans not repaid, plus unpaid interest on those loans.

Primary Beneficiary: First to receive proceeds or benefits from a policy when due.

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Proceeds: (See Policy Proceeds)

Rated: Policies issued at a higher rate than standard due to impairment of the insured.

Ratings: Refers to the financial strength of an insurance company. AM Best, Standard and Poor's, and Moody's are three well-known rating services.

Renewable Term: Term insurance that may be renewed for another term without evidence of insurability.

Return of Cash Value: Provision in a life insurance policy that states that if death occurs during a certain period of years (often 20), the policy will pay an amount, in addition to the face amount, equal to the cash value of the policy as of the date of death.

Return of Premium: Rider on a life insurance policy providing that, in the event of the death of the insured within a specified period of time, the policy will pay, in addition to the face amount, an amount equal to the sum of all premiums paid.

Revocable Beneficiary: Beneficiary in a life insurance policy in which the owner reserves the right to revoke or change the beneficiary.

Secondary Beneficiary: Individual or legal entity designated to receive the proceeds of a life insurance policy if the primary beneficiary is deceased at the time the benefits become payable. (See Contingent Beneficiary)

Settlement Options: Various methods for the payment of the proceeds of a life insurance policy that may be selected in lieu of a lump sum.

Surrender: Termination of a policy.

Term Insurance: Provides life insurance coverage for a specified term of years for a specified premium. Term policies do not accumulate cash value.

Universal Life: Combination flexible premium and adjustable life policy in which the owner may modify premium payments in response to changing needs and circumstances.

Variable Life: Policy featuring level premiums allowing the owner to allocate the cash value of the policy to a wide variety of investment accounts.

Variable Universal Life: Policy combining the features of variable life insurance and universal life insurance under the same contract. Benefits are variable based upon the value of variable sub accounts; premiums and benefits are adjustable by the owner.

Waiver of Premium: Provision of a life insurance policy that continues coverage without further premium payments due to the total disability of the insured.

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