absolute assignment
An irrevocable transfer of complete ownership of a life insurance policy from one party to another. See also assignment.

accelerated benefits
Some companies provide "accelerated benefits," also known as "living benefits." This rider allows you, under certain circumstances, to receive the proceeds of your life insurance policy before you die. Such circumstances include terminal or catastrophic illness, the need for long-term care, or confinement to a nursing home.

Ask your agent for information about these and other policy riders.

accidental death and dismemberment (AD&D) rider
A supplementary benefit rider or endorsement that provides for an amount of money in addition to the basic death benefit of a life insurance policy. This additional amount is payable only if the insured dies or loses any two limbs or the sight of both eyes as the result of an accident. Some AD&D riders pay one half of the benefit amount if the insured loses one limb or the sight in one eye.

accidental death benefit (ADB) rider
A supplementary benefit rider or endorsement that provides for an amount of money in addition to the basic death benefit of a life insurance policy. This additional amount is payable only if the insured dies as the result of an accident.

accidental means provision
A life insurance policy accidental death benefit provision which states that an accidental death benefit will be payable if the insured's death was the result, directly and independently of all other causes, of bodily injury caused solely by external, violent, and accidental means.

accidental result provision
A life insurance policy accidental death benefit provision which states that an accidental death benefit will be payable if the insured's death was the result, directly and independently of all other causes, of accidental bodily injury.

accident perils
A classification used by health insurance underwriters to evaluate the type and degree of peril represented by a particular occupation. Accident perils include exposure to fire, the use of dangerous machinery, the handling of heavy objects, and the risk of falling. See also illness perils.

accrued benefit
In a defined benefit pension plan, the amount of pension benefit which has accumulated in a pension plan on behalf of an individual plan participant at any particular time.

accumulated cost of insurance
A factor used in the calculation of life insurance reserves. For a given group of insureds, the accumulated cost of insurance equals the net single premium that would have to be paid at the end of the term of coverage by the surviving insureds to provide death benefits on the insureds who died during the term.

accumulated funding deficiency
In the United States, the amount by which a qualified pension plan fails to meet the minimum funding standards set by law. Plans with an accumulated funding deficiency are subject to a penalty tax and enforcement provisions. Sometimes simply called a funding deficiency.

accumulated value
An amount of money invested plus the interest earned on that money.

accumulation at interest option
A life insurance policy dividend option under which policy dividends are left on deposit with the insurer to accumulate at interest. Also called the accumulation option.

accumulation period
The period during which premiums are payable on a deferred annuity.

accumulation units
The term used to identify ownership shares in a variable annuity's separate-account fund. When a person pays premiums for a variable annuity, those premiums are credited to the purchaser's account as a certain number of accumulation units. After the accumulation period ends, the accumulation units are used to buy annuity units. See also annuity units.

acquisition expenses
See policy acquisition costs.

actively-at-work provision
A provision found in many group insurance contracts which specifies that, if an employee is absent from work because of sickness, injury, or certain other specified reasons, on the day the employee's coverage under the contract is due to begin, then coverage will not begin until the day the employee returns to work.

actuarial assumptions
(1) The mortality, morbidity, interest, expense, and other forecasts used to calculate premium rates and reserves. (2) In pension planning, the assumptions that actuaries make in the areas of investment earnings, mortality, plan expenses, salary levels, and employee turnover. These assumptions affect the amount of the annual contribution that is necessary to adequately fund a defined benefit pension plan.

actuarial cost method
For a defined benefit pension plan, a method of calculating the annual amount a plan sponsor must contribute to fund a given set of plan benefits for a particular group of participants.

actuarial department
The department in a life and health insurance company responsible for seeing that the company's operations are conducted on a mathematically sound basis. In conjunction with other departments, it designs and revises a company's life and health insurance products. The actuarial department calculates premium and dividend rates, determines what a company's reserve liabilities should be, and establishes nonforfeiture, surrender, and loan values. It also does the research needed to predict mortality and morbidity rates, to establish guidelines for selecting risks, and to determine the profitability of the company's products.

actuarial valuation
A determination by an actuary of the value of a pension plan's assets and its liabilities. The valuation, which is based on statistical probability, is used to determine if the assets are adequate to fund the plan's liabilities. If the value of the assets is not adequate, the plan sponsor must increase its contributions to make up the deficiency; if the assets are more than adequate, the plan sponsor can reduce contributions. Also called plan valuation.

actuary
A technical expert in life insurance, particularly in mathematics. A person in this job applies the theory of probability to calculate mortality rates, morbidity rates, lapse rates, premium rates, policy reserves, and other values.

additional term insurance option
A life insurance policy dividend option under which policy dividends are used as a net single premium to purchase one-year term insurance. Also called the additional insurance option or the fifth dividend option.

adjustable life insurance policy
A life insurance contract designed specifically to allow the policyowner to alter the policy's plan by changing the amount of the coverage or the amount of the premium. The insurer calculates the specific plan of insurance that can be provided based on the requested death benefit and premium. Therefore, an adjustable life insurance policy can use insurance plans that range from a term insurance policy of short duration to a limited-payment whole life insurance policy.

administrative services only (ASO)
An arrangement whereby an organization (usually an employer) hires an outside firm to perform specific administrative services, usually including claim administration, for a group health insurance program. The organization retains financial responsibility for paying claims. See also self-insured group insurance and third-party administrator (TPA).

admitted reinsurer
In the United States, a reinsurer which is licensed to accept reinsurance in a given jurisdiction. Also called an authorized reinsurer. Contrast to nonadmitted reinsurer.

advanced underwriting department
An insurance company home office department responsible for providing technical and sales assistance to agents involved in estate planning and business insurance cases. Also known as the estate planning department.

advance funding
A procedure in which a pension plan sponsor deposits amounts of money in a fund during the working years of plan participants to guarantee payment of pension benefits to the plan participants when they retire.

adverse selection
See antiselection.

Age Discrimination in Employment Act of 1967 (ADEA)
United States legislation that protects employment rights of individuals age 40 and over. ADEA prohibits

age-based firings and generally prevents employers from forcing employees to retire at age 65. In relation to pension plans, ADEA prohibits employers from discontinuing contributions or benefit accruals to an individual's pension plan after that person reaches age 65.

agency
The legal relationship between an agent and a principal. See agency relationship.

agency agreement
An agreement between a principal and an agent that describes the scope of the agent's actual authority. See agent and principal.

agency bank
A mutual savings bank that does not sell its own savings bank life insurance policies to the public but, instead, sells such policies as an agent for an issuing bank. An agency bank only accepts applications, collects premiums, and provides service for its policyowners. See also issuing bank and savings bank life insurance (SBLI).

agency by appointment
An agency relationship that is created when a principal appoints an agent to act on the principal's behalf. See agency relationship. Contrast with agency by ratification.

agency by ratification
An agency relationship that is created when the principal ratifies a purported agent's unauthorized act. See agency relationship. Contrast with agency by appointment.

agency relationship
In law, the relationship between two parties by which one party, the agent, is authorized to perform certain acts on behalf of the other party, the principal.

agency system
A distribution system in which insurance companies use their own commissioned agents to sell and deliver insurance policies. The agency system is the most common system for distributing individual life insurance products and includes the branch office distribution system and the general agency distribution system. Also called the ordinary agency system. See also branch office distribution system, brokerage distribution system, and general agency distribution system.

agent
A party who is authorized by another party, the principal, to act on the principal's behalf in contractual dealings with third parties. Called a mandatary in Quebec. See also insurance agent.

agent-brokers
Career agents who place business with companies other than their primary companies. Also known as agents of other companies, surplus brokers, or simply brokers.

agent of record
The agent or broker who is recognized by the insurer as the person to whom the commission is to be paid.

agent-owned reinsurance company (AORC)
A captive reinsurance company formed by an insurance company and owned by a group of the company's agents. The company insures all business written by those agents with the captive so that the agents can share in the profits of their own labor.

agent's statement
The portion of the insurance application in which the agent reports anything he or she knows or suspects about the proposed insured that is not reported by the applicant or proposed insured.

age of majority
The age at which a person has the legal capacity to enter into and be bound by a contract.

aggregate funding methods
Pension plan funding methods in which the amount of contributions necessary to fund a plan is determined in the aggregate for all plan participants, rather than separately for each individual plan participant. Contrast with individual funding methods.

aggregate mortality table
A mortality table based on the experience of all insured lives, including mortality rates both during and after the select period. The mortality rates of an aggregate mortality table fall between those of the select and the ultimate mortality tables. See also mortality tables, select mortality table, select period, and ultimate mortality table.

aleatory contract
A contract under which one party provides something of value to another party in exchange for a conditional promise, which is a promise that the other party will perform a stated act if a specified, uncertain event occurs. Insurance contracts are aleatory because the policyowner pays premiums to the insurer, and in return the insurer promises to pay benefits if the event insured against occurs.

alien corporation
In the United States, a company that is incorporated under the laws of another country. Compare to domestic corporation and foreign corporation.

alienation of benefits
In pension planning, the assignment of a plan participant's benefits to an individual other than the participant. In the United States, ERISA generally prohibits the alienation of benefits, although exceptions to this rule include the use of a participant's vested benefit as collateral for a loan. The ERISA prohibition on alienation of benefits prevents creditors from attaching an individual's pension benefits.

all-causes deductible
In health insurance, a deductible which need only be satisfied once during a given period of time. If the period of time is a calendar year, as it usually is, then this type of deductible is known as a calendar year deductible. Contrast with per-cause deductible.

allocated funding
A method of funding a pension plan in which a portion of the total plan funds is allocated to each participant.

This type of funding is often achieved through the purchase of annuities or insurance contracts for each participant. Contrast with unallocated funding.

American Council of Life Insurance (ACLI)
In the United States, an organization which collects and disseminates data on life insurance markets.

Annual Information Return
In Canada, a report containing financial and other information that pension plans must file annually with the appropriate provincial or federal government.

annually renewable term (ART) insurance
See yearly renewable term (YRT) insurance.

Annual Report Form 5500
In the United States, a detailed report of membership and financial information pertaining to the operation of a pension plan. This report must be filed annually with the Internal Revenue Service.

Annual Statement
An accounting report that insurers must file each year with the appropriate regulatory agency. This report contains detailed accounting and statistical data that regulators use to evaluate a life and health insurance company's solvency and its compliance with insurance laws.

annuitant
(1) The person designated to receive annuity payments. (2) The person whose lifetime is used as the measuring period to determine how long benefits are payable under a life annuity.

annuity
(1) A series of payments made or received at regular intervals. (2) A contract that provides for a series of payments to be made or received at regular intervals. There are many kinds of annuities. For the annuities identified in this glossary, see annuity certain, annuity due, annuity immediate, deferred annuity, deferred life annuity, disabled life annuity, flexible premium annuity, group deferred annuity, immediate annuity, joint and survivor annuity, level premium annuity, life annuity, life annuity with period certain, refund annuity, single premium annuity, single premium deferred annuity (SPDA), straight life annuity, temporary life annuity, temporary life annuity due, variable annuity, whole life annuity, and whole life annuity due.

annuity certain
An annuity that provides a benefit amount payable for a specified period of time regardless of whether the annuitant lives or dies.

annuity due
A series of payments in which the payments are made at the beginning of each interval of time.

annuity immediate
A series of payments in which the payments are made at the end of each interval of time.

annuity mortality table
A tabulation of probabilities of dying at each age. Used by actuaries to calculate premiums and reserves for

annuities in which benefits are paid only if a designated person is alive. Annuity mortality tables usually project lower rates of mortality than do mortality tables that are used for life insurance. See also mortality tables.

annuity period
The time between each benefit payment made under an annuity contract.

annuity units
The term used for ownership shares in a variable annuity's separate-account fund after the accumulation period has ended. Annuity units are bought with accumulation units and are used to determine benefit payment amounts. See also accumulation units.

antiselection
The tendency of people with a greater-than-average likelihood of loss to apply for or continue insurance to a greater extent than do other people. Also called adverse selection or selection against the insurer.

apparent authority
Authority that is not expressly conferred on an agent but that the principal either intentionally or negligently allows a third party to believe the agent possesses. See agent and principal. Compare to express authority and implied authority.

applicant
The party applying for an insurance policy.

application
A form that must be completed by an individual or other party who is seeking insurance coverage. This form provides the insurance company with much of the information it will need to decide whether to accept or reject the risk.

approval type temporary insurance agreement
An agreement issued in conjunction with a conditional premium receipt that provides temporary life insurance coverage as of the date the insurer approves the proposed insured as a standard risk. See also conditional premium receipt and temporary insurance agreements. Compare to insurability type temporary insurance agreement.

assessment method
An early method of funding life insurance under which members of the plan were charged in advance for the amount of money that the administrators estimated would be needed to pay each year's death claims. Also called the pre-death assessment method. See also mutual benefit method.

asset-liability matching
The process of investing, purchasing, selling, and otherwise adjusting an insurance company's asset holdings so that cash is available when it is needed to cover the company's liabilities.

assets
All things of value owned by an individual or organization. Examples of assets include cash, data processing

equipment, and investments. Assets are shown on the balance sheet of a life insurance company's Annual Statement as required by law or by insurance department ruling.

asset share
The amount of assets that any block of insurance policies will have accumulated by a given time.

asset share calculation
A computation that simulates the way in which the assets of a block of policies should grow, depending on various assumptions about future interest rates, mortality, morbidity, expenses, lapses, etc.

assignee
The party to whom all or certain contractual rights are transferred under an absolute or collateral assignment.

assignment
(1) The transfer of ownership rights in a life insurance policy or other type of contract from one party to another. (2) The document that causes the transfer of ownership rights to go into effect. See also absolute assignment and collateral assignment.

assignment of benefits
An authorization directing an insurer to make payment directly to a provider of benefits, such as a physician or dentist, rather than to the insured.

assignor
The person or party who transfers certain contractual rights under an absolute or collateral assignment.

association group insurance
Group insurance extended to the members of a trade, professional, or other association.

assumption reinsurance
A reinsurance agreement by which one company permanently transfers full responsibility for a block of policies to another company. After the cession, the ceding company is no longer a party to the insurance agreement.

attained age
The current age of the insured. The age of the insured at the time the insured's policy was issued plus the number of years elapsed since the policy was issued.

attained age conversion
The changing of a life insurance policy from one form of insurance to another (such as from term life insurance to whole life insurance) at a premium rate that is based on the age the insured person has reached at the time the change takes place.

Attending Physician's Statement (APS)
A written statement from a physician who has treated, or is currently treating, a proposed insured or an insured for one or more conditions. The statement provides the insurance company with information relevant to underwriting a risk or settling a claim.

automatic dividend option
For a particular life insurance policy, the dividend option that applies in the event the policyowner does not choose an option. See dividend options.

automatic nonforfeiture option
For a particular life insurance policy, a specified nonforfeiture benefit that becomes effective automatically when a renewal premium is not paid by the end of the grace period and the policyowner has not elected another nonforfeiture option. See also nonforfeiture options.

automatic premium loan (APL)
A life insurance nonforfeiture option that allows the insurer to pay overdue premiums on a policy by establishing a loan against the policy's cash value. See also nonforfeiture options.

automatic reinsurance treaty
A reinsurance agreement in which the reinsurer agrees, for a stipulated type of risk, to accept each risk or a portion of each risk submitted by the ceding company, up to a certain limit, provided the ceding company insures up to its usual retention limit. In this agreement, the ceding company assumes full underwriting responsibility for all cases reinsured.

average indexed monthly earnings
In the United States, the figure on which social security disability, retirement and other benefits are based. The figure is an average of the monthly earnings on which a worker has paid social security tax. The figure is indexed, that is, adjusted to compensate for inflation.

aviation exclusion
A life insurance contract provision which specifies that the death benefit is not payable if the insured dies as a result of certain aviation activities.

cafeteria plan
An employee benefit plan which gives each employee several choices as to the types and/or amounts of group benefits. Also known as a flexible benefit plan.

Canada Pension Plan (CPP)
A plan that primarily provides retirement income and long-term disability income benefits to residents of Canadian provinces other than Quebec.

Canadian Council of Insurance Regulators (CCIR)
A Canadian organization of provincial insurance regulators who meet regularly to discuss insurance issues and to develop model insurance legislation that it encourages provincial legislatures to adopt. Similar to the National Association of Insurance Commissioners in the United States.

Canadian Institute of Chartered Accountants (CICA)
Handbook Section 3460 See Section 3460.

Canadian Life and Health Insurance Association (CLHIA)
An association of most of the life and health insurance companies in Canada which conducts research on

insurance issues and promotes the best interests of the insurance industry. The CLHIA is the primary source of information about the life and health insurance industry in Canada.

Canadian Life and Health Insurance Compensation Corporation (CompCorp)
In Canada, a federally incorporated, nonprofit company established by the Canadian Life and Health Insurance Association (CLHIA) in order to protect consumers against loss of benefits in the event a life or health insurance company becomes insolvent.

Canadian method
A method prescribed in Canada for calculating modified net premiums and reserves.

cancellable policy
An individual health insurance policy that can be terminated at any time by the insurer. See also conditionally renewable policy, guaranteed renewable policy, noncancellable and guaranteed renewable policy, noncancellable policy, and optionally renewable policy.

capacity
The largest amount of insurance an insurer or a reinsurer is willing or able to underwrite. The term can refer to an insurer's capacity on one individual or to the insurer's capacity for all its business.

capitation
A method of paying medical providers through a prepaid, flat monthly fee for each covered person. The payment is independent of the number of services received or the costs incurred by a provider in furnishing those services.

capitation basis
A compensation plan used in some health maintenance organizations (HMOs) in which a physician is paid a flat amount per year per subscriber who has elected to use that physician. For that amount, the physician must treat the subscriber as often as necessary during that year. See also fee schedule basis.

captive agents
See exclusive agents.

captive insurance company
An insurance company, formed and controlled by a separate company, whose purpose is to provide insurance to the controlling company. Companies which form captive insurance companies include all types of companies which extend credit to customers, including banks and retailers. See also agent-owned reinsurance company (AORC).

career agent
A full-time commissioned salesperson who works out of an insurance company's field office, holds an agent contract with that company, and sends all, or almost all, of his or her business to that company. A career agent may occasionally broker business with other companies.

career average (career earnings) benefit formula
A type of defined benefit formula in which the retirement benefit amount is derived on the basis of a

participant's compensation during the entire period of participation in the plan. See also defined benefit formula. Contrast with final average benefit formula.

carry-over provision
A provision found in most medical expense policies stating that expenses incurred during the last three months of a benefit period that are used to satisfy the current benefit period's deductible may be used to satisfy any or all of the following benefit period's deductible.

case management
A cost-containment program designed to identify alternate, less costly methods of treatment for seriously ill patients without sacrificing the quality of care a patient receives. Also known as catastrophic claim management, large claim management, or medical case management.

cash-balance pension plan
A type of defined benefit plan in which each participant has an account which is credited with amounts reflecting the employer's contributions and amounts reflecting investment interest. The balance in the account indicates the participant's accrued benefit. Upon retirement or withdrawal, the participant may receive the full account balance in a lump sum, provided that the benefits are fully vested, or may use the account balance to purchase an annuity.

Cash or Deferred Arrangement (CODA)
See Section 401(k) plan.

cash payment option
A life insurance policy dividend option under which policy dividends are paid to the policyowner in cash.

cash premium accounting system
A premium accounting system used for industrial insurance. Under this system, the agent informs the home office of the amount collected on each policy. The home office then updates the policy records to reflect these collections and prepares new route collection records. Contrast with advance and arrears system.

cash refund option
A form of the life income option with refund which specifies that any proceeds remaining when the beneficiary dies will be paid in a lump sum to the contingent payee. Contrast with the installment refund option.

cash surrender value
In a life insurance policy, the amount of money, adjusted for factors such as policy loans or late premiums, that the policyowner will receive if the policyowner cancels the coverage and surrenders the policy to the insurance company. Also called the net cash value. Compare to cash value.

cash surrender value option
A life insurance policy nonforfeiture option which specifies that a policyowner who discontinues premium payments can elect to surrender the policy and receive the policy's cash surrender value.

cash value
In a life insurance policy, the amount of money, before adjustment for factors such as policy loans or late

premiums, that the policyowner will receive if the policyowner allows the policy to lapse or cancels the coverage and surrenders the policy to the insurance company. Cash values are a feature of most types of permanent life insurance, such as whole life and universal life. Compare to cash surrender value. Also called inside build-up and policyowner's equity.

catastrophic claim management
See case management.

causal relation requirements
Proof required by statute in Kansas, Missouri, Rhode Island, and Puerto Rico to show that the facts misrepresented in an application for insurance were related to the loss insured against.

ceding company
In a reinsurance transaction, the insurer that purchases reinsurance to cover all or part of those risks that it does not wish to retain in full. Also called the direct insurer, direct writer, or direct-writing company.

certain payment
A payment that will definitely be made under any circumstances, its payment not being contingent upon any predesignated condition.

certificate of assumption
In assumption reinsurance, a certificate sent to each policyholder whose policy has been ceded to give the policyowner (1) notice of the assumption and (2) information concerning the new insurer.

certificate of authority
(1) A document created by an insurer detailing the authority granted to an agent or group of agents to act on behalf of the insurer. (2) In the United States, a certificate issued by a state's insurance department authorizing an insurer to issue certain types of insurance within the state.

certificate of indebtedness
A certificate issued by an insurer to the beneficiary of a life insurance policy that specifies a guaranteed minimum interest rate and the frequency with which the insurer will make interest payments under the interest settlement option.

certificate of insurance
A document given to each person insured by a group insurance plan. This document shows the type and amount of coverage to which the group member is entitled and the beneficiary of the coverage. The certificate may also contain a summary of the contract terms as they affect individual group members. See also master contract.

cession
(1) In reinsurance, the act of ceding. (2) In reinsurance, a parcel or unit of insurance that a company cedes to a reinsurer.

change of condition provision
An insurance provision stipulating that, for a policy to become effective, all conditions described in the application must still be true at the time of delivery.

change of occupation provision
An individual health insurance policy provision that grants the insurer the right to adjust a policy's premium rate or benefits when the insured changes jobs or careers.

CICA
The CICA, together with the provincial and territorial institutes of chartered accountants, represents a membership of 60,000 professional accountants in Canada and Bermuda. The CICA sets accounting and auditing standards for business, not-for-profit organizations and government. It issues guidance on control and governance, publishes professional literature, develops continuing education programs and represents the CA profession nationally and internationally.

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

claim administration department
The department in a life and health insurance company responsible for processing claims. In this department, claim examiners review claims presented by policyowners or beneficiaries, verify the validity of claims, and authorize the payment of benefits to the proper person.

claimant
The person or party making a formal request for payment of benefits due under the terms of an insurance contract.

claim examiner
An employee of an insurance company whose responsibilities include investigating claims, approving the claims that are valid, and denying those that are invalid or fraudulent.

claim frequency rate
In health insurance calculations, the claim frequency rate is the expected percentage of insured people who will file claims and the number of claims they will file during a given period. The claim frequency rate is used to calculate average claim costs, which are used to calculate premium rates.

claim investigation
The process of obtaining necessary claim information in order to decide whether or not to pay a claim.

claim reserve
A claim department's estimate of the amount of money needed to pay a claim. The estimate is made with the help of information that the claim department gathers in the course of handling the claim. This information may involve, for example, the extent to which the claim is covered by the policy, the effect of previously paid claims on the amount of coverage available to pay a current claim, and the effect of any applicable reinsurance coverage on the claim.

class beneficiary designation
A beneficiary designation that names several people as a group -- for example, "children of the insured" -- rather than naming each person individually.

clean-up fund
A lump-sum life insurance death benefit designed to pay the insured's outstanding debts and final expenses.

CLHIA Guidelines
Recommendations to insurance companies adopted by the Canadian Life and Health Insurance Association (CLHIA). Insurers are expected to abide by these guidelines as a condition of membership in the CLHIA.

closed contract
An insurance contract in which the terms of the insurance contract and the application constitute the entire agreement between the policyowner and the insurer. Commercial insurance companies use closed contracts. See also open contract.

closing
The process of securing a purchase commitment from a prospect by requesting and obtaining the prospect's agreement to submit an application for the coverage recommended in a sales proposal.

COBRA
The Consolidated Omnibus Budget Reconciliation Act of 1985, commonly known as COBRA, requires group health plans with 20 or more employees to offer continued health coverage for you and your dependents for 18 months after you leave your job. Longer durations of continuance are available under certain circumstances. If you opt to continue coverage, you must pay the entire premium, plus a two percent administration charge.

coinsurance
The amount you are required to pay for medical care in a fee-for-service plan or preferred provider organization (PPO) after you have met your deductible. The coinsurance rate is usually expressed as a percentage of charges. For example, if the insurance company pays 80 percent of the claim, you pay 20 percent.

coinsurance provision
A stipulation found in most health insurance policies that requires an insured to pay a stated percentage, in excess of the deductible, of all eligible medical expenses.

COLA
See cost-of-living adjustment (COLA).

collateral assignment
A transfer of some ownership rights in a contract from one party to another, generally for a temporary period. Insurance policies are often assigned as collateral for a loan, in which case all transferred rights revert to the assignor when the loan is repaid. See also assignment.

combination company
A life and health insurance company that sells both industrial and ordinary insurance products.

combination clause
A clause in a disability income contract that specifies a point at which the definition of total disability will no

longer be based on an insured's inability to perform his or her "own occupation" but on the insured's inability to perform "any occupation."

combination dental plan
A dental plan which contains features of both scheduled and nonscheduled plans. Typically, combination plans cover preventive and diagnostic procedures on a nonscheduled basis and other services on a scheduled basis. See also nonscheduled dental plan and scheduled dental plan.

combination plan
A pension plan which employs an approach to funding wherein part of the funding is allocated and part is unallocated. The allocated part of the employer's contribution is used to purchase annuities or life insurance contracts with cash values. The unallocated part is placed in a side fund, also called a conversion fund. See also allocated funding and unallocated funding.

commission
The amount of money paid to an insurance agent for selling an insurance policy. A commission is almost always calculated as a percentage of the premium.

Commissioners Method
A method prescribed in the United States for calculating modified net premiums and reserves for life insurance policies.

common accident provision
(1) A provision of many medical expense insurance contracts which specifies that, if two or more members of the same family are injured in the same accident, their combined medical expenses will only be subject to one deductible. (2) A provision found in many voluntary group accidental death and dismemberment plans which specifies that the amount payable by the insurance company is limited to a stipulated maximum for all employees killed or injured in a single accident.

common disaster clause
A life insurance policy provision which states that the primary beneficiary must survive the insured by a specified period, such as 60 or 90 days, in order to receive the policy proceeds. Otherwise, the policy proceeds will be paid as though the primary beneficiary had died before the insured.

community-rating
Applying the same premium rate structure to certain group insurance subscribers, regardless of their past or potential loss experience. See also pooling.

commuted value
In Canada, the present value of the pension benefits expected to be paid to a retiree from the date of retirement until death.

company retention method
A method of comparing the costs of various life insurance policies wherein the present value of premiums, cash values, and dividends is calculated by weighting each item each year by the probability that it will be paid. See also cost comparison methods.

comprehensive major medical insurance
A form of health insurance coverage that combines the features and benefits of a hospital-surgical expense policy and the features and benefits of a major medical policy.

concurrent review
A component of a utilization review program that monitors an insured's care while the insured is hospitalized and encourages the dismissal of an insured from the hospital as soon as the insured's medical condition no longer warrants continued in-patient care.

conditionally renewable policy
A health insurance policy that grants an insurer the right to refuse to renew the policy for reasons specified in the policy at the end of a premium payment period. See also cancellable policy, guaranteed renewable policy, noncancellable and guaranteed renewable policy, noncancellable policy, and optionally renewable policy.

conditional premium receipt
A type of premium receipt given when the applicant pays the initial premium and under which life insurance will become effective before a policy is issued only if the proposed insured is found to be insurable. Also called a conditional receipt. Compare to binding premium receipt. See also approval type temporary insurance agreement and insurability type temporary insurance agreement.

confirmation certificate
A certificate issued to the beneficiary of a life insurance policy that outlines the amount of life insurance proceeds in a retained asset account, the account number, and the current interest rate.

conservation
An agent's or an insurer's efforts to prevent a policy from lapsing.

Consolidated Omnibus Budget Reconciliation Act of 1985 (COBRA)
In the United States, a statute which requires that employers sponsoring group health plans offer continuation of coverage under the group plan to employees and their spouses and dependent children who have lost coverage because of the occurrence of a "qualifying event." Qualifying events include reduction in work hours, many types of termination of employment, death, and divorce.

constructive delivery
Legally equivalent to physical delivery of a policy. Constructive delivery occurs (a) when an insurer parts with control of the policy with the intention that the insurer will be unconditionally bound by the policy as a completed instrument or (b) when the policy is physically delivered to an agent of the applicant.

consumer report
As defined by the Fair Credit Reporting Act, a consumer reporting agency's communication of any information pertaining to an individual consumer's creditworthiness, credit standing, credit capacity, general reputation, or personal characteristics.

consumer reporting agency
Any person or organization that regularly prepares consumer reports and furnishes them, either for profit or

on a cooperative, nonprofit basis, to other persons or organizations. Also called a credit reporting agency. See also Fair Credit Reporting Act (FCRA).

contestable period
The period of time (usually two years) during which an insurer may challenge the validity of a life insurance policy. See also incontestable clause.

contingencies
Events that are possible but that may or may not happen. Insurers base their premium rates and their willingness to accept risks partly on the probability that certain contingencies will or will not occur.

contingency reserve
A voluntary reserve established by an insurance company to help pay any unusual and unexpectedly large claim amounts. See also special surplus funds.

contingent beneficiary
The party designated to receive life insurance policy proceeds if the primary beneficiary should die before the person whose life is insured. Also called the secondary beneficiary or the successor beneficiary.

contingent payee
The party who will receive any life insurance policy proceeds that are still payable under a settlement option at the time of the primary payee's death. Unlike the contingent beneficiary, the contingent payee's rights do not end when the insured dies. Also called the successor payee.

contingent payment
A payment that will be made only if some predesignated condition is met, such as the recipient being alive.

continuance tables
Tables containing morbidity statistics that indicate the distribution of claims according to the duration of the illness or amount of expense involved in the claims.

continuous-premium whole life insurance
A type of whole life insurance in which premiums are payable until the death of the insured. Also called straight life insurance.

contract of adhesion
A legally binding agreement that is prepared by one party and that must be accepted or rejected as a whole by the other party, without any bargaining between the parties to the agreement. Insurance contracts are contracts of adhesion.

contract of indemnity
A type of contract in which the amount of the benefit to be paid is based on the actual amount of financial loss as determined at the time of loss. For example, many hospital expense insurance contracts are contracts of indemnity. See also valued contract.

contributed surplus
On a Canadian life insurance company's balance sheet, the amount in excess of par value paid in by stockholders minus the amount of dividends paid to stockholders.

contribution limit
The maximum annual addition permitted by law to be made to a participant's account in a defined contribution pension plan. The annual contribution includes employer contributions, employee contributions, and forfeitures that have been reallocated from other participants' accounts. The limit is subject to legislative change and is generally indexed to inflation so that it increases as price levels increase. In the United States, the contribution limit is set under Section 415 of the Internal Revenue Code. See also maximum benefit and Section 415 limits.

contribution to surplus
In mutual insurance companies, the income that results when an insurance company makes more money than is needed to pay for the cost of providing insurance.

contributory group insurance
Any group insurance plan that calls for the insureds to pay a portion of the cost of the group insurance coverage. Contrast to noncontributory group insurance.

contributory plan
Any pension or employee benefit plan in which plan participants can or must make contributions to the plan out of their own funds. Contrast with noncontributory plan.

convention blank
The standardized Annual Statement form that all United States insurers must complete and submit yearly to their state's insurance regulators. See Annual Statement.

conversion fund
The fund in which unallocated employer contributions to a combination plan are accumulated. Also called a side fund.

conversion privilege
(1) The right of a person who is covered by a group insurance policy to convert his or her group coverage to coverage under an individual insurance policy. Such a conversion can be made when a person leaves the group, benefits are downgraded or terminated for a specific class, or when the group master policy is ended. (2) The right to change insurance coverage in certain prescribed situations from one type of policy to another. For example, the right to change from an individual term insurance policy to an individual whole life insurance policy.

convertible term insurance
A type of term insurance that allows the policyowner to change the term insurance policy to a whole life policy without providing evidence of insurability. The premium rate is normally based on the age of the insured at the time of the conversion.

copayment
A cost sharing arrangement in which a person pays a specific charge for a specific medical service -- say $10 for an office visit or $5 for a prescription.

coordination of benefits (COB) clause
A provision in a group health insurance policy specifying that benefits will not be paid for amounts reimbursed by other group health insurers. The purpose of a coordination of benefits provision is to assure that an insured's benefits from all sources do not exceed 100 percent of allowable medical expenses. See also overinsurance provision.

corridor
(1) In the United States, the required difference between a universal life insurance policy's death benefit and the policy's cash value. This difference is a specified percentage that depends on the insured's age. If a policy's cash value exceeds the required percentage of the death benefit (that is, intrudes on the corridor), the policy will be considered an investment contract rather than an insurance contract. Also called the TEFRA corridor. (2) In reinsurance, an amount of insurance which is in excess of the ceding company's retention limit but which is less than the reinsurer's minimum cession. The ceding company must usually retain this amount of insurance.

corridor deductible
A flat amount that an insured must pay above the amount paid by his or her hospital-surgical expense policy before any benefits are payable under the major medical policy. In a sense, the deductible bridges the gap between a hospital-surgical policy and a major medical policy.

cost comparison methods
The different formulas that insurance companies use to show prospective policyowners the cost of different insurance policies. See also company retention method, interest-adjusted net cost method, and rate of return method.

cost-of-living adjustment (COLA)
An increase in a pension benefit, disability income benefit or life income benefit to compensate for an increase in the cost of living. See also indexation.

coupon advertisement
As defined by the Superintendent's Guidelines in Canada, (1) a sales inducement designed to invite the public to contract for insurance by the inclusion of an application for an individual insurance contract or (2) a broad description of coverage designed to invite the public to request an application for insurance with additional printed material for the purpose of issuing the applicant an individual insurance contract.

credibility percentage
The amount of credit or weight given to a group's actual claims experience in determining a projection of future claims or in the calculation of a dividend. Sometimes called the credibility factor. See also experience rating and experience refund.

credit life insurance
A type of decreasing term insurance designed to pay the balance due on a loan if the borrower dies before the loan is repaid.

credits
In the numerical rating system, credits represent underwriting factors that have a favorable effect on an individual's mortality rating. Credits are assigned negative values. See also debits and numerical rating system.

cross-selling
The process of selling both property/casualty and life and health insurance, as well as other financial services products, to the same customer.

current assumption whole life insurance
A type of whole life insurance in which premium rates and cash values vary according to the insurer's assumptions regarding mortality, investment, and expense factors. Each policyowner can decide whether he or she wants favorable changes in assumptions to result in a lower premium or a higher cash value for the policy. If changes in assumptions result in a higher premium than that paid when the policy was purchased, the policyowner may choose to lower the policy's death benefit and maintain the previous premium or pay the higher premium and maintain the original death benefit. As with indeterminate premium life insurance, current assumption whole life insurance guarantees that the premium will not increase above the rate guaranteed when the policy was purchased. Also called interest-sensitive whole life insurance.

current settlement option rates
Settlement option rates that reflect the interest rates currently earned by the insurer.

curtailment
An event or amendment to a pension plan that significantly reduces plan benefits or employer contributions. Types of curtailments include a reduction of the expected years of future service of present employees, and the elimination of the accrual of defined benefits for some or all of the future services of a significant number of employees.

customer service department
The department in a life and health insurance company that is charged with providing assistance to the company's policyowners, agents, and beneficiaries. Customer service specialists answer policyowners' requests for information, help them interpret policy language, answer questions about policy coverage, and make changes requested by the policyowner, such as changing the policyowner's address, beneficiary designation, and mode of premium payment. The customer service department may also send premium notices to customers, collect premium payments, and calculate and process policy loans, nonforfeiture options, dividends, and surrenders. In some companies, the customer service department also processes commission payments for company agents. Also called the client service department, the policy administration department, the policyowner service department, and the service and claim department.

death benefit
The amount of money paid or due to be paid when a person insured under a life insurance policy dies. This amount does not include adjustments for outstanding policy loans, dividends, paid-up additions, or late premium payments. See also basic death benefit and policy proceeds.

death claim
A request for payment under the terms of a life insurance policy.

debit
See territory.

debits
In the numerical rating system, debits represent underwriting factors that have an unfavorable effect on an individual's mortality rating. Debits are assigned positive values. See also credits and numerical rating system.

debtor-creditor groups
A group composed of lending institutions -- banks, credit unions, savings and loan associations, finance companies, retail merchants, and credit card companies -- and their debtors. See also group creditor life insurance.

decreasing term insurance
A type of term life insurance in which the amount of coverage decreases during the term of coverage.

decrement
A reduction in the number of participants in a pension plan caused by factors such as retirement, disability, death, or termination.

deductible
The amount of money you must pay up front each year to cover your medical care expenses before your insurance policy starts paying.

deferral date
A date some time after the first anniversary of a group insurance policy to which an insurance company defers the payment of the policy's first renewal premium. An insurance company might defer this payment so that it could use the full first year's experience to help calculate the new premium.

deferred annuity
(1) A series of payments in which the first payment is postponed (deferred) for one or more periods. (2) An annuity contract under which premiums are accumulated at interest but the annuity payment period is postponed (deferred) for one or more periods. See also deferred life annuity and group deferred annuity.

deferred compensation plan
A plan established by an employer to provide benefits to an employee at a later date, such as after the employee's retirement.

deferred life annuity
A deferred annuity that provides a series of payments, each of which is made only if a designated person is alive.

deferred premium arrangement
In group insurance, an agreement between an insurer and a policyholder to lengthen a group insurance policy's grace period, on a permanent basis, usually by 30, 60, or 90 days. This arrangement allows the policyholder to use the deferred premium amounts for the length of time by which the grace period is

extended. The arrangement is usually only granted to companies with excellent credit ratings. Also called a premium-delay arrangement.

deferred premiums
Premiums that are due after a policy's statement date but before the next policy anniversary.

Deferred Profit Sharing Plan (DPSP)
In Canada, a type of profit-sharing plan in which employer contributions, up to certain limits, are tax deductible for the employer and tax deferred for the employee, and in which the employee can withdraw the benefit before retirement. The ways that plan funds can be invested are restricted. See also profit-sharing plan.

defined benefit formula
A formula used to determine the periodic payment amounts that each participant in a defined benefit pension plan will receive at retirement. The benefit amount is often related to number of years of participation in the plan.

defined benefit pension plan
A pension plan that specifies the benefits that the plan promises to pay to a participant upon retirement, with the benefits determined according to a specified formula. Contrast with defined contribution pension plan.

defined contribution formula
A formula that describes the amount of money that will be deposited into a pension plan each year on behalf of each plan participant. Usually, the contribution is a specified percentage of the participant's compensation.

defined contribution pension plan
A pension plan that specifies the amount of annual contributions that the plan sponsor will make on behalf of a plan participant. A defined contribution plan does not guarantee a specific amount of retirement benefits. A participant's benefits at retirement are based on the amount that has been contributed to the participant's account, plus investment earnings. Contrast with defined benefit pension plan.

demutualization
The process of converting a stock insurance company to a mutual insurance company.

dental maintenance organization
An organization like an HMO which provides only dental care.

dentist-consultant
A licensed dentist who understands the underwriting intent of dental plan language as well as the accepted standards of dental practice, and who advises insurers as to the appropriateness of dental treatment.

dependent life insurance
Group life insurance made available to group members, usually on an optional and contributory basis, to cover the spouse, children, or other dependents of the group member. It is usually sold in small amounts which are intended to pay funeral expenses.

deposit administration contract
A funding vehicle for a pension plan in which the plan sponsor places plan assets in an insurance company's general account. When a plan participant retires, the insurer withdraws sufficient funds from the general account to buy an immediate annuity for the plan participant. A deposit administration contract usually protects the plan sponsor against investment loss and guarantees minimum investment returns. See also immediate annuity and immediate participation guarantee (IPG) contract.

deposit term insurance
A type of level term insurance that requires a substantially larger premium payment in the first year than the amount of level annual premiums payable in subsequent years.

determination letter
In the United States, a ruling by the Internal Revenue Service (IRS) as to whether the design of a pension plan satisfies the criteria necessary for the plan to be a qualified plan.

deviated rate
In group creditor insurance in the United States, a premium rate for a contributory plan which is higher than the prima facie rate and based on the group's actual claims experience. Insurers can charge a deviated rate only after the prima facie rate has been in effect for a certain period of time and only after being granted permission by the state insurance commissioner. Contrast with prima facie rate.

diagnostic related groups (DRGs)
In the United States, a prospective payment method used in the Medicare Program, in which payment is not based on the number and kinds of medical services that a patient receives, but instead is based on the diagnosis of each patient.

direct response distribution system
In insurance, a distribution system that relies on advertisements, telephone solicitations, and mailings to generate sales. No agents visit customers to induce sales.

direct response marketing
A method of selling insurance products directly to the consumer, usually through direct mail, advertising in print and broadcast media, or by telephone solicitation, without the use of insurance agents.

disability
Inability to work due to an injury or sickness. See also partial disability, presumptive disability, and total disability.

disability benefits
Benefits that are payable periodically while an insured continues to be disabled. "Being disabled" is generally defined in terms of inability to work. See also total disability.

disability buy-out insurance
Insurance that provides cash funds to a business or professional partnership so that the business interests of a totally disabled partner or stockholder may be purchased if the disability is long-term or permanent.

disability income insurance
A type of health insurance designed to compensate insured people for a portion of the income they lose because of a disabling injury or illness. Generally, benefits for disability income insurance are provided for the disabled person in the form of monthly payments. Sometimes called loss of time insurance. See also long-term disability income insurance and short-term disability income insurance.

disability table
(1) A tabulation of the probabilities of becoming disabled at each age, plus certain related figures. (2) A tabulation of the number of persons who are still disabled at each age and the duration of disability, plus certain related figures.

disabled life annuity
A series of payments, each of which is contingent on a person being alive and still disabled.

discharge provision
Part of a small estates statute which releases an insurance company from liability under an insurance contract if it pays the proceeds to the deceased insured's estate. See small estates statutes.

Discontinuity Index
A test required by the NAIC Model Life Insurance Disclosure Regulation and designed to disclose instances in which policy illustrations have been manipulated so that they present an unrealistic progression of premiums, dividends, and benefits.

disintermediation
The process of removing money from a financial intermediary in order to earn a higher yield somewhere else, usually with another financial intermediary. Historically, disintermediation, through policy loans or surrendered policies, has been a major problem for life and health insurers during periods of economic depression and high inflation.

distress termination
In pension and employee-benefit plans, the curtailment of a plan which does not have sufficient funds to cover all the benefits to which the plan's participants are entitled. Contrast to standard plan termination. See also involuntary plan termination and voluntary plan termination.

distribution expenses
Expenses involved in making insurance products available to the general public. These expenses include agent compensation, group sales representatives' salaries, and postal, printing, and telecommunications expenses for those companies that use direct response marketing.

distribution system
In an insurance company, the network of organizations and individuals that performs all the marketing activities required to convey a product from an insurer to its customers.

dividend
(1) A refund of excess premium paid to the owner of an individual participating life insurance policy. Such a dividend is paid out of an insurer's divisible surplus. Also called a policy dividend or a policyowner dividend. See also divisible surplus. (2) The portion of a group insurance premium that is returned to a group

policyholder whose claims experience is better than had been expected when the premium was calculated. Also called experience rating refund, experience refund, and retroactive rate reduction. (3) A periodic payment paid by a business to a stockholder. Dividends paid in cash are called cash dividends. Dividends paid in the form of additional shares of stock are called stock dividends.

dividend accumulations
Amounts that result when a policyowner decides to leave the policy dividends owed to him or her on deposit with the insurer. Also called dividend credits.

dividend expenses
When an insurer calculates policyowner dividends, dividend expenses represent the amount of money that it costs the insurer to maintain each policy in force for the current year.

dividend interest rate
The interest rate that represents the actual rate being earned on an insurer's present investments. The dividend interest rate is used to calculate policyowner dividends.

dividend options
Several alternatives that participating policyowners can choose from to indicate the manner in which they want to receive their share of the insurance company's divisible surplus. See accumulation at interest option, additional term insurance option, automatic dividend option, cash payment option, dividend accumulations, enhancement type policy, paid-up additions, and premium reduction option.

dividend rate of mortality
The rate of mortality (for a given age) that an insurer chooses to use in calculating policyowner dividends. The dividend rate of mortality is the mortality rate currently experienced by the insurer on the policies it has sold.

divisible surplus
The portion of an insurance company's earnings that is available for distribution to the owners of the company's participating policies. See also surplus.

doctrine of reasonable expectations
A doctrine applied by some courts under which the reasonable expectations of policyowners and beneficiaries will be honored, even though the language of the policy does not literally support these expectations.

domestic corporation
From the point of view of a particular state in the United States, a company incorporated under the laws of that state. Compare to alien corporation and foreign corporation.

double indemnity
Death benefit coverage that pays an additional benefit equal to the basic death benefit of the policy if the insured's death is accidental. See also accidental death benefit (ADB) rider.

dread disease policy
See limited coverage policy.

drinking criticism
An underwriting term for evidence of alcohol abuse or alcoholism.

dual-choice provision
In the United States, part of the Health Maintenance Organization Act of 1973 which requires employers that meet certain specifications to offer health insurance through a federally qualified HMO as an alternative to a traditional health insurance plan.

dual registration
The licensing of registered representatives with more than one broker-dealer.

duplicate coverage inquiry (DCI) form
In the United States, a form filled out by a health insurance company claim office and sent to another company in order to ascertain whether an accident or injury for which the first company has received a claim is also insured by the second company

early retirement age
An age specified in a pension plan that is earlier than the plan's normal retirement age but at which a plan participant can still receive an immediate pension benefit. The benefit received at early retirement is usually actuarially reduced from the amount that would have been received had retirement occurred at the normal retirement age. See also late retirement age and normal retirement age.

election period
A 60-day period following notification of an insured's eligibility for COBRA continuation coverage, during which the individual can accept or decline the coverage.

elective contributions or elective deferrals
In the United States, contributions to an employee's Section 401(k) plan (cash or deferred arrangement) that are made by the employer on the employee's behalf. The contributions are made using before-tax dollars obtained through a voluntary reduction of the employee's salary. The contributions are tax-deferred to the employee. See also matching contributions and nonelective contributions.

eligibility period
In contributory group insurance plans, the period of time, usually 31 days, during which a new employee may apply for group insurance coverage.

eligibility requirements
The conditions a person must meet in order to be a participant in a group life insurance, group health insurance, or retirement plan.

elimination period
See waiting period.

employee contribution
See percentage contribution.

Employee Retirement Income Security Act of 1974 (ERISA)
A United States federal law establishing (a) the rights of pension plan participants, (b) standards for the investment of pension plan assets, and (c) requirements for the disclosure of plan provisions and funding. ERISA also established the Pension Benefit Guaranty Corporation (PBGC).

employee's cost basis
In the United States, an amount that is subtracted from the total amount of a distribution to a pension plan participant, in order to determine the portion of the distribution that is subject to federal taxation. The cost basis is the amount on which an employee has already been taxed. It includes the amount of the nondeductible contributions made to the plan by the participant, any cost of plan-provided life insurance that was reported as taxable income by the participant, and other factors, including the amount of any employer contributions previously taxed as income to the participant.

Employees Profit Sharing Plan (EPSP)
In Canada, a type of profit sharing plan in which the employer deposits funds into a trust account and may deduct the deposited amount for tax purposes. Employees are generally taxed on contributions on their behalf in the year the contributions are made and on interest earnings when they are earned, but are not taxed when they leave the plan and receive the benefits. There are few limitations on the size of the contributions employers may make or on the ways that plan funds may be invested.

employee stock ownership plan (ESOP)
Generally, any qualified employee-benefit plan which invests some or all plan assets in employer stock. In the United States, ERISA further defines an ESOP as either a qualified stock bonus plan or a combination qualified stock bonus plan and defined contribution pension plan designed to invest primarily in employer securities. The employer's contributions are tax deductible for the employer and tax deferred for the employee.

endorsement
See rider.

endorsement method
A method of changing the beneficiary of a life insurance policy. The change may be made in one of two ways: (a) The policyowner returns the policy to the insurance company, and the insurer attaches the endorsement with the name of the new beneficiary to the policy, or (b) the policyowner does not send the policy to the insurer but only requests the change by letter or telephone, and the insurer sends an endorsement with the change to the policyowner. Contrast with recording method.

endowment insurance
A type of life insurance that provides a benefit (a) if death occurs during a specified number of years or (b) if, at the end of the specified number of years, the insured is alive.

enhancement type policy
A life insurance policy in which part of each dividend provides paid-up additions, while the other part provides one-year term insurance to produce a predetermined total death benefit.

enrolled actuary
In the United States, a pension actuary who meets the standards of and is enrolled by the federal agency known as the Joint Board for the Enrollment of Actuaries.

entire contract provision
A life insurance policy provision which states that the policy itself, along with a copy of the application for insurance, if attached, constitutes the entire agreement between the insurer and the policyowner.

equitable assignment
An assignment that does not meet the requirements of a legal assignment but which will be enforced in an equitable action if fairness so requires.

equity-based insurance product
A life insurance or annuity product in which the cash value and benefit level fluctuate according to the performance of a portfolio of equity investments. The owners of this type of insurance product accept the risk of sharing in the insurer's investment gains and losses. Equity investments are investments by virtue of which investors gain part ownership in a corporation. The primary type of equity investment is corporate stock. See also variable annuity, variable life insurance, and variable universal life insurance.

equity pension
A pension which provides benefit amounts that, at least in part, vary in accordance with the investment results of a portfolio of common stocks and other investment vehicles. The equity portion of the pension benefit is meant to provide retirees with benefits that increase as inflation rises.

equivalent level annual dividend (ELAD)
One amount presented to consumers as part of the interest-adjusted method of comparing the costs of life insurance policies. The equivalent level annual dividend is meant to represent the part of the interest-adjusted payment and the cost that is, in effect, not guaranteed by the insurer, because dividends will change in the future as the insurer's experience changes. This amount gives the buyer an indication of the extent to which these nonguaranteed amounts affect the interest-adjusted payment and the cost of a policy.

equivalent single payment
One payment that can replace several other payments, because it equals the value of the other payments.

equivocal suicide
An apparent suicide in which there is doubt about whether the deceased intended to die as a result of an apparently self-destructive act.

ERISA
See Employee Retirement Income Security Act of 1974 (ERISA).

error and omissions (E&O) insurance
Insurance designed to cover claims that result from the negligent acts or mistakes of an agent, including (1) his or her vicarious liability stemming from negligent acts or (2) mistakes committed by individuals for whom the agent is legally liable.

ESOP
See employee stock ownership plan (ESOP).

estate planning
An insurance program designed not only to provide funds for the prospect's dependents upon the death of the prospect, but also to conserve, as much as possible, the personal assets that the prospect wants to bequeath to heirs. Estate planning usually involves accountants, lawyers, and the trust officers of banks, as well as insurance agents.

evidence of insurability
Proof that a person is an insurable risk.

excess interest
The amount of interest above the guaranteed amount, that an insurance company pays on a settlement option when interest rates are high.

exchange program
A program that allows a proposed insured who is replacing a policy to obtain the new policy on the basis of little or no evidence of insurability if his or her insurability has recently been established by the company that issued the original policy.

exclusion rider
See impairment rider.

exclusions
Specific conditions or circumstances for which the policy will not provide benefits.

exclusive agents
Career agents who are under contract with one insurance company only and who are not permitted to sell the products of other insurers. Also known as captive agents.

exclusive territory
Under the general agency distribution system, a territory in which no individual other than the general agent is permitted to offer the insurer's products. Compare to nonexclusive territory and overlapping territory.

exculpatory statute
Legislation in community-property states that allows an insurer to pay the proceeds of a life insurance policy in accordance with the terms of that policy without fear of double liability.

exoneration statutes
Statutes that excuse the insurer from liability if a party claims policy proceeds which the insurer has already paid to a third party in good faith and without knowledge of any conflicting claim.

experience rating
The process of using a group's own premium and claims experience to calculate premium rates. If the claims experience for the previous year was favorable, the insurer considers reducing the premium rates for

the coming year. If the experience was unfavorable, the insurer attempts to discover the reason and may propose higher premium rates for the next year. See also blended rates and manual rates.

experience refund
(1) The portion of a group insurance premium that is returned to a group policyholder whose claims experience is better than had been expected when the premium was calculated. Also called a dividend, an experience rating refund, and a retroactive rate reduction. See also dividend. (2) The portion of a reinsurance premium that is returned to the ceding company when claims experience is better than had been expected when the premium was calculated.

experimental underwriting
The practice of cautiously accepting specific types of risk that are considered uninsurable according to the insurer's normal underwriting guidelines.

express authority
The authority that a principal explicitly confers on an agent. See agent and principal. Compare to apparent authority and implied authority.

extended spouse's allowance
In Canada, an Old Age Security (OAS) benefit payable to a person who has been receiving a spouse's allowance and whose spouse dies. The benefit is payable until the recipient reaches age 65 or remarries. See also spouse's allowance.

extended term insurance option
A nonforfeiture option in which the cash value of a policy is applied as a net single premium to purchase paid-up term insurance. The amount of term insurance is equal to the death benefit of the policy being surrendered less any outstanding policy loans. The insured maintains the same amount of coverage but usually for a shorter period of time than the original coverage. See also nonforfeiture options.

extra-percentage tables method
A commonly used plan for rating substandard risks. Under this method, each substandard class is charged a premium rate that is a certain percentage above the standard premium rate. Contrast with flat extra premium method.

face amount
In a life insurance policy whose benefit is not variable, the amount stated as payable at the death of the insured or (in the case of an annuity) at the maturity of the contract. It is generally shown on the first page of the policy. Also called the face value. See also basic death benefit, death benefit, and policy proceeds.

face page
The first page of an insurance policy. The face page normally includes the insured's name and age, the name of the policyowner (if different from the insured's name), the amount of premiums, the policy number, the date on which the policy was issued, and the signatures of the insurance company's president and secretary.

facility-of-payment clause
A life insurance policy provision that permits an insurer to pay all or part of the policy proceeds either to a

blood relative of the insured or to anyone who has a valid claim to those proceeds. The facility-of-payment clause enables the insurer to pay benefits in a timely manner when such benefits cannot be made to the beneficiary identified in the insurance contract.

factor table
A table used by insurance underwriters to determine an applicant's net worth by specifying what an applicant's annual income should be multiplied by to arrive at the maximum allowable amount of insurance.

Fair Credit Reporting Act (FCRA)
A United States federal law designed to help ensure that consumer reporting agencies act fairly, impartially, and with respect for the consumer's right to privacy when preparing consumer reports on individuals. See also consumer reporting agency.

family benefit
A life insurance policy rider that provides term insurance coverage on the insured's spouse and children.

family deductible
A single deductible which, when satisfied, relieves a family of the burden of satisfying a deductible for each individual family member.

family income insurance
A specialized individual policy that commonly combines whole life insurance with decreasing term insurance. The whole life insurance portion of the policy is usually paid as a lump sum when the insured dies. The decreasing term insurance portion of the policy provides an income for a predetermined period to help support the insured's family.

family insurance policy
A life insurance policy that covers all the members of a family under one contract.

FASB Statement No. 35
Issued in the United States by the Financial Accounting Standards Board (FASB) in 1985, Statement 35 contains rules by which to measure and report a defined benefit pension plan's assets and liabilities in accounting reports that are issued by the pension plan itself. The Statement is titled "Accounting and Reporting by Defined Benefit Plans."

FASB Statement No. 87
Issued in the United States by the Financial Accounting Standards Board (FASB) in 1985, Statement 87 governs the ways in which an employer accounts for and reports the costs of pension benefits offered to its employees. The Statement, titled "Employers' Accounting for Pensions," requires that, for accounting purposes, employers use a cost method known as the projected unit credit method to determine the net periodic cost of the pension benefits offered to employees. Statement 87 also requires that an employer recognize a liability if the net periodic cost is greater than employer contributions to the plan, and an asset if net periodic cost is less than employer contributions to the plan. An employer must also recognize a liability known as the unfunded accumulated benefit obligation if the accumulated obligations of the plan sponsored by the employer exceed the fair market value of the plan's assets.

FASB Statement No. 88
Issued in the United States by the Financial Accounting Standards Board (FASB) in 1985, Statement 88 establishes accounting requirements for employers whose defined benefit pension plans are curtailed or terminated, or experience other special events, such as a settlement of a pension obligation through a lump-sum cash payment of benefits to a plan participant. The Statement is titled "Employers' Accounting For Settlements and Curtailments of Defined Benefit Pension Plans and Termination Benefits."

federally qualified HMO
In the United States, a Health Maintenance Organization which satisfies specific requirements set forth in the Health Maintenance Organization Act of 1973. Federally qualified HMOs are entitled to certain grants and loans from the federal government and are eligible to be used by employers to satisfy the dual choice provision.

fee-for-service
A payment system for health care where the health-care provider is paid for each procedure or service rendered.

fee schedule
A schedule or list of maximum benefits that will be paid under a group medical contract for certain listed procedures. See also relative value schedule. May simply be called a schedule.

fee schedule basis
A compensation plan used in health maintenance organizations (HMOs) and preferred provider organizations (PPOs) in which a physician is paid a predetermined amount for each service that the physician provides. See also capitation basis.

fiduciary
A person or organization who holds, manages and has discretionary authority and control over money belonging to another person or organization, or who renders investment advice in exchange for compensation. When an insurance company manages pension funds, the insurance company is acting as a fiduciary.

field force
Those insurance agents who work out of an insurer's field offices.

field offices
An insurance company's local sales offices.

field underwriter
See insurance agent.

field underwriting
The first step in the risk selection process. Field underwriting occurs when an agent gathers pertinent information about the proposed insured and reports that information on the application blank so the home office underwriter can make an underwriting decision.

fifth dividend option
See additional term insurance option.

final average (final earnings) benefit formula
A type of defined-benefit formula in which the retirement benefit amount is derived on the basis of a participant's average compensation during a specified period (usually the three to five years preceding retirement) during which the participant was most highly compensated. Contrast with career average benefit formula.

financial institution
An organization that helps to channel funds through an economy by accepting the surplus money of savers and supplying that money to borrowers, who pay to use the money. Insurance companies are financial institutions.

financial intermediary
A financial institution that borrows money on its own account and loans money to other borrowers. Insurance companies are financial intermediaries.

financial settlement
A lump sum payment by an insurer to a disabled insured that extinguishes the insurer's responsibility under the disability contract. Also known as a buy-out or commutation.

first-dollar coverage
Medical expense insurance under which no deductible or coinsurance is applicable to covered expenses.

first-year commission
An amount paid to an insurance agent based on a policy's first annual premium amount.

501(c)(9) trust
In the United States, a type of trust that many self-insured groups establish to fund their group insurance plans. All contributions to a 501(c)(9) trust are deductible for federal income tax purposes, as are all investment gains made on funds in the trust. The trust must meet certain federal government requirements. Also called a voluntary employees' beneficiary association (VEBA). See also self-insured group insurance.

fixed amount option
A life insurance settlement option under which the insurer uses the policy proceeds plus interest to pay the beneficiary a sum of money in a series of annual or more frequent installments for as long as the proceeds plus interest last. Also called the fixed payment option.

fixed period option
A life insurance settlement option under which the insurer pays the beneficiary the policy proceeds plus interest in a series of annual or more frequent installments for a specified length of time.

flat amount formula
A method of determining the retirement benefit for participants in a defined benefit pension plan. A flat amount formula provides the same periodic (e.g., monthly, annual) benefit amount, for example $500 per month, to each retiree. See also flat percentage of earnings formula and unit-benefit formula.

flat extra premium method
A method for rating substandard risks used when the extra risk is considered to be constant. The underwriter assesses a specific extra premium for each $l,000 of insurance. Contrast with extra-percentage tables method.

flat percentage of earnings formula
A method of determining the retirement benefit for participants in a defined benefit pension plan. This method provides for each participant to receive a certain percentage of preretirement compensation, for example 60%. The actual payment amount under this formula depends on how compensation is defined. See also career average benefit formula, final average benefit formula, flat amount formula, and unit-benefit formula.

flexible benefit plan
See cafeteria plan.

flexible premium annuity
A deferred annuity that gives the purchaser the right to vary the amount of each premium paid to the insurer during the accumulation period.

foreign corporation
From the point of view of a particular state in the United States, a company that is incorporated under the laws of another state. Compare to domestic corporation and alien corporation.

foreign insurer
In Canada, a non-Canadian insurance company that is incorporated under the laws of a country which is not a member of the British Commonwealth.

foreseeability
The ability of an insured to have had a reasonable anticipation that harm or injury would be a likely result of a certain act or an omitted act.

forfeiture
The unvested amount that remains in a pension or profit sharing plan when a participant leaves the plan and withdraws the amounts which are vested. Forfeitures may occur when an employee is terminated, for example. Forfeitures must either be used to reduce the plan sponsor's future contributions to the plan or be reallocated to other participants.

fractional premiums
Premiums that are paid in installments during a year, such as semiannually, quarterly, or monthly. Fractional premiums are so called because they are fractions of the annual premium.

fraternal benefit society
An organization that exists to provide social and insurance benefits to its members. In such a society, members often share a common religious, ethnic, or vocational background, although some fraternals are open to the general public.

fraternal insurance
Insurance coverage issued by a fraternal benefit society. See also open contract.

fraudulent claim
A type of claim that occurs when a claimant intentionally uses false information in an attempt to collect policy proceeds.

fraudulent misrepresentation
According to common law, a false statement which meets the following three criteria: (1) the party that makes the statement is aware that it is not true or disregards whether it is true; (2) the party that makes the statement does so in order to induce another party to enter into a contract; (3) the other party does enter into a contract as a result of the statement and suffers a loss because of the contract.

free examination period
The period of time after delivery of an insurance policy during which the policyowner may review the policy and return it to the company for a full refund of the initial premium. Full coverage is in force during this period. Also called a ten-day free look.

front-loaded policy
A life insurance policy (usually a universal life insurance policy) in which most of the expense charges take the form of deductions from each premium payment. Such deductions continue throughout the premium payment period. See also back-loaded policy and universal life insurance.

full-service plan
A health insurance plan which pays in full the actual cost, if reasonable and customary, of services received, rather than a specified maximum for each service.

fully contributory
An arrangement in which the insureds under a group policy pay the entire cost of their insurance. Contrast with contributory group insurance and noncontributory group insurance.

funding agency
The party who holds the assets of a pension plan. Often an insurance company.

funding standard account
For qualified pension plans in the United States, a bookkeeping account which is maintained in order to determine whether a defined benefit pension plan is meeting minimum funding standards set by law. Many of the entries to the account are derived actuarially. If at any time the plan's funding is inadequate, then an accumulated funding deficiency is said to exist. Also known as a minimum funding standard account. See also minimum funding standards.

funding vehicle
The legal document which governs the management of pension funds by a funding agency. When the funding agency is an insurance company, the funding instrument is usually an insurance contract. Also called the funding instrument.

future service
The prospective service that an employee will provide to an employer from the date of entry into a pension, or from the current date, to the employee's normal retirement date. Pension benefits provided for this service are known as future service benefits. See also past service

GAAP reserves
Reserves that are calculated in accordance with generally accepted accounting principles.

general account
An undivided account in which life and health insurers formerly recorded all incoming funds. General accounts are still usually insurers' largest accounts, but since the early 1960s, life and health insurers have begun using other accounts as well. See also separate account.

general agency distribution system
Along with the branch office system, the general agency distribution system is part of the agency system, which is the most common system used to sell individual life insurance products. Under the general agency system, each field office is headed by a general agent, who is an independent entrepreneur under contract to the insurer. As an independent entrepreneur, the general agent has a great deal of control over how the field office is to operate. Typically, the staff of the field office is employed by the general agent, not the insurer; salaries and office expenses are paid by the general agent, not the insurer; and the soliciting agents are under contract to the general agent, not the insurer. In a traditional general agency system, all commissions from the insurer are paid to the general agent. The general agent keeps a portion of each commission, called an overriding commission, and then pays the remaining commission to the appropriate soliciting agent. Some insurers have modified this procedure and now pay commissions directly to soliciting agents and overriding commissions directly to general agents. See also agency system, branch office distribution system, and overriding commission.

general agent (GA)
The individual in charge of a field office of an insurer that uses the general agency distribution system. The general agent is an independent entrepreneur who is under contract to the insurer.

generally accepted accounting principles (GAAP)
The set of accounting principles used by most firms outside the life insurance industry and sometimes used by life and health insurance companies. GAAP is based on the going-concern concept of asset valuation.

GIC
See guaranteed investment contract (GIC).

GI rider
See guaranteed insurability (GI) rider.

good health provision
A provision contained in some group credit policies stating that a policy is void if the insured was not in good health when the application was signed or when the policy was delivered, whichever was specified in the contract.

grace period
The length of time (usually 31 days) after a premium is due and unpaid during which the policy, including all riders, remains in force. If a premium is paid during the grace period, the premium is considered to have been paid on time.

graded-premium whole life insurance
A type of whole life insurance in which premiums increase once or at specified points in time, such as every three years, until a premium that remains level is reached.

gross premium
The amount that policyowners actually pay for their insurance. The gross premium equals the net premium plus the loading.

group creditor life insurance
Group insurance coverage wherein a master contract is issued to cover the lives of current and future debtors of the policyowner. The beneficiary of such coverage is the policyowner.

group deferred annuity
A type of annuity sometimes used to fund a pension plan. Employer contributions under a group deferred annuity contract are used to purchase deferred annuities to provide for the retirement benefits of plan participants.

group insurance
Insurance that provides coverage for several people under one contract, called a master contract.

group life insureds
In Canada, the persons who are insured by a group life insurance contract. Usually simply called "insureds" in the United States.

group ordinary life insurance
Group life insurance in which at least a part of the coverage is permanent and builds a cash-value.

group paid-up insurance
A type of contributory group life insurance in which the employee's contributions are used to purchase paid-up whole life insurance and the employer's contributions are used to purchase term insurance. The amount of insurance coverage on each employee remains level each year. Therefore, as the amount of paid-up insurance on an employee increases over time, the amount of term insurance which the employer must purchase to make up the difference decreases.

group permanent life insurance
Any of several types of life insurance which build a cash value and are underwritten on a group basis. Group permanent life insurance is often used to fund group pension plans and/or to provide life insurance coverage that will continue after retirement.

group persons insured
In Canada, the persons who are insured by a group health insurance contract. Usually simply called "insureds" in the United States.

group practice model (GPM)
A means of organizing a health maintenance organization (HMO) in which the physicians in the HMO share a central facility. See also individual practice association (IPA).

group representative
A salaried insurance company employee who deals solely with the distribution of group insurance products. The primary responsibilities of group representatives include finding prospects, designing proposals, installing the product, and renegotiating the policy at renewal.

group RRSP
In Canada, a collection of individual registered retirement savings plans (RRSPs) established and maintained by an employer in order to help employees save for retirement. Each RRSP within the group is owned entirely by the employee. Employer contributions therefore become vested as soon as they are made.

group universal life insurance (GUL)
Group life insurance for which the insured usually pays the full premium and can choose the amount of premium to pay, and in which the death benefit is determined by the amount of the premium. The insured can vary the premium and death benefit amounts during the life of the policy. Like individual universal life insurance, GUL is designed to combine insurance protection with a savings/investment element. In addition, GUL is usually "portable," which means that a group member who leaves the group can continue coverage under the group plan. Sometimes called a Group Universal Life Program (GULP). See also universal life insurance.

Guaranteed Income Supplement (GIS)
In Canada, a supplemental monthly benefit available to Old Age Security (OAS) recipients who receive less income than a stated amount.

guaranteed insurability (GI) rider
An amendment to a life insurance policy that gives the policyowner the right to purchase additional insurance of the same type as provided in the original policy. The additional insurance can equal no more than an amount specified in the policy contract and can be purchased at specified premium rates and at specified times without new evidence of insurability. Also called a policy purchase rider.

guaranteed investment contract (GIC)
A pension plan funding vehicle in which an insurer accepts a single deposit from a plan sponsor for a specified period of time, such as five years, and holds the deposit at a specified rate of interest. At the end of the period, the deposited funds, including accumulated interest, are returned to the plan sponsor, who can reinvest the plan assets with the insurer or with another party. Also called a guaranteed income contract or a guaranteed interest contract.

guaranteed-issue insurance
Insurance coverage for which there is usually no individual underwriting. All eligible members of a particular group of proposed insureds who apply for the policy and who meet certain conditions are automatically issued a policy.

guaranteed renewable policy

An individual health insurance policy that specifies that the insurer will continue the policy until the insured reaches a specified age, if premium payments are made when due. The insurer can change premium rates for broad classes of insureds. See also cancellable policy, conditionally renewable policy, noncancellable and guaranteed renewable policy, noncancellable policy, and optionally renewable policy.

guaranty association

In the insurance industry, an organization whose purpose is to protect policyowners from losses suffered through the insolvency of an insurance company.

Guidelines Governing Group Accident and Sickness Insurance

In Canada, Superintendents' Guidelines that regulate several aspects of group health insurance contracts, including the types of groups to which a group health insurance contract may be issued and the particulars that must be included in the certificate issued to each person insured by the contract. See also Superintendent's Guidelines.

Guidelines Governing Group Life Insurance

In Canada, a set of guidelines issued by the Canadian Council of Insurance Regulators which specifies, among other things, the types of groups which are eligible for group life insurance.

guide to buying life insurance

In Canada, a written statement developed by the Canadian Life and Health Insurance Association (CLHIA) which describes all of the types of life insurance available and is intended to help prospects for life insurance compare the advantages and disadvantages of each type of policy.

health insurance

Insurance covering medical expenses or income loss resulting from injury or sickness. Health insurance is a general category that includes many different types of insurance coverage, including hospital confinement insurance, hospital expense insurance, surgical expense insurance, major medical insurance, disability income insurance, dental expense insurance, prescription drug insurance, and vision care insurance. See also disability income insurance and medical expense insurance.

health maintenance organization (HMO)

Prepaid health plans in which you pay a monthly premium and the HMO covers your necessary medical treatment. You must choose a primary care physician from within the network to coordinate all of your care. All specialty referrals need to be authorized by your primary care physician.

history statement

An Attending Physician's Statement concerning a specific health history admitted by the proposed insured.

hold harmless release

A discharge stating that a payee will reimburse an insurance company if a subsequent claimant successfully challenges the disbursement of the policy's proceeds.

home-office-to-home-office arrangement

A manufacturer-distributor arrangement in which an insurance company that chooses not to offer a particular product or product line agrees to act as a brokerage general agent for certain product lines manufactured by another insurer.

home service agents
Exclusive or captive agents who work for home service companies and who collect premiums and provide service at the policyowner's residence. Home service agents offer monthly debit life, health, and fire insurance products as well as products for which premiums are billed by and remitted directly to the insurer. Some of their business may also be in industrial insurance. They market products primarily to middle and lower-middle income individuals and families. See also industrial insurance and monthly debit ordinary (MDO).

home service distribution system
A distribution system which is used primarily for individual insurance products and which employs agents who collect premiums and provide service at the policyowner's residence. Each home service agent works within a defined geographical territory. Home service agents offer monthly debit life, health, and fire insurance products as well as products for which premiums are billed by and remitted directly to the insurer. Some market industrial insurance. The home service market is usually middle and lower-middle income individuals and families. See also industrial insurance and monthly debit ordinary (MDO).

hospital confinement insurance
A type of health insurance that provides a predetermined flat benefit amount for each day an insured is hospitalized. The benefit amount does not vary according to the amount of medical expenses the insured incurs, although some policies provide higher benefit amounts if the insured is in an intensive or cardiac care unit. Also called hospital indemnity insurance.

hospital expense insurance
See hospital-surgical expense insurance.

hospital indemnity insurance
See hospital confinement insurance.

hospital-surgical expense insurance
A type of health insurance that provides benefits related directly to hospitalization costs and associated medical expenses incurred by an insured for treatment of a sickness or injury. Most hospital-surgical expense policies cover (a) hospital charges for room, board, and hospital services, (b) surgeon's and physician's fees during a hospital stay, (c) specified outpatient expenses, and (d) extended care services, such as convalescent or nursing home costs.

hour of service
As defined by ERISA in the United States, an hour for which an employee is entitled to be paid or is paid. An hour of service can be earned while the employee is performing services for the employer or during a period in which no service is performed due to vacation, holidays, illness, or other paid leaves of absence. See also year of service.

H.R. 10 plan
See Keogh Act

illness perils
A classification used by health insurance underwriters to evaluate the type and degree of peril represented by a particular occupation. Illness perils include exposure to dust, poisons, and extreme temperatures. See also accident perils.

immediate annuity
An annuity under which income payments begin one period after the annuity is purchased.

immediate participation guarantee (IPG) contract
Similar to a deposit administration contract except that an IPG contract does not fully protect the plan sponsor against investment loss, nor does the IPG contract guarantee minimum investment returns. See also deposit administration contract.

impairment
Any aspect of the health, occupation, activities, or life-style of a proposed insured that could increase his or her expected mortality or morbidity.

impairment rider
An attachment to a health insurance policy that excludes or limits coverage for a specific health impairment. Also called an exclusion rider or impairment waiver.

implied authority
The authority that a principal intends an agent to have and that arises incidentally from an express grant of authority. See agent and principal. Compare to apparent authority and express authority.

incentive coinsurance provisions
Provisions included in some dental policies that promote regular dental care by specifying that insurers will pay a higher percentage of dental expenses if the insured receives regular dental examinations.

incident of ownership
Any policy right including the right to (1) change the beneficiary, (2) cancel or surrender the policy, (3) assign the policy, (4) obtain a policy loan, or (5) use the policy as collateral for a loan.

income protection insurance policy
A type of disability income policy which specifies that an insured is disabled if that person suffers an income loss caused by a disability.

income replacement benefit
See recovery benefit.

income replacement ratio
The percentage of preretirement income that a retiree would need to receive after retirement in order to have a postretirement standard of living equivalent to his or her preretirement standard of living. This ratio is generally less than 100 percent, because some of an individual's expenses (i.e., taxes, commuting costs, clothing expenditures, savings needs) decrease after retirement. Also known as the replacement ratio.

incontestable clause
Life insurance policy clause that provides a time limit (usually two years) on the insurer's right to dispute a policy's validity based on material misstatements made in the application. See also contestable period.

increasing term insurance
A type of term insurance in which the death benefit of the policy increases during the term of coverage. The death benefit may increase at stated intervals by some specified amount or percentage, or it may increase according to increases in the cost of living.

indemnity
See contract of indemnity.

independent life brokers
Licensed brokers who operate independently and specialize in selling particular types of products or in meeting the business coverage or estate planning needs of certain target markets.

independent marketing organization (IMO)
A non-company affiliated organization that contracts with an insurance company to perform distribution and other marketing functions for one or more of the company's products or product lines.

independent property/casualty (P/C) brokers
Independent, multiple-line agents or agencies that are primarily engaged in the distribution of property/casualty products and that make up what is commonly known in the property/casualty insurance industry as the independent agency system or the American Agency System.

indeterminate premium life insurance
A type of nonparticipating whole life insurance that specifies both a maximum potential premium rate and a lower premium rate. The lower rate is paid by the policyowner for a specified period (from 1 to 10 years) immediately after the policy is purchased. Later, the premium rate may fluctuate according to the investment earnings of the insurance company, but the premium rate will never be larger than the maximum premium rate. Also called flexible premium life insurance, nonguaranteed premium life insurance, and variable premium life insurance.

indexation
In pension planning, the adjustment of postretirement benefits to compensate for the effects of inflation. Benefits are generally indexed to increase in accordance with an increase in the level of a price index such as the Consumer Price Index (CPI). See also cost-of-living adjustment (COLA).

indexed life insurance
A whole life plan of insurance that provides for the death benefit of the policy and, consequently, the premium rate to increase automatically every year in accordance with any increase in the Consumer Price Index (CPI).

individual account plan
A pension plan funded according to a defined contribution formula. Each participant's benefits are based on the amount contained in that individual's account. See defined contribution formula and defined contribution pension plan.

individual employer groups
A group insurance market segment composed of single employers providing coverage for employees through a policy--the master contract--issued to the employer.

individual fraud
A type of medical insurance fraud committed by individuals on their medical expense claims in order to obtain benefits in excess of their medical expenses. Contrast with provider fraud.

individual funding methods
Pension plan funding methods in which the amount of contributions necessary to fund a plan is determined by first separately calculating the contributions for each of the plan's participants and then adding these amounts to arrive at the total required contribution for the plan. Contrast with aggregate funding methods.

individual insurance
Insurance that is issued to an individual person, as contrasted with group insurance. Also called ordinary insurance. See also ordinary life insurance.

individual practice association (IPA)
A means of organizing a health maintenance organization (HMO) in which the participating physicians maintain their own separate offices. Such physicians usually treat both private patients and HMO members. See also group practice model (GPM).

individual retirement account (IRA)
In the United States, a tax-sheltered savings plan that allows some citizens to make pre-tax contributions to an approved account. The contributions and investment earnings are taxable as income only when paid out. Investors can establish IRAs through a number of financial institutions, including insurance companies. See also Keogh Act and simplified employee pension (SEP).

industrial insurance
A form of life insurance which today accounts for a small percentage of the business sold through the home service distribution system but a considerable percentage of the insurance in force. It is characterized by (a) death benefits of $2,000 or less, (b) a weekly, biweekly, or monthly premium payment schedule, (c) the collection of premiums at the policyowner's residence by an agent, and (d) minimum underwriting requirements. See also home service distribution system.

in-house brokerage agency
A department established by an exclusive-agent company and staffed by company-employed brokerage sales people whose primary function is to solicit distribution agreements with other companies offering products that the exclusive-agent company itself does not manufacture. The company's agents can then broker business with those companies through the in-house brokerage agency.

initial deductible
See deductible.

initial premium
The first premium payable for an insurance contract.

initial reserve
The reserve on a policy at the beginning of any given policy year. The initial reserve includes the net annual premium then due.

inside build-up
See cash value.

insolvency clause
In the United States, a clause contained in most reinsurance contracts and required by most states which specifies that, if the ceding company becomes insolvent, the reinsurer must pay the ceding company or its liquidator all reinsurance which comes payable, without reduction, even if the ceding company or its liquidator has failed to pay all or a portion of any claim.

inspection receipt
A receipt given to the applicant when the applicant receives a policy for inspection. This inspection receipt states that the insurance is not in effect and that there has been no delivery of the policy in the legal sense.

inspection report
A report made by a consumer reporting agency concerning a proposed insured's lifestyle, occupation, and economic standing. An inspection report is considered an investigative consumer report, as defined by the Fair Credit Reporting Act. See also investigative consumer report.

installation
The term used to include all the activities from the time a prospect decides to purchase a group insurance policy to the time the master contract and its individual certificates are issued.

installment certificate
A certificate issued to the beneficiary of a life insurance policy that specifies the amount of each benefit payment and/or the period during which benefit payments will be made under a settlement option. An installment certificate also specifies whether a beneficiary is allowed to withdraw all or part of the funds during the payment period. See also settlement agreement and settlement options.

installment refund option
A form of life income option with refund which specifies that any proceeds remaining after the death of the beneficiary will be paid in installments to the contingent payee. Contrast with the cash refund option.

insurability provision
An insurance provision stipulating that, for a policy to become effective, the insured must still be insurable at the time of policy delivery according to the underwriting rules and practices of the company.

insurability statement
A questionnaire that an insurer may ask an applicant to complete when a considerable amount of time has elapsed between the time the application is received and the time the policy is actually issued. The purpose of the insurability statement is to determine if any insurability factors have changed since the original application was completed. Insurability statements help protect insurers from post-issue antiselection. See also antiselection.

insurability type temporary insurance agreement
An agreement issued in conjunction with a conditional premium receipt that provides temporary life insurance coverage as of the date specified in the agreement on the condition that the proposed insured is insurable. See also conditional premium receipts and temporary insurance agreements. Compare to approval type temporary insurance agreement.

insurable interest
A condition in which the person applying for an insurance policy and the person who is to receive the policy benefit will suffer an emotional or financial loss if the event insured against occurs. Without the presence of insurable interest, an insurance contract is not formed for a lawful purpose and, thus, is void from the start.

insurance
A system of protection against loss in which a number of individuals agree to pay certain sums of money, called premiums, to create a pool of money which will guarantee that the individuals will be compensated for losses caused by events such as fire, accident, illness, or death.

Insurance Act
In Canada, a general statute that contains most of the insurance law of a common law province and that regulates the conduct of insurers and insurance agents within the province.

insurance agent
A representative of an insurance company who sells insurance. An insurance agent locates prospective insurance customers, determines the insurance needs of each customer, and assists the customer in applying for insurance. Typically, an insurance agent will deliver the policy when the application is approved, will collect the initial premium, and will provide customer service to policyowners. Also called an agent, a field underwriter, or a life underwriter. See also broker, detached agent, general agent (GA), personal producing general agent (PPGA), and soliciting agent.

Insurance Regulatory Information System (IRIS)
In the United States, an information system developed by the NAIC to help state regulatory agencies assess the financial stability of individual insurance companies by means of a series of ratios derived from the companies' statutory annual statements.

insurance trust
A common form of trust, created during the lifetime of the person who creates the trust, that is funded by insurance policies on the life of the trust's creator or by the proceeds of such policies.

insured
(1) In the United States and Quebec, a person whose life is insured by an insurance policy (for individual life insurance policies, called the life insured in the rest of Canada). (2) In the common law provinces of Canada, the owner of an individual life insurance policy (called the policyowner in the United States and the policyholder or owner in Quebec). (For the purposes of this glossary, we have used this term as it is used in the United States and Quebec, except in the definitions of purely Canadian terms, in which cases we have made it clear that we are using the term as it is used in Canada.)

insured funding
A method of funding a pension plan in which the plan sponsor purchases annuity or life insurance contracts

on behalf of each participant. The insurance company guarantees a certain benefit to each retiree. See also group deferred annuity.

insurer
The party in an insurance contract that promises to pay a benefit if a specified loss occurs. Usually an insurance company.

insurer-administered group insurance plan
A group insurance plan for which the insurer performs the administrative work. This administrative work includes computing the amounts of the premiums due and mailing premium notices to the policyholder, usually monthly.

integrated deductible
A type of deductible included in some major medical expense plans that can be satisfied by amounts paid by the insured under basic medical expense plans. Contrast with corridor deductible.

integrated dental plan
A dental plan which is part of a major medical policy.

integrated pension plan
A private pension plan in which the benefits or contributions are coordinated with the benefits or contributions of a government-sponsored pension plan.

interest-adjusted cost
One figure calculated under the interest-adjusted net cost (IANC) method of comparing the costs of life insurance policies. The interest-adjusted cost represents the average annual cost of a policy and is calculated using premiums, dividends, and cash values. Also called the surrender cost index (SCI).

interest-adjusted net cost (IANC) method
A method of comparing the costs of life insurance policies. The IANC method weights dividends and cash values according to how far into the future the various amounts are payable. Under this method, three amounts are calculated: the interest-adjusted cost, the interest-adjusted payment, and the equivalent level annual dividend. Also known as the surrender cost index (SCI) method. See also cost comparison methods.

interest-adjusted payment
One figure calculated under the interest-adjusted net cost method of comparing the costs of life insurance policies. The interest-adjusted payment represents the average annual payment for the policy and is calculated using only premiums and dividends. Also called the net payment cost index.

interest option
A life insurance settlement option under which the proceeds of a policy are temporarily left on deposit with the insurer and the money earned on those proceeds is paid annually, semiannually, quarterly, or monthly to the beneficiary or other payee.

interest-sensitive insurance
See investment-sensitive insurance.

interest-sensitive whole life insurance
See current assumption whole life insurance.

internal replacement
The surrender of one life insurance policy in order to buy another insurance policy that is issued by the same insurer.

interpleader
A method for settling a claim under which the insurer pays the policy proceeds to a court, stating that the company cannot determine the correct party to whom the proceeds should be paid, and asks the court to decide the proper recipient.

investigative consumer report
As defined by the Fair Credit Reporting Act, a consumer report that uses interviews with persons who are associated with, or who have knowledge of, the consumer in question in order to solicit information regarding the consumer's character, mode of living, or general reputation. See also inspection report.

investment-sensitive insurance
A general category of insurance products in which the death benefit and the cash value vary according to the insurer's investment earnings. In investment-sensitive insurance products, policyowners share a portion of the insurer's investment risk. The exact benefit amounts for these policies cannot be computed in advance, beyond any guaranteed minimums. The specific products that make up this category of insurance include variable annuities, variable life insurance, and variable universal life insurance. Also called interest-sensitive insurance.

investment year method (IYM)
An accounting method in which an insurer keeps records of the interest rates it earns annually on funds assigned each year to accounts within the general account. Also called the new money method. Compare to the portfolio method.

involuntary plan termination
The curtailment of a pension plan initiated by a government organization, such as the Pension Benefit Guaranty Corporation (PBGC) in the United States, rather than by the plan sponsor. Contrast with voluntary plan termination. See also distress termination and standard plan termination.

IPA
See individual practice association (IPA).

IRA
See individual retirement account (IRA).

irrevocable beneficiary
A beneficiary whose rights to the proceeds of a life insurance policy cannot be cancelled by the policyowner unless the beneficiary consents. See also beneficiary.

issuing bank
A mutual savings bank that sells and issues life insurance policies in its own name. Each issuing bank

issues its own contracts, keeps its own records, and invests the assets of its own insurance department. See also agency bank and savings bank life insurance (SBLI).

jet screening
The process of evaluating simple applications for insurance as quickly as possible according to strictly defined underwriting criteria.

joint and survivor annuity
An annuity under which a series of payments is made to two or more annuitants. The annuity payments continue until both or all of the annuitants have died. Also called a joint and last survivorship annuity.

joint and survivorship option
A life insurance settlement option under which payments will be made to two or more payees. These payments will continue until both or all the named payees are deceased.

joint credit life insurance
Credit life insurance that pays the full benefit amount to a lender upon the death of any of the cosigners of a loan.

joint life and last survivor option (JL&S)
In Canada, a pension plan provision which provides for the continuation of pension benefits to the spouse of a retired plan participant after the death of the participant. The survivor's benefits, which usually are not as large as the original benefits, continue until the death of the spouse. The provision is required in most Canadian jurisdictions, unless the participant (with spouse approval) elects to forego it. A very similar provision, called a qualified joint and survivor (QJ&S) annuity, is required in the United States for qualified pension plans.

joint whole life insurance policy
One insurance policy that covers two lives and that generally provides for payment of the proceeds at the time of the first insured's death.

juvenile insurance policy
A life insurance policy purchased by an adult to cover the life of a child.

Keogh Act
In the United States, the unofficial name for the Self-employed Individuals Tax Retirement Act of 1962. The Keogh Act created a mechanism for self-employed people to save money for retirement. Under a Keogh plan, also called an H.R. 10 plan, an eligible person deposits money in a government-approved account that is managed by a financial institution, such as an insurance company or a bank.

key employee
In pension planning in the United States, a highly paid employee who satisfies any one of four criteria relating to compensation and company ownership. The criteria are described in legislation and tax rules. The amount of benefits accrued to key employees in a pension plan, as compared to benefits accrued to other employees, is the major factor in determining whether the plan is a top-heavy employee benefit plan. See top-heavy plan.

key-person insurance
Life insurance purchased by a business on the life of a person (usually an employee) whose continued participation in the business is necessary to the firm's success and whose death or disability would cause financial loss to the company.

lapse
The termination of an insurance policy because premiums were not paid when they came due.

late-remittance offer
A means of encouraging reinstatement of lapsed insurance policies. A late-remittance offer specifies that the company will accept an overdue premium after the grace period ends and will reinstate the policy without requiring the policyowner to complete a reinstatement application or submit evidence of insurability. Also called a late-payment offer.

late retirement age
Retirement after the normal retirement age (usually age 65) contained in a pension plan. In the United States, a qualified pension plan generally cannot force a plan participant to retire at the normal retirement age or any other age and generally cannot stop accruing pension benefits for a plan participant who elects to work beyond the normal retirement age. See also early retirement age and normal retirement age.

law of large numbers
The theory of probability which specifies that the greater the number of observations made of a particular event, the more likely it will be that the observed results will approximate the results anticipated by the mathematics of probability.

legal actions provision
In an individual health insurance policy, a provision that limits the period during which a claimant may sue the insurer to collect a disputed claim amount and which specifies that no suit may be brought against an insurer until a specified period after a claim is filed.

legal reserve
See statutory reserve. See also reserve for a list of many different kinds of reserves.

letters patent
In Canada, a procedure used by insurance companies wishing to incorporate through the federal government or in the provinces of Quebec, New Brunswick, Prince Edward Island, and Manitoba to petition the appropriate government agency for incorporation.

level commission schedule
A commission schedule that provides the same commission rate for the first and renewal years.

levelized commission schedule
A commission schedule that provides different percentages for first-year and renewal commissions, but the differences between these percentages are smaller than the differences between first-year and renewal commissions under traditional commission schedules. Also known as a heaped commission schedule.

level premium annuity
A deferred annuity for which the purchaser of the annuity pays equal premium amounts at regular intervals, such as monthly or annually, until the date the benefit payments are scheduled to begin.

level premiums
Premiums that remain the same each year that the life insurance policy is in force.

level premium system
A life insurance pricing system whereby the purchaser pays the same premium amount each year the policy is in force.

level premium whole life insurance
A type of whole life insurance for which equal premiums are payable throughout the premium payment period.

level term insurance
A type of term insurance that provides a death benefit that remains the same during the period specified. Premiums for level term insurance policies usually remain the same throughout each term of coverage.

leveraged ESOP
An employee stock ownership plan (ESOP) that borrows money and uses the borrowed funds to buy stock of the employer. The employer then makes regular contributions to the plan on behalf of the participating employees. The ESOP uses this contributed money to pay back the loan and allocates the stock little by little to the employees. The employer's contributions are tax deductible for the employer and tax deferred for the employee.

liabilities
A company's debts and future obligations. For an insurance company, liabilities include amounts owed to creditors and the actual and expected claims of its policyowners and their beneficiaries.

liability insurance
A kind of insurance that provides a benefit payable on behalf of a covered party who is held legally responsible for harming others or their property.

licensed broker
An insurance salesperson who is not under an agency contract with any insurance company, and who is usually considered to be an agent of the client rather than of the insurer. Also known as a pure broker.

life annuity
A series of payments that are made at regular intervals as long as a designated person, the annuitant, is then alive.

life annuity with period certain
A life annuity which promises that if the annuitant dies before the end of a designated period (usually 5, 10, or 20 years), the insurer will continue payments to a contingent payee until the end of the designated period. Also called a life income with period certain annuity.

life income option
A life insurance settlement option under which the insurer uses the policy proceeds and interest to pay the beneficiary a series of equal payments for as long as the beneficiary lives.

life income option with period certain
A life insurance settlement option in which the insurer guarantees to pay the beneficiary a series of equal payments for a designated period, such as 10 years; thereafter, the payments will continue only as long as the original beneficiary lives. If the original beneficiary dies during the guaranteed period, payments will be made to a recipient designated by the original beneficiary until the end of the guaranteed period, at which time all payments will stop.

life income option with refund
A type of life income settlement option in which the insurer guarantees that if the beneficiary dies before the total amount paid under the option equals the proceeds of the policy, then the insurer will pay the difference to a contingent payee. Also call a refund life income option. See also cash refund option, installment refund option, and settlement options.

life income with period certain annuity
See life annuity with period certain.

life insurance
Insurance that provides protection against the economic loss caused by the death of the person insured.

life insured
In the common law provinces of Canada, the person whose life is insured by an individual life insurance policy. Called the insured in the United States and Quebec. (For the purposes of this glossary, we have used the United States term "insured", except in definitions of purely Canadian terms, in which cases we have made it clear that "life insured" is a Canadian term.)

lifetime limit
A cap on the benefits paid under a policy. Many policies have a lifetime limit of $1 million, which means that the insurer agrees to cover up to $1 million in covered services over the life of the policy.

lifetime maximum
For any individual, the maximum amount that a medical expense policy will pay for all the eligible medical expenses the individual incurs while insured under the policy.

life underwriter
See insurance agent.

limited coverage policy
A type of medical expense policy designed to cover only those medical expenses caused by a specified disease, such as cancer, which is named in the policy. Also called a dread disease policy.

limited-payment whole life insurance
A type of whole life insurance that does not require premium payments during the entire lifetime of the insured. Some limited-payment policies specify the number of years during which premiums are payable,

while other policies specify an age after which premiums are no longer payable. Single-premium whole life insurance, in which only one premium payment is made, is an extreme type of limited-payment insurance.

living benefit rider
A life insurance policy rider which allows the insured to receive all or part of the policy's death benefit before the insured's death if certain conditions are met. This type of provision is often used to help an insured pay health care costs if he or she becomes terminally ill.

living benefits
See accelerated benefits.

loading
A charge that the insurer adds to the net premium to produce the gross premium actually paid by the policyowner. The loading is designed to cover the operating expenses of the company, to compensate the company for the loss of income when policies lapse and to provide margins for profits and contributions to surplus.

location-selling distribution system
A system that distributes insurance products by locating insurance offices and agents in places where consumers generally shop for other items or take care of other business matters, such as department stores, grocery stores, and banks. Also known as the retail outlet distribution system.

lock-box banking
A method of premium collection in which premium payments are received at a specified post office box. The insurer authorizes a bank to have access to that box and to remove and open the mail. All premium payments are deposited immediately in the bank, and the returned portions of the premium notices, along with a record of deposits, are sent to the insurer.

long-form reinstatement application
A reinstatement application similar to a policy application in that both address the long-term health history of the insured.

long-term care (LTC) insurance
Coverage available on an individual or group basis to provide medical and other services to patients who need constant care in their own home or in a nursing home.

long-term disability income insurance
Disability income insurance which typically provides disability income benefits that begin at the end of a specified waiting period and that continue until the earlier of the date when the insured person returns to work, dies, or becomes eligible for pension benefits. See also disability income insurance and short-term disability income insurance.

loss ratio
In pricing health insurance, the loss ratio is a means of comparing claims losses to premium earnings. To determine its loss ratio, an insurer divides the dollar amount of claims it incurred during a given year by the dollar amount of premiums it earned during the same year.

maintenance expenses
The costs of keeping a policy in force. Maintenance expenses include the cost of processing premium payments and making policy dividend payments and the time that agents and customer service personnel spend in servicing and conserving policies that are in force.

major medical insurance
A type of medical expense insurance that provides broad coverage for most of the expenses associated with treating a covered illness or injury. See also comprehensive major medical insurance and supplemental major medical insurance.

major services
In dental insurance, dental services, such as inlays, crowns, prosthodontics, and orthodontics, which are often covered at 50 percent of their reasonable and customary charges.

managed care
An organized way to manage costs, use, and quality of the health-care system. The major types of managed care plans are health maintenance organizations (HMOs), point-of-service (POS) plans, and preferred provider organizations (PPOs).

managing general agent (MGA)
An independent contractor who is authorized to appoint PPGAs on a company's behalf and who may represent more than one company.

mandatary
In Quebec, a party who is authorized by another party, the mandator, to act on the mandator's behalf in contractual dealings with third parties.

mandated benefit
A benefit required by state law to be included in a health insurance policy.

mandator
In Quebec, a party who authorizes another party, the mandatary, to act on the mandator's behalf in contractual dealings with third parties.

mandatory securities valuation reserve (MSVR)
In the United States, a liability account that is designed to absorb, within certain specified limits, realized and unrealized capital gains and losses resulting from an insurer's investments.

manual rates
Premium rates that are established for broad classes of groups. Manual rates are often used to establish premium rates for small groups with no credible loss experience, and to establish initial premium rates for large groups. See also blended rates and experience rating.

master contract
The legal contract between an insurance company and a group insurance policyholder. The master contract insures a number of people under a single contract. Also called the master policy. See also certificate of insurance.

master plan
A standardized form of pension or other employee-benefit plan developed by a financial institution to simplify plan drafting for plan sponsors. Although similar to a prototype plan, a master plan usually refers to a plan document developed by a financial institution (like an insurer) that can be adopted only by plan sponsors who use that financial institution to fund the plan.

master policy
See master contract.

matching contributions
In the United States, contributions made by an employer to an employee's Section 401(k) plan (cash or deferred arrangement) and designed to equal the employee's contributions up to a certain amount or percentage of compensation. See also elective contributions and nonelective contributions.

material fact
A fact that is relevant to an insurance company's underwriting decision regarding issuing or rating a policy.

material misrepresentation
In insurance, a misstatement by an applicant that is relevant to the insurer's acceptance of the risk, because, if the truth had been known, the insurer would not have issued the policy or would have issued the policy on a different basis.

matured endowment
An endowment insurance policy that has reached the end of its term during the lifetime of the insured and is therefore payable.

maximum benefit
The largest benefit amount that a defined benefit pension plan is legally permitted to provide to a plan participant. In the United States, the maximum benefit is determined under Section 415 of the Internal Revenue Code. The maximum benefit is subject to legislative change and is generally indexed to inflation so that it increases as price levels increase. In Canada, a maximum pension benefit is also established under taxation rules. See also contribution limit and section 415 limits.

maximum benefit period
The maximum length of time for which disability income payments will continue.

maximum benefits for related confinements provision
A provision included in basic hospital and surgical policies that limits the maximum benefits for all hospital confinements and for all surgery performed during one period of sickness or for any single injury.

Medicaid
A joint federal-state health insurance program that is run by the states and covers certain low-income people (especially children and pregnant women) and disabled people.

medical application
An application for insurance in which the proposed insured is required to undergo some type of medical examination. The results of the medical examination are then reported to the insurance company.

medical expense insurance

Any of several types of health insurance designed to pay for part or all of an insured's health care expenses, such as hospital room and board, surgeon's fees, visits to doctors' offices, prescribed drugs, treatments, and nursing care. See also hospital confinement insurance, hospital-surgical expense insurance, major medical insurance, and specified expense coverage.

medical necessity provision

A condition included in most major medical expense plans, stating that medical services that are educational or experimental in nature are not eligible for coverage.

medical report

A report on a proposed insured's health that is completed by a physician and is based on a physical examination and questioning of the proposed insured. Such a medical report serves as part of a medical application.

medical savings accounts (MSAs)

Health insurance plans which provide incentives for individuals to replace high-premium, low-deductible policies with lower-cost, high-deductible catastrophic coverage. Premiums for this coverage are lower, and the savings may be used to fund a tax-preferred medical savings account from which you can pay for qualified medical care and expenses, including annual deductibles and copayments on a pre-tax basis.

Medicare

The federally sponsored health insurance program of hospital and medical insurance primarily for people aged 65 and older.

Medicare carve-out

Medical expense coverage offered by employers to retired employees that reduces medical expense benefits to the extent that those benefits are provided by Medicare.

Medicare supplement

Medical expense coverage that provides benefits for certain expenses not covered under Medicare. This coverage is available only to individuals who are covered by Medicare and can be purchased by individuals or by employers to cover retired employees.

MIB, Inc. (Medical Information Bureau)

MIB is organized as a non-stock, not-for-profit membership association of life insurance companies of the United States and Canada. MIB conducts a confidential interchange of information of underwriting significance among its member life insurance companies. The interchange enables MIB member companies to protect the interests of prospective insurance consumers, policyholders and life insurance companies from consumers who omit or misrepresent material facts on their applications for life, health or disability insurance. If in the underwriting of an application for insurance, an MIB member company develops information which is significant to health or longevity, a brief, coded resume of such information will be submitted to MIB. If the consumer applies to another MIB member insurance company, that company may request a copy of the report from MIB provided it has obtained from the consumer a written authorization naming MIB as an informational source. Under the general rules of the association, an insurance company may not base its underwriting decision solely on information provided by MIB. Each member company must conduct its own underwriting investigation. Access to MIB information is restricted to each member company's authorized medical, underwriting and claims personnel. Consumers may request disclosure of or correction to their MIB record by contacting the MIB Information Office, P.O. Box 105, Essex Station, Boston, MA 02112, (617) 426-3660.

minimum age requirement
In pension planning, a requirement that an employee attain a certain age before being permitted to participate in the employer's pension plan. In the United States, a private employer's qualified pension plan cannot have a minimum age requirement greater than age 21. See also minimum service requirement.

minimum deposit arrangement
An arrangement whereby a policyowner can apply the first-year cash value of a policy to the initial premium amount.

minimum deposit business
The use of policy loans to pay premiums. In minimum deposit business, a policyowner instructs the insurance company to pay the premium out of the policy's cash value and to bill the policyowner for a premium only if the cash value is insufficient to pay the premium. Also called leveraged business.

minimum funding standards
In the United States, standards established under Section 412 of the Internal Revenue Code relating to the advance funding of qualified pension plans. The standards are designed to ensure that contributions to a qualified plan are adequate to meet the plan's current and future obligations. Failure to satisfy minimum funding standards can lead to penalty taxes and enforcement actions. See also funding standard account.

minimum premium plan (MPP)
A group health insurance plan that is partially self-insured by the group policyholder but fully administered by an insurance company. The premium is small because the group policyholder pays most of the claims itself. See also administrative services only (ASO) contract and self-insured group.

minimum service requirement
In pension planning, a requirement that an employee complete a certain period of employment (often known as a probationary or waiting period) before being permitted to participate in the employer's pension plan. In the United States, an employee who meets minimum age requirements generally cannot be subject to a waiting period of more than one year, although a plan with full and immediate vesting of benefits can require a two-year waiting period. In Canada, a two-year waiting period is permissible. See also minimum age requirement.

misrepresentation
(1) A false or misleading statement made to induce a prospect to purchase insurance. Misrepresentation is a prohibited insurance sales practice. (2) A false or misleading statement made by an applicant for insurance. Certain misrepresentations provide a basis for the insurer to avoid the policy.

misstatement of age provision
Life insurance policy wording that specifies the action the insurer will take if, at the insured's death, the insurer discovers that the insured's age was misstated in the application and the misstatement has resulted in an incorrect premium for the amount of insurance purchased. In an individual life insurance policy, this

provision specifies that the policy's benefit amount will be adjusted. In a group insurance policy, this provision generally specifies that the policy's premium amount will be adjusted.

mode of premium payment
The frequency with which premiums are paid (for example, annually, quarterly, monthly).

model bill
Sample legislation developed by the National Association of Insurance Commissioners (NAIC) in the United States or the Canadian Council of Insurance Regulators (CCIR) in Canada. States and provinces may adopt this sample legislation exactly as written or use it as the basis for developing their own laws.

Model Life Insurance Solicitation Regulation
In the United States, a regulation adopted by the NAIC in 1976 that requires insurers to give life insurance consumers (1) information that will improve their ability to select the most appropriate plan of life insurance to meet their needs, (2) an understanding of the basic features of the policy that has been purchased or that is under consideration, and (3) the ability to evaluate the relative costs of similar plans of life insurance.

Model Rules Governing the Advertisement of Life Insurance
In the United States, an NAIC model law which provides a set of comprehensive guidelines covering nearly all aspects of advertisements for life insurance policies and annuity contracts.

Model Unfair Trade Practices Act
In the United States, an NAIC model law that prohibits unfair trade practices, such as defamation, rebating, unfair discrimination, and unfair claim settlement practices; the law contains a general prohibition agahnst any form of insurance advertising that is "untrue, deceptive, or misleading."

modified net premiums
Net premiums that are other than level, generally being lower for the first year than for subsequent years.

modified-premium whole life insurance
A type of whole life insurance in which the policyowner pays a lower than normal premium for a specified initial period, such as five years. After the initial period, the premium increases to a stated amount that is somewhat higher than usual. This higher premium is then payable for the life of the policy.

money market fund
A low-risk mutual fund that achieves great liquidity by investing primarily in short-term securities.

money-purchase pension plan
A type of defined contribution plan that specifies a rate of contribution to each participant's account (for example, 8% of annual compensation) and results in a benefit that is equal to the amount in the participant's account (including investment gains and losses) at retirement. Upon retirement, the money that the employer has contributed, plus investment earnings, is often used to purchase an annuity which will provide a regular pension benefit.

monthly debit ordinary (MDO) insurance
Ordinary life insurance that is marketed under the home service system and paid for by monthly premium payments, usually made to an agent. See also home service distribution system.

monthly outstanding balance method
In group creditor insurance, a premium-paying arrangement for contributory plans whereby, every month, the lender adds to the outstanding balance of the loan an amount sufficient to insure that balance for one month. Contrast with single-premium method.

moral hazard
The danger that a proposed insured might deliberately attempt to conceal or misrepresent information. Moral hazard is a risk factor that affects the underwriting decision.

morbidity
Sickness, disability, or failure of health.

morbidity rate
The likelihood that a person of a given age will suffer an illness or disability. The premium that a person pays for health insurance is based in part on the morbidity rate for that person's age group.

morbidity table
A chart that shows the rates of sickness and injury occurring among given groups of people categorized by age.

mortality charge
The cost of the insurance protection element of a universal life policy. This cost is based on the net amount at risk under the policy, the insured's risk classification at the time of policy purchase, and the insured's current age.

mortality curve
A line graph that represents the mortality rates as they change from age to age.

mortality experience
The actual number of deaths occurring in a given group of people.

mortality rate
The frequency with which death occurs among a defined group of people. The premium that a person pays for life insurance is based in part on the mortality rate for that person's age group.

mortality table
A chart that displays the rates of death among a given group of people categorized by age. See also aggregate mortality table, annuity mortality table, basic mortality table, select and ultimate mortality table, select mortality table, and ultimate mortality table.

mortgage redemption insurance
A form of decreasing term insurance that covers the life of a person who takes out a mortgage. If the person dies during the term of insurance, the policy proceeds will approximate the remaining amount of the mortgage loan.

multi-company representation
In Canada, an arrangement by which a life and health insurance agent is allowed to represent more than one insurance company.

multi-employer plan
A pension or other employee-benefit plan involving more than one employer and established by collective bargaining (negotiation between a union and employers). Coverage under the plan is portable within the group, which means that an employee who leaves one employer who is a member of the group and goes to work for another member of the group may continue coverage under the plan.

multiple-employer trust (MET)
(1) An arrangement whereby several employers (often in the same industry) cooperate to procure group insurance for their employees. (2) An arrangement made by an insurance company to cover several employers under one master policy, usually with specific benefit packages and limitations.

multiple-line agency (MLA) system
A personal selling distribution system that uses full-time career agents to distribute both life and health and property/casualty insurance products for groups of financially interrelated or commonly managed insurance companies. Also known as the multiple-line exclusive agency system or all-lines exclusive agency system.

mutual benefit method
An early method of funding life insurance, formerly used by fraternal orders or guilds. Under the mutual benefit method, the promised death benefit was provided by charging participating members an equal amount after the death of an insured member. Also called the post-death assessment method. See also assessment method.

mutual insurance company
An insurance company owned by policyowners rather than stockholders.

mutualization
The process of converting a stock insurance company to a mutual insurance company.

NAIC Model Privacy Act
A model bill written by the National Association of Insurance Commissioners and designed to set standards for the collection, use, and disclosure of information gathered for or by insurance institutions, agents, or insurance-support organizations.

National Association of Insurance Commissioners (NAIC)
In the United States, an association of state insurance commissioners designed to promote consistent insurance regulation. Although the NAIC has no legal power, the recommendations of the NAIC and the actions taken at its semiannual meetings carry great weight with the individual state insurance commissioners, the state legislatures, and the insurance industry. Similar to the Canadian Council of Insurance Regulators in Canada.

National Association of Securities Dealers (NASD)
A voluntary association of securities firms empowered by the Maloney Act of 1938 to regulate the affairs of securities firms and to promote fair and ethical practices in the securities business.

national brokerage houses
Large, independent firms that specialize in providing risk management and employee benefits advice to large, commercial clients.

National Organization of Life and Health Guaranty Associations (NOLHGA)
In the United States, an organization supported by the individual state guaranty associations which are its members. It serves as a central source of information for the state associations and helps resolve problems created by the insolvency of insurers that are licensed in more than one state. See also guaranty association.

needs analysis
Part of the fact-finding stage in the personal selling process; the process of developing a detailed personal and financial picture of a prospect in order to evaluate his or her insurance needs.

negotiated trusteeship
An agreement resulting from collective bargaining (negotiation between a union and one or more employers) which provides group insurance for the members of the union. Also called a Taft-Hartley Trust.

net amount at risk
The death benefit of a life insurance policy minus the policy's reserve at the end of the policy year.

net asset value
The value or purchase price of a share of stock in a mutual fund.

net benefit premium
Under generally accepted accounting principles (GAAP), the portion of the premium that funds the benefit reserve. See net premium.

net cost
(1) In individual insurance, any one of several different figures used to indicate the cost of an insurance policy. (2) In group insurance, premiums less dividends.

net level premium reserve
The amount of liability that an insurance company establishes for a policy. The net level premium reserve is calculated using net level annual premiums.

net payment cost index
See interest-adjusted payment.

net premium
The amount of money needed to provide life insurance benefits for a policy. The net premium is calculated by using only an assumed interest rate and a tabular mortality rate. No loading for expenses is added. The net premium equals a policy's gross premium minus the policy's loading. Under statutory accounting, the net premium funds the benefit reserve. See also gross premium, loading, net benefit premium, tabular interest rate, and tabular mortality rate.

net single premium
The present value of the expected benefits of an insurance policy. The net single premium is the amount of money that would have to be collected at the time a policy is issued to assure that there will be enough money to pay the death benefit of the policy, assuming that interest is earned at the expected rate and that claims occur at the expected rate.

no-evidence limit
In group insurance, the maximum amount for which an insurance company will insure an individual without first securing evidence of insurability. Also known as the guaranteed issue limit.

no-load fund
A mutual fund in which the investor buys shares directly from the fund and no sales commissions are paid.

nonadmitted assets
Those assets that cannot be included on the balance sheet of a life insurance company's Annual Statement.

nonadmitted reinsurer
In the United States, a reinsurer who is not licensed to accept reinsurance in a given jurisdiction. Contrast to admitted reinsurer.

noncancellable and guaranteed renewable policy
An individual health insurance policy that the insurer cannot terminate and for which the premiums cannot be raised. See also cancellable policy, conditionally renewable policy, guaranteed renewable policy, noncancellable policy, and optionally renewable policy.

noncancellable policy
An individual health insurance policy for which the premium cannot be raised by the insurer and which must be renewed by the insurer until the insured reaches a specified age, provided premiums are paid when due. See also cancellable policy, conditionally renewable policy, guaranteed renewable policy, noncancellable and guaranteed renewable policy, and optionally renewable policy.

noncontributory group insurance
A group insurance plan in which the insureds pay no portion of the premium for their insurance. The group policyholder pays the entire premium. If a group plan is noncontributory, the enrollment of group members is automatic; all eligible group members are covered. Contrast to contributory group insurance.

noncontributory plan
A pension or employee-benefit plan in which contributions are made entirely by the plan sponsor. Contrast with contributory plan.

nonduplication of benefits
A method of coordinating medical expense benefit payments between two insurance carriers that allows the secondary carrier to pay the difference, if any, between the amount paid by the primary plan and the amount that would have been payable by the secondary plan had that plan been the primary plan.

nonelective contributions
In the United States, contributions other than matching contributions made by an employer to an employee's

Section 401(k) plan (cash or deferred arrangement). The contributions are made using employer funds and not through a reduction of the employee's salary. See also elective contributions and matching contributions.

nonexclusive territory
Under the general agency system, a territory in which more than one general agent may represent the same insurer. Compare to exclusive territory and overlapping territory.

nonforfeiture factors
Special values, similar to annual premiums, that some insurers use to calculate their policies' cash values. Each insurer calculates its own nonforfeiture factor. In the United States, the nonforfeiture factor can never be greater than the adjusted premiums required by the Standard Nonforfeiture Law.

nonforfeiture options
The various ways in which a policyowner may apply the cash value of a life insurance policy if the policy lapses. See also automatic nonforfeiture option, automatic premium loan (APL), cash surrender value option, extended term insurance option, and reduced paid-up insurance option.

nonforfeiture values
The benefits, as printed in a life insurance policy, that the insurer guarantees to the policyowner if the policyowner stops paying premiums. These amounts may be used in a variety of nonforfeiture options.

noninsured pension fund
A pension fund that is not funded by insurance contracts.

nonmedical application
An application for insurance in which the proposed insured is not required to undergo a medical examination. However, a nonmedical application does contain questions that the proposed insured must answer about his or her health. See also nonmedical supplement.

nonmedical supplement
A report that describes the proposed insured's health history. A nonmedical supplement is completed by the agent based on information provided by the proposed insured and can serve as part of a nonmedical application. Also called a nonmedical declaration. See also nonmedical application.

nonparticipating policy
A type of life insurance policy or annuity in which the policyowner does not receive policy dividends. Also called a nonpar policy.

nonqualified annuity
A type of annuity in the United States funded with money that has already been taxed by the federal government in the year in which the funds are deposited.

nonqualified deferred-compensation plan
In the United States, a retirement income plan that does not meet the requirements of the Internal Revenue Service (IRS) for qualified plans. Although such plans do not receive the tax advantages of qualified plans, they need not satisfy the restrictive plan design requirements that qualified plans must satisfy. Nonqualified plans are often used as a benefit for executives or highly compensated employees.

nonresident license
A license authorizing an agent who resides in another state to sell insurance in the licensing state.

nonretroactive disability benefits
A type of disability benefit that is payable only for the period of disability that follows an elimination period.

nonscheduled dental plan
A dental plan which pays benefits for procedures based on the dentist's actual charges, as long as the charges are usual, customary, and reasonable. See also combination dental plan and scheduled dental plan.

nonsmoker risk class
An underwriting risk class that includes people who are standard risks and who have not smoked cigarettes for a specified period of time, usually 12 months, before applying for insurance. People in the nonsmoker risk class pay lower than standard premiums.

normal cost
The actuarially determined amount needed to fund for one plan year the retirement benefits of a pension plan participant or of a pension plan as a whole. A plan's normal cost is dependent on the actuarial funding method and assumptions used by the plan.

normal retirement age
The earliest age at which a participant in a pension plan can retire and receive the plan's specified benefit in full. Usually age 65. See also early retirement age and late retirement age.

notched option
A method of integrating private pension plans with Canadian public pension plans. Under this option, a participant who retires before age 65 receives a greater benefit from the private plan until age 65 and a smaller benefit after 65, when the participant begins to receive public pension payments. When both the public and private plan benefits are considered, the participant receives the same combined benefit payment before and after age 65. However, this benefit payment is smaller than the payment the participant would have received had he or she waited until reaching age 65 before beginning to receive benefits. The notched benefit is designed so that the sponsor pays the same total benefit as it would have if the amount of the private benefit payments had been constant throughout. Compare to bridging supplement.

numerical rating system
A method of classifying risks in which each medical and nonmedical factor is assigned a numerical value based on its expected impact on mortality. See also credits and debits.

occupation class
A group of occupations that present a similar risk to an insurance company. If all other factors are equal, people in the same occupation class will pay the same premium rates for health insurance.

Office of the Superintendent of Financial Institutions (OSFI)
In Canada, the government office that administers the federal laws pertaining to the various financial institutions, including insurance companies.

Office of the Superintendent of Insurance
In Canada, a provincial executive agency that is responsible for administering the province's insurance laws and regulations.

offset
A tax law provision that allows an insurer to use the amount paid for one type of tax to reduce another aspect of the company's tax liability.

offset approach
A way of integrating benefits from a private defined benefit pension plan with benefits from a government plan. The benefit payable from the private plan is reduced by a specified percentage of the benefit received from the government plan.

Old Age Security Act (OAS)
Canadian legislation that provides a pension to virtually all citizens who are age 65 or older.

Old Age, Survivors, Disability and Health Insurance Act (OASDHI)
The legislation that created Social Security in the United States. See Social Security.

open contract
A type of insurance contract used by fraternal benefit societies. Under this type of contract, the society's charter, constitution, and bylaws become a part of the insurance contract, and any amendments to them automatically become amendments to the insurance contract. No such amendment, however, can destroy or diminish benefits that the society is contractually obligated to pay. See also closed contract and fraternal benefit society.

open debit
In a home service sales territory, a block of policyowners that does not have an assigned servicing agent.

option
A choice that a policyowner can make when deciding how to apply settlements, dividends, or nonforfeiture values. See also dividend options, nonforfeiture options, and settlement options.

option A plan
A plan used in universal life insurance in which the potential policy proceeds remain level. In an option A plan, the policy proceeds are equal to the policy's death benefit. Consequently, the net amount at risk is equal to the difference between the policy's death benefit and the policy's cash value. As the cash value increases, the net amount at risk decreases. Contrast to option B plan.

option B plan
A plan used in universal life insurance in which the potential policy proceeds increase. In an option B plan, the policy proceeds are equal to the death benefit plus the policy's cash value. Consequently, the net amount at risk is always equal to the death benefit of the policy. Contrast to option A plan.

optionally renewable policy
An individual health insurance policy that is renewable on a policy anniversary only if the insurer chooses to

renew it. See also cancellable policy, conditionally renewable policy, guaranteed renewable policy, noncancellable and guaranteed renewable policy, and noncancellable policy.

ordinary insurance
See individual insurance.

ordinary life insurance
Life insurance which is available to individuals in relatively unrestricted maximum death benefit amounts, and premiums may be paid monthly or less frequently.

original age conversion
The fact or the act of changing a term life insurance policy to a whole life policy at a premium rate based on the age of the insured at the time the term policy was purchased.

out-of-pocket maximum
The maximum amount of money you will be required to pay in a calendar year for deductibles and coinsurance. It is a stated dollar amount set by the insurance company. Regular premiums and charges in excess of usual and customary rates do not count toward the maximum out-of-pocket amount.

outliers
Medicare patients whose illnesses are unique and whose conditions may not be classifiable under one of the diagnostic related groups.

outstanding premium
In Canada, a premium that is due on or before the policy statement date but that has not been received by that date.

overinsurance
An amount of insurance that is excessive in relation to the loss insured against.

overinsurance provision
A provision in an individual health insurance policy specifying that, under certain circumstances, policy benefits will be reduced if the insured has more insurance than needed to cover medical expenses or if disability income would exceed the insured's predisability earnings. See also coordination of benefits (COB) clause.

overlapping territory
Under the general agency system, a territory in which some portion of the territory is open to an agent other than the general agent, while the rest of the territory is the exclusive domain of the general agent. See also exclusive territory and nonexclusive territory.

over-retained
The situation in which an insurance or reinsurance company has accepted an amount of insurance which exceeds the company's normal capacity on a specific risk. Also referred to as overlined.

overriding commission
A commission earned by a field office manager that is based on the business produced by the agents in that

office. An overriding commission may be earned each time an agent sells business or it may be based on the overall production of the field office. Also called the override.

paid-up additions
Additional life insurance purchased with policy dividends. No additional premiums are needed for paid-up additions. Also called dividend additions.

paid-up policy
An insurance policy that will provide benefits in the future but that requires no further premium payments.

paramedical report
A report based on a physical examination and a medical history completed by a medical technician, a physician's assistant, or a nurse, rather than a physician. A paramedical report describes the health of a proposed insured and can serve as part of an insurance application.

.**partial disability**
A disability that prevents an insured from engaging in some of the duties of his or her usual occupation or from engaging in the occupation on a full-time basis.

partial disability benefit
A flat amount specified in a disability income insurance policy that is payable when the insured suffers a partial disability. Usually the partial disability benefit is half the full disability benefit. See also residual disability benefit.

partial plan termination
The termination of a pension or employee-benefit plan for one group of participants but not for another. Sponsors sometimes do this to reclaim some of the assets of an overfunded plan.

participating policy
A type of life insurance policy or annuity under which policy dividends may be paid to the policyowner. Also called a par policy. See also dividend.

partnership insurance
A type of business insurance designed to provide funds so the remaining partners in a business can buy the business interest of a deceased or disabled partner. See also business-continuation insurance.

past service
The period of employment service rendered by an employee before a pension plan was begun or amended or before the employee enrolled in the pension plan. A plan sponsor must decide whether pension benefits will be credited to an employee for the employee's past service or only for current and future service. See also future service.

payee
The person to whom benefits are payable under a supplementary contract. See also supplementary contract.

payment of insurance money into court
In the common law jurisdiction of Canada, an action that an insurer takes when the insurer admits liability to pay policy proceeds but cannot determine the proper recipient. Once the insurer pays the money into court, the insurer is discharged of any further liability under the policy. In Quebec, an insurer in such a situation can obtain a valid discharge of liability by paying the policy proceeds to the Minister of Finance. In the United States, the process is called interpleader.

payroll deduction plan
(1) See salary-reduction plan. (2) A premium payment method for individual insurance under which an individual's employer deducts the employee's premium amount from his or her paycheck and sends the premium to the insurer.

peer review group
A group of local physicians who help solve insurance claim disputes and promote fair and ethical practices in the health-care industry.

pension
A life income payable to a person who has retired.

Pension Benefit Guaranty Corporation (PBGC)
In the United States, the organization which insures benefits in defined benefit pension plans. Its purpose is to make sure that all participants in qualified defined benefit pension plans receive the vested benefits to which they are entitled, even if their pension fund goes bankrupt.

Pension Benefits Guarantee Fund
In Canada, a fund established in the province of Ontario to guarantee payment of benefits in the case of the insolvency of a defined benefit pension plan.

Pension Benefits Standards Act (PBSA)
In Canada, federal legislation that governs the administration of pension plans covering federal employees and those individuals whose employment falls under the legislative authority of the Canadian Parliament (including those working in the transportation field, telecommunications workers, and bank workers).

pension fund
(1) The assets used to pay the pensions of retirees. (2) An investment institution established to manage the assets used to pay the pensions of retirees.

Pension Index
In Canada, the index used by the Canada Pension Plan and Quebec Pension Plan to vary pension benefit payments to reflect the effects of inflation. The Pension Index is based on the Consumer Price Index.

per capita beneficiary designation
A class beneficiary designation under which life insurance policy proceeds are shared only by those class members who survive the insured. Contrast to per stirpes beneficiary designation.

per-cause deductible
A deductible which must be satisfied for each separate accident or illness before major medical benefits will be paid. Also known as a per-disability deductible. Contrast with all-causes deductible.

per-cause maximum
For any individual, the maximum amount that a medical expense policy will pay for medical expenses resulting from any particular illness or injury.

percentage contribution
The amount of the premium that a group member pays in a contributory group insurance plan. Also known as employee contribution or member contribution. See also contributory group insurance.

percentage participation
See coinsurance.

period certain
The specified time during which the insurer unconditionally guarantees that benefit payments will continue under a settlement option or annuity.

permanent and total disability
A condition that prevents an insured from returning to any gainful employment.

persistency
The retention of business that occurs when a policy remains in force as a result of the continued payment of the policy's renewal premiums.

personal interview report
A report that contains the same types of information as an inspection report, except that the personal interview report relies on the proposed insured as the only source of information. See also inspection report.

personal producing general agency (PPGA) system
A personal selling distribution system that relies on the use of PPGAs.

personal producing general agent (PPGA)
A type of general agent who more closely resembles a broker than an agency manager. Most PPGAs are under contract to several insurance companies and spend the majority of their time selling insurance rather than building and managing an agency office.

personal selling distribution system
An insurance distribution system that uses commissioned or salaried sales personnel to sell products through oral presentations made to prospective purchasers.

per stirpes beneficiary designation
A class beneficiary designation under which the descendants of a deceased class member receive the deceased class member's share of the life insurance policy proceeds. Contrast to per capita beneficiary designation.

physical examination provision
A health insurance policy provision that grants the insurer the right to have an insured who has submitted a claim examined by a doctor of the insurer's choice at the insurer's expense.

plan document
A written document that is adopted by an employer and that specifies the terms of a pension plan. A plan document identifies the benefits the participants are to receive and the requirements they must meet to become entitled to those benefits.

plan participant
A person on whose behalf contributions are made or benefits are accrued under a pension or employee-benefit plan.

plan sponsor
An entity which has adopted and maintains a pension or employee-benefit plan. The plan sponsor is often an employer, but may be a union, a trade or professional association, or a committee composed of representatives of a number of employers or associations.

point-of-service (POS) plan
A type of managed care plan combining features of health maintenance organizations (HMOs) and preferred provider organizations (PPOs), in which individuals decide whether to go to a network provider and pay a flat dollar copayment (say $10 for a doctor's visit), or to an out-of-network provider and pay a deductible and/or a coinsurance charge.

policy
A written document that serves as evidence of an insurance contract and contains the pertinent facts about the policyowner, the insurance coverage, the insured, and the insurer.

policy acquisition costs
Costs that are directly attributable to the production of new business. Also called acquisition expenses.

policy anniversary
The anniversary of the date on which a policy was issued. Sometimes simply called the anniversary.

policy charge
An amount that an insurer adds to the gross premium to help cover the insurer's expenses. This amount is the same regardless of the size of the policy. Also called a policy fee.

policy filing
The process of obtaining legal permission to sell an insurance product in a specific jurisdiction.

policyholder
(1) The company or organization that owns a group insurance contract (called the group policyholder in Canada). The policyholder of a group insurance contract does not have the same ownership rights under the contract that a policyowner has under an individual contract. (2) In Quebec, the owner of an individual life insurance policy (called the policyowner in the United States and the insured in the rest of Canada). Also sometimes called the owner in Quebec. (3) Often used interchangeably with policyowner.

policy loan
A loan that is made to a life insurance policyowner by an insurer. A policy loan is secured by a policy's cash value and cannot exceed the cash value. When the policy benefits are paid, the amount of any outstanding policy loan made against the policy is deducted from the benefits.

policyowner
The person or party who owns an individual insurance policy. The policyowner is not necessarily the person whose life is insured. The terms policyowner and policyholder are frequently used interchangeably.

policy proceeds
The amount that the beneficiary actually receives from a life insurance policy after adjustments have been made to the basic death benefit for policy loans, dividends, paid-up additions, late premium payments, and supplementary benefit riders. Compare to basic death benefit and death benefit. Also called net policy proceeds.

policy provisions
The statements, following the face page of an insurance policy, that describe the operation of the insurance contract.

policy reserve
(1) A liability account that identifies the amount of assets that, together with the future premiums to be received from in-force policies, is expected to be sufficient to pay future claims on those in-force policies. (2) The actual assets that guarantee that the insurer will have sufficient funds to pay future claims. See reserve for a list of reserves.

policy summary
A document, often in the form of a computer printout, that contains certain legally required data regarding the specific policy being considered by an applicant.

policy year
The 12-month period between a policy's anniversaries.

pooling
In group insurance, the practice of underwriting a number of small groups as one large group.

portability
The ability of an individual to transfer from one health insurer to another health insurer without regard to preexisting conditions or other risk factors.

portfolio
(1) A group of investments managed or owned by an individual or organization. (2) All of the products offered by an insurance company.

portfolio method
A method of accounting among insurers in which each customer or policyowner receives a rate of interest equal to the average rate of interest earned on the entire portfolio of assets in the insurer's general account. Compare to the investment year method (IYM).

post-notice
As required by the Fair Credit Reporting Act, a form that the insurer must send to an applicant in cases in which the insurer has made an adverse decision based on information contained in a report from a consumer reporting agency.

power of agency
An agent's right to act for an insurer. The power of agency is established through agency contracts between an insurer and its agents.

preadmission review
A component of a utilization review program that requires an insured person, or that person's physician, to obtain prior authorization from an insurer before any non-emergency hospitalization.

preauthorized payment system
A cost containment feature of many group medical policies whereby the insured must contact the insurer prior to a hospitalization or surgery to receive authorization for the service.

preauthorization
A cost containment feature of many group medical policies whereby the insured must contact the insurer prior to a hospitalization or surgery and receive authorization for the service.

predetermination of benefits provision
A provision often included in dental policies which specifies that when dental treatments are expected to exceed a stated level, such as $100, $150, or $200, the dentist should submit to the insurer the proposed treatment plan for the patient so that the insurer can determine the amount payable by the dental plan. Also known as a preauthorization of benefits provision, precertification of benefits provision, or pretreatment review provision.

preexisting condition
A health problem that existed before the date your insurance became effective. Many insurance plans will not cover preexisting conditions. Some will cover them only after a waiting period.

preexisting conditions provision
A provision in most medical expense insurance policies stating that until the insured has been covered under the policy for a certain period, the insurer will not pay benefits for any preexisting condition.

preference beneficiary clause
Life insurance policy wording which states that if no specific beneficiary is named, the insurer will pay the policy proceeds in a stated order according to a list of individuals included in the policy.

preferred beneficiary
In Canada, a class of beneficiaries applicable to policies issued before June 20, 1962, and consisting of the spouse, children, parents, and grandchildren of the insured. The policyowner can change the beneficiary of a policy from a preferred beneficiary to a beneficiary who is not a preferred beneficiary only with the consent of the preferred beneficiary.

preferred provider organization (PPO)
A network of health-care providers with which a health insurer has negotiated contracts for its insured population to receive health services at discounted costs. Health-care decisions generally remain with the patient as he or she selects providers and determines his or her own need for services. Patients have financial incentives to select providers within the PPO network.

preferred risk class
In life insurance, a risk class that consists of individuals whose anticipated mortality is lower than the norm established for the standard risk class. Among other things, people in the preferred risk class are in excellent physical condition, have good family medical histories, and do not smoke. Sometimes called the superstandard risk class.

preliminary inquiry form
A type of application form used when there is a high probability that a policy either will not be issued or will be issued with such a high substandard rating that the policy premium will be unacceptable to the applicant. Using a preliminary inquiry form usually brings a quick response from the underwriting department. Also called a trial application.

premium
The monthly amount you or your employer pays in exchange for insurance coverage.

premium deposits
Amounts that are left on deposit with the insurer for the payment of future premiums.

premium receipt
An acknowledgement of an insurer's receipt of an initial premium.

premium receipt book
A book given to the policyowner when a home service agent makes a policy sale. The premium receipt book contains prenumbered receipts that are signed by the agent when the agent collects a premium.

premium reduction option
A life insurance policy dividend option under which policy dividends are applied toward the payment of renewal premiums.

pre-notice
As required by the Fair Credit Reporting Act, advance notice to an insurance applicant from an insurer that an investigative consumer report may be made on the applicant.

preretirement survivor annuity
A pension plan provision which specifies a benefit for the surviving spouse of a vested plan participant if the participant dies before retirement. In the United States, qualified plans are required to include this provision, as are registered plans in Canada.

prescribed annuity contract (PAC)
In Canada, a kind of annuity that meets the criteria established by the Income Tax Regulations to qualify as exempt from accrual taxation.

present value
The amount of money that must be invested on a certain day, sometimes called the evaluation date, in order to accumulate to a specified amount at a later date.

present value factor
The number by which an amount of money to be paid later is multiplied in order to derive the present value of that money.

presumptive disability
A condition that, if present, automatically causes an insured to be considered totally disabled. Examples of presumptive disabilities are total and permanent blindness or loss of two limbs.

prima facie rate
In group creditor insurance in the United States, the standard premium rate recommended by state government regulators for a contributory policy. An insurer can not charge more than the prima facie rate when a contributory group creditor inrurance policy is first issued. Contrast with deviated rate.

primary beneficiary
The party or parties who have first rights to receive policy benefits when the benefits of an insurance policy become payable.

primary care physician
Usually your first contact for health care under a health maintenance organization (HMO) or point-of-service (POS) plan. This is often a family physician, internist, or pediatrician. A primary care physician monitors your health, treats most health problems, and authorizes referrals to specialists, if necessary.

primary provider of benefits
In a coordination of benefits situation, the medical expense plan that pays the full benefits provided by its plan before any benefits are paid by another medical expense plan.

principal
A party who authorizes another party, the agent, to act on the principal's behalf in contractual dealings with third parties. Called the mandator in Quebec.

probability
The likelihood of some event occurring. In mathematics, probability is the number of times that something is likely to occur out of a number of possible occurrences. Probability theory is an essential aspect of the mathematical foundations of insurance.

probationary period
See waiting period.

proceeds
The amount of money that the insurance company is obligated to pay for the settlement of a life insurance policy, endowment insurance policy, or annuity.

professional reinsurer
An insurance company whose only or major line of business is reinsurance.

profit sharing pension plan
In Canada, a money purchase pension plan in which employer contributions are linked to company profits. Employers must make a minimum contribution of 1% of employee earnings, regardless of whether they make a profit, and the plan is subject to the same legal requirements as pension plans.

profit sharing plan
An employee-benefit plan whereby the employer pays a portion of the company's profits to the employees. The employer's contributions are discretionary and may be (1) paid in cash or stock when profits are determined, (2) deferred to individual accounts for each employee, or (3) distributed by a combination of the two methods. Profit-sharing plans can be used as a source of retirement income or as a more short-term savings/investment vehicle.

property insurance
A type of insurance that provides a benefit if insured items are damaged or lost because of fire, theft, accident, or other cause described in the policy.

proposal form
In Canada, a document that is given to a prospective purchaser of an insurance policy and that contains personalized information about the policy and policy values.

prototype plan
A standardized form of pension or other employee-benefit plan developed to simplify plan drafting for plan sponsors. Similar to a master plan.

provider
Any person (doctor, nurse) or institution (hospital, clinic, laboratory) that provides medical care.

provider fraud
A type of medical insurance fraud that is initiated by a medical care provider on patients' claims in order to increase the provider's own income. Contrast with individual fraud.

proximate cause of death
An event that is directly responsible for a death or an event that initiates an unbroken chain of events that lead to death.

prudent expert rule
The legal requirement that the sponsor or manager of a pension plan exhibit certain standards of competence and prudence in accounting for assets in a pension plan and investing the pension plan's funds.

pure endowment
An amount payable only to those people who survive for a certain period of time; those who do not survive that period of time receive nothing. Unless they are combined with some form of life insurance, pure endowments are generally illegal.

qualified annuity
In the United States, a type of annuity which is funded with money that is deductible, up to a stated maximum, from the depositor's gross income in the year in which the funds are deposited.

qualified domestic relations order (QDRO)
In the United States, a decree or settlement in regard to alimony, child support, or marital property rights that assigns all or a portion of a plan participant's pension benefits to an alternate payee. The alternate payee is generally a spouse, former spouse, or a child or other dependent of the plan participant.

qualified joint and survivor (QJ&S) annuity
In the United States, a form of annuity which provides for the continuation of pension benefits to the spouse of a retired pension plan participant after the death of the participant. The survivor's benefits, which cannot be less than 50 percent nor more than 100 percent of the original benefits, continue until the death of the spouse. This form of annuity is required in United States qualified plans, unless the participant (with consent of the spouse) elects to forego it. A similar requirement, called the joint life and last survivor (JL&S) option, applies in most Canadian jurisdictions.

qualified plan
In the United States, a pension plan or employee-benefit plan which meets a series of federal government requirements and is therefore eligible for certain tax advantages.

Quebec Pension Plan (QPP)
A plan that primarily provides retirement income and long-term disability income benefits to residents of Quebec.

quota share reinsurance plan
A type of reinsurance plan in which the assuming company reinsures a specified percentage of every risk of a certain type insured by the ceding company.

rated policy
A policy issued to insure a person classified as having a greater-than-average likelihood of loss. The policy may be issued (a) with special exclusions, (b) with a premium rate that is higher than the rate for a standard policy, or (c) with exclusions and a higher than standard premium rate.

rate making
The calculation of premium rates for an insurance company's products. Actuaries consider several factors when they establish life insurance premium rates. The most important factors are mortality rates, interest rates, and loading.

rate of return method
A method of comparing the costs of life insurance policies wherein the key figure calculated is an annual interest rate, representing a rate of return. Also called the Linton yield method. See also cost comparison methods.

rating classes
The three different approaches that insurers take when they use mortality assumptions to calculate group life insurance premiums. The three rating classes for group premiums are manually rated premiums,

experience rated premiums, and blended premiums. See also blended rates, experience rating, and manual rates.

rating manual
An abbreviated underwriting manual that includes only suggested ratings and a small amount of background information for each impairment listed.

reasonable and customary charge
The amount of money most frequently charged for certain medical procedures in a given geographical area. Medical expense insurance payments are often based on reasonable and customary charges.

rebating
An insurance sales practice that is prohibited in most of the United States and Canada. In rebating, the agent offers the prospect a special inducement to purchase a policy. The rebate is usually made in the form of a share of the agent's commission.

recording method
A method of changing the beneficiary of a life insurance policy in which the policyowner makes the change effective simply by notifying the insurance company in writing of the change. Also called the filing method. Contrast with endorsement method.

recovery benefit
A partial or residual disability benefit payable after an insured satisfies a qualification or an elimination period, returns to work, and then suffers a loss of earnings directly resulting from a preceding total or partial disability. Also known as income replacement benefit. See also partial disability benefit and residual disability benefit.

reduced paid-up insurance option
A nonforfeiture option under which the net cash value of a life insurance policy is used as a net single premium to purchase a smaller amount of fully paid insurance of the same kind and for the same period as the policy being surrendered.

refund annuity
A life annuity that specifies that at least the purchase price of the annuity will be paid out in benefits. See also life annuity.

regional director of agencies (RDA)
An insurance company employee responsible for appointing PPGAs to represent the company.

registered pension plan
In Canada, a pension plan which has met the requirements of and has been registered by the Canadian Minister of National Revenue.

registered principal
Any person who is licensed with the National Association of Securities Dealers and who holds a management or supervisory position in a securities broker-dealer firm.

registered reinsurer
In Canada, a reinsurer which is licensed to accept reinsurance in a given jurisdiction. Contrast to unregistered reinsurer.

registered representative
Any person who is licensed with the National Association of Securities Dealers and who is engaged either in selling securities as the agent or representative of a broker-dealer or in training the sales persons associated with a broker-dealer.

registered retirement plan
In Quebec, a pension plan which has met the requirements of and has been registered by the Quebec Department of Revenue.

registered retirement savings plan (RRSP)
A plan enabling Canadian citizens to establish tax-sheltered accounts to accumulate money toward retirement.

reinstatement
The process by which a life insurance company puts back in force a policy that had lapsed because of nonpayment of renewal premiums.

reinstatement provision
A life insurance policy provision that describes the conditions the policyowner must meet in order for the insurer to reinstate the policy if it has terminated because of nonpayment of renewal premiums.

reinsurance
A transaction between two insurance companies in which one company purchases insurance from the other to cover part or all of the risks that the first company does not wish to retain in full. See also ceding company and reinsurer.

reinsurance treaty
A broadly worded statement of the agreement between a reinsurer and a ceding company. The three common types of reinsurance treaties are automatic, facultative, and facultative-obligatory. Usually just called a treaty. See also automatic reinsurance treaty, facultative reinsurance treaty, and facultative-obligatory (fac-ob) reinsurance treaty.

reinsurer
An insurance company that accepts the risk transferred from another insurance company in a reinsurance transaction. Also called the assuming company.

relation of earnings to insurance clause
A clause included in some guaranteed renewable or noncancellable individual disability policies that limits the amount of benefits in which an insurer will participate when the total amount of disability benefits from all insurers exceeds an insured's usual earnings. Also known as a participation limit.

relative value schedule
A surgical schedule which expresses the cost of a surgical procedure as a unit value rather than as a dollar

amount. A procedure with a value of 20, for example, should cost twice as much as a procedure with a value of 10. See also fee schedule.

renewable term insurance
A type of term insurance which includes a renewal provision that gives the policyowner the right to renew the insurance coverage at the end of the specified term without submitting evidence of insurability.

renewal commissions
Those commissions paid to the agent for a specified number of years, usually nine, after the first policy year. The renewal commission rate is generally much lower than the first-year commission rate and is paid only on policies that remain in force.

renewal premiums
Premiums payable after the initial premium.

renewal provision
(1) An individual life insurance policy provision that gives the policyowner the right to continue the insurance coverage at the end of the specified term without submitting evidence of continued insurability. (2) A provision in an individual health insurance policy describing the circumstances under which the insurance company may refuse to renew the coverage, may cancel the coverage, or may increase the policy's premium rate.

replacement
The act of surrendering an insurance policy or part of the coverage of an insurance policy in order to buy another policy.

reportable event
In the United States, an event that indicates that the financial condition of a pension plan is or may be deteriorating to the point that the plan may be terminated. Such events must be reported to the Pension Benefit Guaranty Corporation (PBGC).

representation
A statement by an insurance applicant of facts upon which the insurer bases its decision as to whether or not to issue the policy as applied for.

required reserve
In Canada, a reserve that an insurance company must maintain as required by the insurance department of the province in which the insurer operates and by any foreign jurisdictions in which the insurer operates.

rescission
An equitable remedy under which the insurer seeks to void a policy or have it declared void. Rescissions usually occur when there has been material misrepresentation in the insurance application.

reserve
Typically, the liability account that identifies the amount of assets needed to pay future claims. There are many different types of reserves. When the term "reserve" is used in the life insurance industry, it usually refers to the policy reserve. See policy reserve.

reserve for future contingent benefits
In health insurance, an amount established as a reserve for deferred maternity benefits and for any other claims that may have already been incurred but that may be contingent upon a future event or circumstances beyond the insurer's control.

reserve strengthening
The process of setting up additional policy reserves.

residual disability benefit
A partial disability benefit amount that is established according to a formula specified in a disability income insurance policy. The amount of the benefit varies according to the percentage of income loss attributable to the disability. See also partial disability benefit.

resisted claim
A claim that an insurer has refused to pay but that it may pay in the future.

restricted stock
Stock that is conditionally given by an employer to compensate an executive. In some instances, the executive is only granted full ownership of the stock if the executive continues to work for the company for a certain period of time.

result clause
A type of war hazard exclusion that excludes payment of benefits only for losses resulting from war or acts of war. Contrast with status clause.

retained asset account (RAA)
An interest-bearing money market checking account that is established by an insurer for the beneficiary of a life insurance policy, and into which the insurer deposits the policy's death benefit.

retention
(1) In reinsurance, the amount of a reinsured risk which the ceding company retains. (2) See retention charge.

retention charge
For a group insurance contract, the portion of the premium that is intended to cover expenses (other than claims) and to allow the insurance company to make a profit. Sometimes simply called retention.

retention limit
The maximum amount of insurance that an insurance company will carry at its own risk on any individual without ceding part of the risk to a reinsurer.

retired lives reserve
A fund that some employers establish and pay into on behalf of employees while they are employed in order to provide group life insurance to the employees after they retire.

retroactive disability benefit
A type of disability benefit that is payable from the date of disability. The first payment is not made, however, until an elimination period has been satisfied.

retro premium
In group insurance, a premium rate agreed upon by the insurer and policyholder at the beginning of a premium-paying period but paid at the end of the period only if the group's claim experience warrants it. The insurer collects a lower base premium at the beginning of the period and, if necessary, charges the retro premium retroactively at the end of the period.

retrospective-rating arrangement
An alternative funding method for a group insurance contract whereby the insurer collects only a percentage (often between 90% and 95%) of the premium from the policyholder at the beginning of the premium-paying period and collects the rest of the premium at the end of the period, unless the group's claim experience is better than expected and the additional premium therefore is not owed. With this system the policyholder retains control of part of the premium for a longer time than with the traditional system.

retrospective review
A component of a utilization review program that provides an insurer with periodic reports on physicians' practice patterns and hospitals' average lengths-of-stay.

revocable beneficiary
A named beneficiary whose right to life insurance policy proceeds is not vested during the insured's lifetime and whose designation as beneficiary can be cancelled by the policyowner at any time prior to the insured's death. See also beneficiary.

rider
An amendment to an insurance policy that becomes a part of the insurance contract and expands or limits the benefits payable. Also called an endorsement.

right of survivorship
A stipulation sometimes included in assignments of life insurance policies which provides that if an assignee dies, the assignee's survivors are entitled to his or her portion of the assignment.

risk class
A group of insureds who present a substantially similar risk to the insurance company. Among the most common risk classes used by life insurance companies are standard, preferred, nonsmoker, substandard, and uninsurable.

rollover
In the United States, the tax-free transfer of account balances to an individual retirement account from a qualified retirement plan or another individual retirement account.

safety margin
In life insurance, the safety margin is the amount by which actuaries increase the probability of mortality for each age group in a mortality table. The safety margin helps protect the insurance company from adverse experience.

salaried sales agents
Insurance sales representatives who are employees of the insurer and who are usually paid on a salary plus incentive compensation basis. Salaried sales personnel may work with other agents or independently, may make sales directly to consumers or promote the sale of an insurer's products through other intermediaries, and are often used to distribute group insurance and pension products. Also known as salaried sales representatives.

salaried sales distribution system
A distribution system that uses salaried employees of the insurance company to sell and service policies. Salaried sales personnel may work either with agents or independently and are often used to distribute group insurance products.

salary continuation plan
A disability or sick-leave plan which provides for employees to continue to receive up to 100 percent of their salary for a limited number of days if they become ill or disabled. The number of days per year granted to an employee generally increases as the employee's length of service increases. Most such plans are self-insured. Also known as a sick-leave plan.

salary-reduction plan
A plan whereby an employee authorizes the employer to reduce the amount of compensation that the employee receives in cash and to contribute the difference to a group insurance, pension or other employee-benefit plan.

sales illustration
A graphic representation used by an agent to help explain an insurance product to a potential customer. Sales illustrations often consist of numeric charts describing the customer's goals and the cost elements and mechanics of the insurance product being proposed. Sometimes simply called an illustration.

savings plan
A defined contribution plan offered by an employer or other plan sponsor to give employees/participants a vehicle for investing funds for retirement or other needs. Most plans feature employer matching of employee contributions, and plan participation is voluntary. Also known as a thrift plan.

scheduled dental plan
A dental plan which pays fixed benefits for specific procedures according to a schedule. See also combination dental plan and unscheduled dental plan.

second-to-die life insurance
See survivorship life insurance.

Section 79
Section 79 of the United States Internal Revenue Code, which provides that employer contributions to purchase group term life insurance receive preferable tax treatment. It also gives a list of specifications which a plan must meet in order to be considered a nondiscriminatory group term insurance plan for tax purposes.

Section 401(k) Plan
In the United States, a qualified cash or deferred profit-sharing or stock-bonus plan which allows participants to decide how much of their compensation is deferred. Participant contributions are not taxable until the funds are withdrawn, and sponsor contributions as well as investment earnings are also tax-deferred to the participant. Also called a Cash or Deferred Arrangement (CODA).

Section 403(b)
Plan in the United States, a type of employee retirement plan established by certain tax-exempt organizations (i.e., hospitals, charities, churches) and educational organizations. Section 403(b) plans were created by Congress to serve as an incentive for tax-exempt organizations (who could not benefit from the tax advantages of qualified pension plans) to offer their employees some form of retirement compensation. Also known as a tax-deferred annuity (TDA) plan or a tax-sheltered annuity (TSA) plan.

Section 415 limits
In the United States, limits placed on the amount of annual additions (contributions) that can be made on behalf of a defined contribution plan participant or the amount of benefits that can be paid to a participant in a defined benefit plan. These limits are determined under Section 415 of the Internal Revenue Code. See also contribution limit and maximum benefit.

Section 3460
In Canada, a set of recommendations contained in section 3460 of the Canadian Institute of Chartered Accounts (CICA) Handbook which concerns employers' accounting for pension costs and obligations. Section 3460 recommends that, for defined benefit plans, the projected benefit method be used to determine pension costs for accounting purposes.

segmentation
A process by which an insurer divides its general account investments into distinct parts, or segments, that correspond with each of the insurer's major lines of business. For example, one segment can be used to account for group life insurance investments, while another can be used to account for individual life insurance investments.

segregated account
In Canada, an asset account that stands apart from a company's general account. Called a separate account in the United States. See also separate account.

self-administered group insurance plan
Under this type of group insurance plan, the group policyholder rather than the insurer performs most of the administrative work for the plan. The policyholder maintains detailed records of group membership, processes routine requests, such as requests for beneficiary changes and name and address changes, prepares its own premium statements, and, in some cases, prepares certificates for new group members.

self-insured group insurance
A form of group insurance in which the group sponsor, not an insurance company, is financially responsible for paying claims made by group insureds. A group may be partially or fully self-insured. See also administrative services only (ASO) contract.

separate account
An account maintained separately from a life insurance company's general accounts to help manage the funds used for nonguaranteed insurance products. By maintaining separate accounts, insurance companies are able to modify some of their investment strategies without affecting the funds in the general accounts. Called a segregated account in Canada. See also general account and investment-sensitive life insurance.

separate account contract
A pension plan funding vehicle in which a pension's assets are invested through an insurer's separate account. A separate account contract usually does not guarantee investment performance. Also called an investment facility contract.

settlement
(1) See financial settlement. (2) In the United States, an irrevocable action that relieves the plan or plan sponsor of the obligation for a pension benefit and that eliminates the risk to the plan assets used to carry out the settlement. One example of a settlement is payment of a lump-sum benefit to a plan participant, thus discharging any further benefit obligation to the participant. Settlement is defined in FASB Statement No. 88.

settlement agreement
The arrangement made between an insurer and a policyowner (or beneficiary) concerning the manner in which the insurer will pay the policy proceeds to the beneficiary. See also settlement options.

settlement option payments
Periodic payments made by an insurance company in lieu of an immediate lump-sum payment of life insurance policy proceeds.

settlement options
Choices given to the policyowner or the beneficiary of a life insurance policy regarding the method by which the insurer will pay policy proceeds. Also known as optional modes of settlement. See also fixed amount option, fixed period option, interest option, joint and survivorship option, life income option, life income option with period certain, life income option with refund, and straight life income option.

settlement option table
A table showing the various amounts that the insurance company will pay as periodic payments in the settlement of a life insurance policy.

short-form reinstatement application
A reinstatement application that asks a few questions designed to guard against reinstatements by insureds whose conditions have changed drastically since the premium due date. A short-form reinstatement application is generally used for reinstatements requested within a comparatively short period, such as 30 to 90 days, after the end of the grace period.

short-term disability income insurance
Disability income insurance which provides a benefit for a short disability or for the first part of a long disability. See also disability income insurance, long-term disability income insurance, and weekly indemnity plan.

simplified employee pension (SEP)
In the United States, a pension plan in which an employer contributes money to an individual retirement account (IRA) for each employee covered by the plan. The IRA is owned by the employee, not the employer. A SEP is especially useful to employers who cannot afford the time or money needed to administer and maintain a more complicated pension plan. SEPs may also be used by self-employed persons.

simultaneous death act
A state or provincial law which provides that if the insured and the primary beneficiary both die under conditions in which it is impossible to determine which one died first, the insured will be presumed to have survived the primary beneficiary unless there is a policy provision to the contrary.

single premium annuity
An annuity that is purchased with only one premium payment. A single premium annuity can be an immediate annuity or a deferred annuity.

single-premium deferred annuity (SPDA)
A deferred annuity for which only one premium payment is made.

single-premium method
In group creditor insurance, a premium-paying arrangement for contributory plans whereby, at the inception of the loan, the entire premium amount for the insurance is either paid in a lump sum by the borrower or added to the principal of the loan. Contrast with monthly outstanding balance method.

single purchase annuity contract
A group contract in which a single premium is applied to purchase annuities for participants in a pension plan that is terminating. Immediate annuities are purchased for current retirees in the plan, and deferred annuities are purchased for participants who have not yet reached retirement age.

six and six exclusion
A preexisting conditions exclusion commonly used in credit disability policies, which states that an insured's disability is not covered if the insured (1) was treated for the condition within six months prior to the effective date of coverage and (2) becomes disabled from that same condition within six months after the effective date of coverage.

small estates statutes
Legislation that enables an insurer to pay relatively small amounts of policy proceeds to an estate without involved court proceedings.

small group insurance plan
A type of group life insurance plan that uses group underwriting techniques but adds some degree of simplified individual underwriting and is designed to cover groups containing 2 to 25 people. Also called a baby group plan.

social insurance supplement policy
A medical expense policy sold by insurance companies to provide benefits that complement the benefits available from a specified government health insurance program.

Social Security
In the United States, a program of the United States federal government that provides retirement income, health care for the aged, and disability coverage for eligible workers and their dependents.

Social Security Disability Income (SSDI)
In the United States, a long-term disability income program that provides benefits to disabled workers who are under age 65 and who have paid a specified amount of Social Security tax for a prescribed number of quarter-year periods.

sole proprietorship insurance
Insurance on the life of the sole proprietor of a business. Sole proprietorship insurance is used either to pay the salary of someone hired to run the business after the owner's death or disablement or to compensate the owner's family for the loss of potential income due to the failure of the business after the owner's death or disability.

soliciting agent
Typically, an insurance agent who works under a general agent or a branch manager. The soliciting agent is the person who actually contacts prospective customers, delivers policies, and collects initial premiums. See also insurance agent.

specified expense coverage
Health insurance coverage which provides benefits for specific medical supplies or treatments or for specific illnesses. Examples include dental expense coverage, vision care coverage, prescription drug coverage, long-term care (LTC) coverage and dread disease coverage. See also limited coverage policy and long-term care (LTC) insurance.

spendthrift trust clause
A life insurance policy provision that protects, under certain conditions, policy proceeds held by the insurer from being seized by a beneficiary's creditors.

split-dollar insurance plan
A type of business insurance in which an employee is covered by individual life insurance that is paid for jointly by the employee and the employer. The employee names the beneficiaries. Each year the employer pays the portion of the premium that is equal to the increase in the policy's cash value for that year, and the employee pays the balance of the premium. If the employee dies, the employer will receive an amount of the proceeds equal to the cash value of the policy, while the beneficiaries of the policy will receive the remaining benefits.

split funding
A method of funding a pension plan in which a portion of the total contributions to the plan are used to purchase an allocated funding instrument while the remainder of the contributions are placed in an unallocated fund.

spouse and children's insurance rider
An addition to a life insurance policy that provides coverage for a spouse and/or children.

spouse's allowance
In Canada, a benefit available to some spouses of Old Age Security (OAS) recipients. The benefit is designed to ensure that a married couple in which one spouse is age 60 to 65 receives a minimum monthly pension that is comparable to the monthly pension of a married couple in which both spouses are over the age of 65.

stacking
The practice of ignoring benefits payable under public pension plans in the design or selection of private pension plans. When no attempt is made to integrate benefits from a public and a private pension plan, the two plans are said to be "stacked."

Standard Nonforfeiture Law
A law, which is virtually uniform in all states, specifying the minimum cash values required to be provided by life insurance policies.

standard plan termination
In pension and employee-benefit plan terms, the process of terminating a plan which has sufficient funds to cover all the benefit amounts to which the plan's participants are entitled. Contrast to distress termination. See also involuntary plan termination and voluntary plan termination.

standard premium rate
The premium rate charged for insurance on a person classified as having an average likelihood of loss.

standard risk class
A risk class made up of individuals whose anticipated likelihood of loss is regarded as average. People in the standard risk class pay standard premium rates. Most insureds are included in the standard risk class.

Standard Valuation Law
A law, which is virtually uniform in all states, specifying minimum standards for calculating, or valuing, insurance reserves.

status clause
A type of war hazard exclusion that excludes payment of benefits for any loss occurring while an insured is in military service. Contrast with result clause.

statutory accounting practices (SAP)
The accounting methods and principles that apply to the completion of the statutory Annual Statement which life insurance companies are required to submit to regulatory authorities.

statutory reserve
A reserve that is reported to government authorities, as required by statutes. Also called a legal reserve. See also policy reserve.

stock bonus plan
An employee-benefit plan whereby part of the employees' compensation is in the form of the employer's stock. Most stock bonus plans are maintained in the same fashion as profit-sharing plans, but the employer's

stock contributions are not necessarily related to profits. As with profit-sharing plans, employer contributions are most often discretionary, and the plan may not be intended as a retirement plan.

stock insurance company
An insurance company that is owned by people who buy shares of the company's stock.

stock option incentive
An incentive plan for executives whereby an employer offers to sell the company's stock to the executive at a certain price on a certain date. It is in the executive's interest for the company to do well and the stock's value to rise. If the stock's value does rise, the executive may, by exercising the stock option, be able to buy the company's stock at a price below the stock's market value, thus making a paper profit (if the stock is or must be held) or a realized profit (if the stock is sold at the higher price).

stock repurchase insurance
Life insurance intended to finance the purchase of stock from the estate of a deceased stockholder by other stockholders in the same company. Typically used for closely-held corporations that have few stockholders. See also business-continuation insurance.

stop-loss provision
A health insurance policy provision specifying that the insurer will pay 100 percent of the insured's eligible medical expenses after the insured has incurred a specified amount of out-of-pocket expenses under the coinsurance feature.

straight life annuity
An annuity that provides periodic payments to the annuitant for as long as the annuitant lives and that provides for no benefit payments after the annuitant's death.

straight life income option
A life insurance policy settlement option under which payments to the beneficiary-payee will continue until the payee's death, after which no further payments are made.

straight life insurance
See continuous-premium whole life insurance.

substandard broker
A general agent who runs a brokerage shop specializing in finding coverage for substandard cases or selling the products of several insurers with expertise in underwriting substandard risks.

substandard premium rate
The premium rate charged for insurance on an insured person classified as having a greater than average likelihood of loss. This premium rate is higher than a standard premium rate.

substandard risk class
A risk class made up of people with medical or nonmedical impairments that give them a greater than average likelihood of loss. Substandard risks pay higher-than-standard premiums.

successor owner
A person designated to become the owner of a life insurance policy if the owner dies before the person insured by the policy dies. In Quebec, known as the contingent owner.

suicide clause
Life insurance policy wording which specifies that the proceeds of the policy will not be paid if the insured takes his or her own life within a specified period of time (usually two years) after the policy's date of issue.

summary information folder
In Canada, a document that is used in marketing variable life insurance products. The document discloses all of the material facts about the particular variable contract and contains certain statements of financial information about the contract's segregated funds.

Summary Plan Description (SPD)
(1) In the United States, a document required by ERISA to provide information about a pension plan to plan participants in simple language. The SPD must, among other requirements, identify the plan's administrator and those who are responsible for managing the plan's assets, must explain the plan's eligibility requirements and the circumstances under which a plan participant could forfeit his or her benefits under the plan, and must explain the procedures for making claims under the plan. (2) In the United States, a description of various aspects of a group insurance plan which must be provided to all plan participants and to the Department of Labor.

superimposed major medical plan
A major medical plan that is coordinated with various basic medical expense coverages and that provides benefits for expenses that exceed these coverages.

Superintendent of Insurance
In Canada, the director of a provincial Office of the Superintendent of Insurance.

Superintendent's Guidelines
In Canada, a series of recommendations made by the Canadian Council of Insurance Regulators (CCIR) to insurance companies concerning a variety of matters, such as variable life insurance contracts, health insurance contracts, and group insurance contracts.

supplemental executive retirement plan (SERP)
A nonqualified deferred compensation retirement plan designed to provide benefits for a group of executives, without regard to benefits provided under a qualified retirement plan.

supplemental group life insurance
Life insurance over and above the basic coverage provided by a group policy. The supplemental coverage may provide an additional amount of the same type of insurance or may provide a different type of insurance. Supplemental coverage is usually contributory and subject to stricter underwriting standards than is the basic group coverage.

supplemental major medical insurance
Major medical insurance providing benefits over and above those benefits paid by basic hospital-surgical expense insurance.

supplementary benefit rider
A rider that is added to an insurance policy to provide additional benefits. Some typical supplementary benefit riders are accidental death coverage, waiver of premium, and the guaranteed insurance option. See also rider.

supplementary contract
A contract between the insurer and the beneficiary of a life insurance policy. A supplementary contract is formed when policy proceeds are applied under a settlement option.

supplementary contract with life contingencies (WLC)
A supplementary contract or annuity in which the duration of the payment period depends on the lifetime of the beneficiary.

supplementary contract without life contingencies (WOLC)
A supplementary contract or annuity in which the proceeds of a life insurance policy are held at interest or paid in installments over a specified period.

supplementary notice
As required by the Fair Credit Reporting Act, notice to a consumer of the nature and scope of the investigation mentioned in the pre-notice form that an insurance company has already sent to the consumer.

supplementary statement
Under the NAIC Model Privacy Act, a written statement made by a person who has been investigated. The supplementary statement is intended to correct what the investigated person believes to be incorrect information in his or her file. This statement must remain with the disputed information in the person's file and must be made available to anyone reviewing the disputed information.

surgical schedule
The part of a health insurance policy that describes the maximum benefit amounts payable for specified surgical procedures. See also fee schedule and relative value schedule.

surplus
The amount by which an insurance company's assets exceed its liabilities and capital.

surrender charge
(1) An amount of money deducted from a policy's reserve to arrive at the policy's cash value. (2) The expense charges applied when the owner of a back-loaded policy surrenders the policy for its cash value.

surrender cost index (SCI)
See interest-adjusted cost.

surrender cost index (SCI) method
See interest adjusted net cost (IANC) method.

survivor income benefit insurance
A type of group life insurance which provides income benefits if the insured is survived by a "qualified survivor." Usually the qualified survivor category includes only the insured's spouse and children.

survivorship clause
A life insurance policy provision, inserted at the request of the policyowner, which provides that the beneficiary must survive the insured by a stated number of days in order to receive the death benefit. Also called a delay clause or a time clause.

survivorship life insurance
A type of whole life insurance which insures two people and pays benefits only after the second person dies. It is generally designed to provide funds to pay estate taxes. Also called second-to-die life insurance.

target-benefit pension plan
A defined contribution plan where the contribution amount is designed to provide the participant with a specific (or "target") benefit. However, the sponsor does not guarantee the benefit, so no adjustment is made if actual investment results (or other variables) differ from initial projections. At retirement, the funds in the employee's account may be paid in a lump sum or used to purchase an annuity.

tax-deferred annuity (TDA) plan
See Section 403(b) Plan.

Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA)
United States federal legislation designed to increase tax revenues through a variety of means such as restrictions on the tax deductibility of certain investments, including some life insurance and pension products, and the elimination of distinctions in tax law applicable to partnerships and sole proprietorships.

tax-sheltered annuity (TSA) plan
See Section 403(b) Plan.

temporary insurance agreements
Legal agreements between an insurer and a proposed insured that provide a guaranteed amount of temporary life insurance coverage for a specific period of time, usually the underwriting period. Also known as interim insurance agreements and temporary insurance receipts.

temporary life annuity
A series of regular periodic payments, each of which is made only if a designated person is then alive, with the number of such payments limited to a specified number.

ten-day free look
See free examination period.

terminal policy dividend
A substantial extra dividend or pro-rata dividend covering the period between the last policy anniversary date and the termination date of the policy.

termination expenses
The cost of processing death benefit claims and cash surrenders.

term insurance
Life insurance under which the benefit is payable only if the insured dies during a specified period. See also

convertible term insurance, credit life insurance, decreasing term insurance, deposit term insurance, family income insurance, increasing term insurance, level term insurance, mortgage redemption insurance, and renewable term insurance.

territory
(1) The geographical area for which a home service agent has exclusive responsibility. Home service districts are divided into territories. Also called an account, an agency, or a debit. (2) The geographical area for which an insurance agent or general agent has responsibility.

testamentary disposition
In life insurance, the use of a will to indicate the person or party to whom the proceeds of a life insurance policy should be distributed.

third-party administrator (TPA)
An organization that administers an insurance contract for a self-insured group but that does not have financial responsibility for paying claims. The self-insured group pays its own claims. See also administrative services only (ASO) contract and self-insured group insurance.

third-party application
An insurance application submitted by a person or party other than the proposed insured.

third-party endorsement
A method of marketing individual insurance to groups. In the third-party endorsement method, a life insurance company makes an agreement with an organization (such as a club, a business, or a professional association) to sell individual insurance to members or employees of the organization. The organization endorses the insurer's products, but the group members are free to buy the products or not.

third-party insurance
Insurance coverage applied for by someone other than the proposed insured.

third-party payer
Any payer of health-care services other than you. This can be an insurance company, an HMO, a PPO, or the federal government.

three-factor contribution method
A method for calculating policy dividends, considering separately the contributions arising from interest, mortality, and loading.

thrift plan
See savings plan.

top-heavy plan
In the United States, a pension plan or employee-benefit plan which provides more than 60% of its accrued benefits to the owners, executives or most highly paid employees of a company (known as key employees). To remain qualified, a top-heavy plan must provide certain minimum benefits to nonkey employee participants. See also key employee.

total disability
When a disability begins, it is typically considered a "total disability" if it prevents an insured person from performing the essential duties of his or her regular occupation. Under many insurance policies, the definition of total disability changes at the end of a specified period after the disability begins, usually two years. Therefore, insureds are considered totally disabled only if their disabilities prevent them from working at any occupation for which they are reasonably fitted by education, training, or experience. See also disability.

total-needs programming
A basis for selling life insurance in which the agent takes into consideration all the prospect's financial needs, calculates the amount of money required to take care of all those needs, determines the amount of funds that will be available when the prospect dies, and calculates the amount of life insurance required to provide the difference. Sometimes called financial planning. Contrast to single-need selling.

traditional net cost (TNC) method
An insurance policy cost comparison method that is prohibited by the NAIC Model Life Insurance Solicitation Regulation primarily because it ignores the time value of money.

travel accident benefit
An accidental death benefit often included in group insurance policies issued to employer-employee groups. This benefit is payable only if an accident occurs while an employee is traveling for the employer.

triple indemnity
A type of accidental death benefit coverage that pays an additional benefit equal to twice the policy's basic death benefit if the accident is sustained while the insured is a passenger in a public conveyance operated by a licensed common carrier, such as a bus, train, or airplane.

trust agreement
In a trusteed pension plan, the contract between the plan sponsor and the trustee that describes the trustee's authority and responsibilities for investing and administering plan assets. Trust agreements are also found when group insurance is provided through a multiple-employer trust (MET).

trusteed pension plan
A pension plan in which the plan sponsor chooses a trustee to be responsible for investing the plan's assets or for choosing an investor for the plan's assets. Also known as a pension trust.

trust fund plan
A pension plan under which employer and employee contributions are forwarded to a trustee, who is responsible for investing the contributions and is often responsible for making benefit payments to plan participants. The duties of the trustee, who may be an individual or an institution such as a bank trust department, are spelled out in a trust agreement. A trustee generally does not guarantee that the trust fund will be adequate to pay current and future pension benefits.

twisting
A form of misrepresentation in which an agent induces a policyowner to cancel an insurance policy and use the cash value of that policy to buy a new policy. In the process, the agent does not inform the policyowner of the differences between the two policies nor the financial consequences of the replacement. Twisting

involves a misleading or incomplete comparison of the policies to the disadvantage of the policyowner. Twisting is a prohibited insurance sales practice

ultimate cost
The total net cost, including the cost of all benefits and expenses, incurred by a pension plan over the life span of the plan.

unallocated funding
A method of funding a pension plan in which the pension funds as a whole are held and managed by a funding agency, often an insurance company, and are not allocated to specific plan participants. When a participant retires, the funding agency either purchases an annuity for the retiree or pays periodic benefits directly from the fund. However, the funding agency makes no contractual promises that it will pay any specific benefit amounts. Contrast with allocated funding.

unappropriated earned surplus
In Canada, the amount of an insurer's surplus remaining after determination of an insurer's reserves, capital, and other surplus amounts.

unbundled insurance product
An insurance product in which the mortality, investment, and expense factors used to calculate premium rates and cash values are each identified in the policy. Some nontraditional products, such as universal life insurance, are unbundled. See also bundled insurance product.

unclaimed benefits
Policy benefits for which no payee can be found. Under typical state statutes for unclaimed property, when an insurer cannot locate anyone entitled to policy benefits, the insurer will hold the unclaimed benefits for seven years and then turn them over to the state. Usually, the unclaimed property statute of the state of the beneficiary's last known address applies. If no address is known, the statute of the insurer's state of domicile will govern.

unclaimed property statutes
Statutes that regulate the disposition of funds for which no owner can be found. Insurers typically hold unclaimed property for seven years. If the rightful owner is not found during this time, the property is turned over to the state. Also known as escheat laws. See also unclaimed benefits.

underwriter
(1) The person who assesses and classifies the potential degree of risk that a proposed insured represents. (2) The person or organization that guarantees that money will be available to pay for losses that are insured against. In this sense, the insurance company is the underwriter.

underwriting
(1) The process of assessing and classifying the potential degree of risk that a proposed insured represents. Also called selection of risks. (2) Providing guarantees that money will be available to pay for losses that are insured against.

underwriting department
The department in a life and health insurance company that selects the risks that the company will insure.

The underwriting department tries to make sure that the actual mortality or morbidity rates of the company's insureds do not exceed the rates assumed when premium rates were calculated. The underwriter considers an applicant's age, weight, physical condition, personal and family medical history, occupation, financial resources, and other selection factors to determine the degree of risk represented by the proposed insured. This department also participates in the negotiation and management of reinsurance agreements, through which an insurance company transfers some or all of an insurance risk to another insurance company. Also called the new business department.

underwriting impairments
Factors that tend to increase an individual's risk above that which is normal for his or her age.

underwriting manual
A summary of the methods used by a particular insurer to evaluate and rate risks. The underwriting manual provides underwriters with background information on underwriting impairments and serves as a guide to suggested underwriting actions when various impairments are present. See also risk class.

underwriting requirements
Printed instructions that indicate what evidence of insurability is required for a given situation and which of several optional information sources will be needed to provide underwriters with necessary information. Sources of information may include medical records and the results of physical examinations. Underwriting requirements are graduated based on the proposed insured's age and the amount of coverage requested.

Unemployment Insurance Act
In Canada, a federal statute that provides unemployment insurance to almost all persons who are employed in Canada. Benefits are provided to covered employees who are laid off or unable to work due to accidental injury, sickness, or pregnancy.

Uniform Accident and Sickness Insurance Act
In Canada, model legislation governing health insurance contracts agreed upon by the Canadian Council of Insurance Regulators (CCIR) and enacted with minor variations by all the common law jurisdictions.

Uniform Life Insurance Act
In Canada, model legislation governing life insurance contracts agreed upon by the Canadian Council of Insurance Regulators (CCIR) and enacted with minor variations by all of the common law jurisdictions.

Uniform Pension Plan (UPP)
In Canada, a prototype pension plan (see prototype plan) developed by members of the Canadian Life and Health Insurance Association and approved by the appropriate Canadian regulatory authorities, including Revenue Canada.

unilateral contract
A contract in which only one party promises to do something. A life insurance policy is a unilateral contract.

uninsurable risk class
The group of people with a risk of loss so great that an insurance company will not offer them insurance.

union welfare fund or union welfare trust
A fund organized by a union and one or more employers to which contributions are made by the employer(s) so that group benefits can be made available to the union's members.

unit-benefit formula
A method of calculating benefits for a defined benefit pension plan based on years of service. The formula may take into account only years of service (for example, $50 per month for each year of service) or years of service and compensation.

universal life insurance
An unbundled whole life insurance product in which the mortality, investment, and expense factors used to calculate premium rates and cash values are expressed separately in the policy. In a universal life insurance policy, any applicable expense charges are deducted from the premium and the remainder of the premium is then credited to the policy's cash value. Each month the insurer deducts the mortality costs from the cash value and credits the remainder of the cash value with interest.

The owner of a universal life policy can specify the premium amount he or she will pay, as long as this amount falls within the minimum and maximum specified by the company. If the renewal premium is insufficient to pay the policy's mortality and expense charges, the balance is taken from the policy's cash value. If the premium exceeds the maximum level specified by the company, then the policy's cash value may grow too large in proportion to the policy's death benefit and the policy will be considered an investment contract rather than an insurance contract. The difference in size that must be maintained between the cash value and the death benefit is called the corridor.

In a universal life policy, the policyowner is permitted to change the policy's death benefit after the policy has been issued, although this right is subject to restrictions. First, if a policyowner wishes to increase the policy's death benefit the insurer may require evidence of insurability. Second, any decrease in the policy's death benefit must not violate the corridor guidelines.

A universal life insurance policy describes the mortality rate assumptions that the company is using to calculate the mortality charges. In addition, a maximum mortality charge per thousand dollars of coverage at each age is listed, and the insurer guarantees not to exceed this charge.

Most universal life insurance policies guarantee a minimum interest rate of 4 percent or 4 1/2 percent on the money in the policy's cash value. If economic conditions warrant, the interest rate may be higher, but it can be no lower. Normally, insurers state that the interest rate paid on the cash value will reflect current interest rates in the economy.

The cash value of a universal life insurance policy may be used as collateral for a policy loan in much the same way that the cash value of a traditional whole life policy may be used. The money in a universal life policy's cash value may also be withdrawn, rather than used as collateral for a policy loan. The cash value is reduced by the amount withdrawn plus any applicable cash withdrawal fees, but the policy remains in force. In contrast, the owner of a traditional whole life insurance policy can withdraw the cash value only by cancelling the policy.

For other information about universal life insurance, see also back-loaded policy, corridor, front-loaded policy, group universal life insurance (GUL), option A plan, and option B plan. See also bundled insurance product and unbundled insurance product.

usual and customary charge
The amount a health plan will recognize for payment for a particular medical procedure. It is typically based on what is considered "reasonable" for a specific procedure in your service area.

unregistered reinsurer
In Canada, a reinsurer who is not licensed to accept reinsurance in a given jurisdiction. Contrast with registered reinsurer.

utilization review
A cost-control mechanism by which the appropriateness, necessity, and quality of health-care services are monitored by both insurers and employers

valuation mortality tables
Mortality tables developed and published as industry-wide standards for computing the values of policy reserves. These tables usually have wide margins of safety, indicating much higher rates of mortality than do the tables that insurers use for calculating premiums.

valuation premium
The net annual premium used to calculate reserves. The valuation premium is most often used to describe the GAAP net premium.

valued contract
A contract under which the amount of the benefit is set in advance. A life insurance policy is a valued contract. See also contract of indemnity.

variable annuity
A form of annuity policy under which the amount of each benefit payment is not guaranteed and specified in the policy. The amounts of the benefit payments fluctuate according to the earnings of a separate account fund.

variable life insurance
A form of whole life insurance under which the death benefit and the cash value of the policy fluctuate according to the investment performance of a separate account fund. Most variable life insurance policies guarantee that the death benefit will not fall below a specified minimum. A minimum cash value is seldom guaranteed. Because the policy owner assumes investment risk under variable life insurance policies, these products are considered securities contracts. In the United States, variable life insurance policies must be registered with the Securities and Exchange Commission (SEC), and only agents who have passed the National Association of Securities Dealers (NASD) examination may sell this product. In Canada, variable life insurance policies are considered life insurance contracts, and agents do not need a special license to sell these products. See also investment-sensitive life insurance.

variable premium life insurance
See indeterminate premium life insurance.

variable universal life insurance
A form of whole life insurance that combines the premium and death benefit flexibility of universal life insurance with the investment flexibility and risk of variable life insurance. Because the policyowner assumes investment risk under variable universal life insurance policies, these products are considered securities contracts. In the United States, variable universal life insurance policies must be registered with the Securities and Exchange Commission (SEC), and only agents who have passed the National Association of Securities Dealers (NASD) examination may sell this product. In Canada, variable universal life insurance policies are considered life insurance contracts, and agents do not need a special license to sell these products. Also called flexible premium variable life insurance and universal life II. See also investment-sensitive life insurance.

vested benefit
In pension and employee-benefit terms, a benefit that a plan participant is entitled to receive if the participant leaves the plan. By contrast, nonvested benefits would be forfeited by the participant upon leaving the plan. A participant's benefits become vested after a certain number of years of participation in a plan.

void contract
A contract that is not valid. For example, a life insurance contract that lacks insurable interest is void for reasons of public policy.

voluntary employees' beneficiary association (VEBA)
See 501(c)(9) trust.

voluntary plan termination
The curtailment or termination of a pension plan with the curtailment or termination being initiated by the plan sponsor. Contrast with involuntary plan termination. See also distress termination and standard plan termination.

waiting period
(1) In medical expense insurance, a prescribed amount of time following policy issue during which the insured's medical expenses are not covered by the policy. Such waiting periods usually last from 14 to 30 days following policy issue and normally apply only to medical expenses arising from sickness, not from accidents. (2) In disability income insurance, a specified amount of time, beginning with the onset of the disability, during which benefits are not payable. Such waiting periods may last from seven days to six months. The waiting period in a disability income insurance policy is sometimes called the elimination period or the probationary period. (3) In a group insurance plan, the length of time that a new group member must wait before being eligible to join the group plan. Also called a probationary period.

waiver of deductible provision
A provision found in some major medical coverages that waives a claimant's initial deductible if the claimant's medical expenses are the result of an accidental injury.

waiver of premium for disability (WP) benefit
A rider or a policy provision under which the insurer promises to give up its right to collect the policy's premium if the policyowner becomes unable to work because of an accident or injury. The waiver of premium for disability benefit remains in effect as long as the policyowner is disabled.

waiver of premium for payor benefit
A rider or provision often included in juvenile policies which provides that the insurer will give up its right to collect the policy's premiums if the adult policyowner, not the insured child, dies or becomes disabled.

war exclusion provision
A life insurance policy provision that limits an insurer's liability to pay a death benefit if the insured's death is connected with war or military service. See result clause and status cause.

weekly indemnity plan
A type of short-term disability income insurance plan which typically pays a weekly benefit equal to a stated dollar amount or a percentage, such as 60 percent, of the insured person's earnings.

whole life annuity
A mathematical term for a series of regular periodic payments, each of which is made only if a designated payee is then alive, with the payments continuing for that payee's entire life.

whole life insurance
Life insurance that remains in force during the insured's entire lifetime, provided premiums are paid as specified in the policy. Whole life insurance also builds a savings element (called the cash value) as a result of the level premium approach to funding the death benefit. For descriptions of traditional whole life products see continuous-premium whole life insurance, graded-premium whole life insurance, joint whole life insurance policy, limited-payment whole life insurance, modified-premium whole life insurance, and single-premium whole life insurance. For descriptions of nontraditional whole life products see adjustable life insurance policy, current assumption whole life insurance, indeterminate premium life insurance, universal life insurance, variable life insurance, and variable universal life insurance.

withdrawal
Voluntary termination of an insurance contract by the policyowner. See also lapse.

withdrawal provision
A life insurance policy provision that permits the policyowner to reduce the amount in the policy's cash value or accumulated value by taking up to that amount in cash. This provision is often included in universal life policies and annuity policies. Also known as a partial surrender provision.

workers' compensation
Government-mandated insurance that provides benefits to covered employees and their dependents if the employee suffers job-related injury, disease, or death.

yearly renewable term (YRT) insurance
Term life insurance that gives the policyowner the right to continue the coverage at the end of each year. This renewal right continues for a specified number of years or until the insured reaches the age specified in the contract. Also called annually renewable term (ART) insurance.

year of service
As defined by ERISA in the United States, a 12-month period during which an employee completes at least 1,000 hours of service to the employer. See also hour of service.

Year's Basic Exemption (YBE)
As defined by the Canada Pension Plan (CPP) and Quebec Pension Plan (QPP) in Canada, the first 10 percent of an employee's annual earnings up to the amount of the Year's Maximum Pensionable Earnings (YMPE).

Year's Maximum Pensionable Earnings (YMPE)
In Canada, the maximum amount of employment earnings that, after deducting the Year's Basic Exemption, can be used to determine an individual's benefits under the Canada Pension Plan and Quebec Pension Plan. The YMPE is adjusted annually according to increases in wage levels.