

# Glossary of life insurance terms



Sometimes insurance jargon can get complicated, so we've put together this handy guide to some commonly used phrases

## A

### **Accelerated death benefit**

A rider available with permanent life insurance products that advances a portion of the death benefit if the insured is diagnosed as chronically or terminally ill.

### **Accidental death benefit**

An optional benefit that pays an additional death benefit if the insured dies because of accidental bodily injury.

### **Account value**

The total cash value of either a life insurance or annuity certificate (policy) before any surrender charge is applied.

### **Advanced discounted premium**

The prepayment of premium on a level premium life insurance certificate.

### **Annuity**

An insurance contract often used in retirement planning to provide regular income immediately or in the future, in return for a lump-sum payment(s).

### **Automatic bank check (ABC)**

Making premium payments through automatic deductions from a checking account or savings account.

## B

### **Base coverage**

The certificate (policy) covering the primary insured. Riders are added to base coverage.

### **Beneficiary (primary)**

The person or other entity who will receive the proceeds upon the death of the insured or annuitant.

### **Beneficiary (contingent or secondary)**

The person who will receive the proceeds only if the primary beneficiary has died before the insured.

## C

### **Cash surrender value**

The amount payable to the owner upon voluntary termination of the certificate (policy).

### **Conversion**

The right of the insured to change the type of plan coverage, within the terms of the conversion provision, without evidence of medical insurability.

### **Conversion provision**

A provision in most term life insurance certificates (policies) or riders allowing the owner to convert to a permanent certificate without providing evidence of insurability.

### **Convertible term**

A type of term insurance that includes a conversion provision, i.e., is eligible for conversion to a permanent certificate.

### **Cost of insurance (COI)**

On a universal life certificate, the charge deducted from the account value each month for the cost of the insurance provided.

## D

### **Death benefit**

The amount payable to the beneficiary according to the certificate (policy) terms upon death of the insured or annuitant.

## E

### **Estate**

The possessions of a deceased person.

### **Evidence of insurability**

Statements made by an applicant or insured regarding their health. Also known as proof, evidence of insurability is generally used in conjunction with a request to issue or reinstate a certificate (policy) or increase the coverage of an in-force certificate.

### **Executor**

The person named in a will and appointed by the court to dispose of the deceased person's property in accordance with the terms of the will. If the deceased died intestate, i.e., without a will, the property is disposed of through a court-appointed administrator. The generic term "personal representative" is often used to include both executors and administrators.

## F

### **Face amount**

The amount stated on the face of a traditional life insurance certificate that will be paid in case of death. The actual death benefit may be greater or smaller than the face amount, due to adjustments for unpaid certificate (policy) loans or premiums, as well as additional insurance purchased through dividends or other benefits.

### **Fraternal benefit society**

A fraternal benefit society is a tax-exempt membership organization with a lodge/chapter system, rituals and a representative form of government. Fraternal provide life insurance and other benefits and programs for its members.

### **Free look period**

A period of time following delivery of a new life insurance or annuity certificate (policy), during which the owner can return it for a full refund of premiums paid. The free look period varies by state, but is generally 10 days, with some states requiring a slightly longer period.

## I

### **Insurable interest**

A person has an "insurable interest" in the life of another if there exists a likelihood of experiencing a financial loss upon the untimely death of an individual.

## L

### **Level premium insurance**

A type of life insurance for which the premium is level for all years.

### **Level term insurance**

A type of term life insurance in which premiums and the death benefit remain level throughout the stated term (time period).

### **Loan balance**

The current amount of a certificate (policy) loan. This balance is equal to the amount borrowed, plus interest, minus any payments.

## M

### **Member**

A customer of a membership-based organization like a fraternal benefit society.

### **Minimum initial premium**

This is the full premium for the premium mode (payment schedule) selected. It must be paid with the application.

### **Minor**

A person under the legal age of majority. The age of majority varies by state.

## N

### **Nonforfeiture option**

A provision in a life insurance certificate (policy) that determines the benefits that will be provided upon termination of a certificate (policy) when a fixed premium is not paid prior to the expiration of the grace period. The usual options are:

1. Reduced paid-up insurance.
2. Extended term insurance.
3. Cash.

### **Nonrenewable term**

A form of term insurance that does not provide the owner an option to renew the certificate (policy) beyond its first renewal period.

## O

### **Owner**

The individual or entity that has rights in an insurance certificate (policy). The owner is also known as the certificateholder (policyholder) or certificate owner.

## P

### **Paid-up insurance**

Insurance on which all required premiums have been paid.

### **Participating certificate**

A life certificate that is eligible to receive dividends.

### **Permanent insurance**

Any life insurance certificate that develops cash values.

### **Power of attorney**

A document authorizing one person (the attorney-in-fact) to act on behalf another in certain legal matters.

### **Preferred rate class**

A premium rate class associated with the most favorable anticipated mortality. Preferred rate classes typically benefit from the lowest available insurance costs.

### **Premiums**

Premiums are payments made into the certificate (policy), excluding repayment of loans.

## R

### **Rate**

The annual cost per \$1,000 of life insurance.

### **Rate class**

The underwriting class used to determine the rates charged to an insured person. The rate class can be affected by medical history, occupation and use of tobacco.

### **Rating age**

The age from which premiums are calculated for each insured.

### **Reinstatement**

Putting a lapsed certificate (policy) back in force. This generally requires evidence of insurability and payment of back premiums (plus interest).

### **Renewable term**

A form of term insurance in which the certificate (policy) owner has the option to renew for additional terms without evidence of insurability, subject to payment of the renewal premiums.

### **Rider**

Optional coverage that is not provided by the basic certificate. Sometimes at additional cost.

## S

### **Settlement option**

One of the methods – other than payment of a lump sum – by which the certificate (policy) owner or beneficiary receives the proceeds of a life insurance or annuity certificate (policy).

### **Standard risk**

An insured who, according to underwriting standards, is determined to present a typical mortality risk for the insured's age and gender.

### **Super preferred**

A superior rating class determined by strict underwriting guidelines. This rating class is associated with the most favorable anticipated mortality. Insureds who qualify will benefit from the lowest insurance cost available for the product.

## T

### **Terminal illness**

Terminal illness in the Accelerated Death Benefit means an incurable medical condition that, despite appropriate medical care, is reasonably expected to result in the death of the insured within 12 months from the date of the physician's statement.

### **Term insurance**

A type of life insurance certificate through which the death benefit is payable only if the insured dies within a specified time period – generally 10, 20 or 30 years.

### **Tobacco distinct rates**

A rate class offering lower insurance rates to insureds who do not use tobacco or any product containing nicotine.

## U

### **Universal life insurance**

A type of life insurance under which the certificate (policy) owner has considerable flexibility in changing the death benefit, coverage amount or premium payments. Net premiums are applied to the account value, which is increased with interest and reduced by the cost of insurance and any fees.

## W

### **Waiver of premium**

A provision that waives payment of any premium that comes due during a period of disability.

