

Life Insurance

Glossary of Terms

Use this glossary to become familiar with terms relating to Life insurance and retirement programs.

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Accelerated Benefits

Benefits available in some life insurance policies prior to death, which maybe used to help pay the costs of long-term care or terminal illness.

Accidental Death Benefit

A provision added to a life insurance policy for payment of an additional benefit if death is caused by an accident. This provision is often referred to as “double indemnity.

Agent

An authorized representative of an insurance company who sells and services insurance contracts.

Annuity

A financial product that allows a person to save for your future on a tax-deferred basis and then allows the person to choose a payout option that best meets need for income when the person retires. Payment option include a lump sum, income for life, or income for a certain period of time.

Automatic Premium Loan

A provision in a life insurance policy that any premium not paid by the end of the grace period (usually 30 or 31 days) will be paid automatically by a policy loan if there is sufficient cash value.

Beneficiary

The person or financial instrument (for instance, a trust fund) named in a life insurance policy as the recipient of policy proceeds in the event of the policyholder's death.

Cash Value

Also known as the cash surrender, this is the amount available in cash upon surrender of a permanent life insurance policy before it becomes payable upon death or maturity.

Deferred Annuity

A contract in which annuity payouts begin at a future date.

Defined Benefit Plan

A pension plan that specifies the benefits an employee will receive after retirement. Benefits typically are based on length of service and salary, and usually are funded by the employer on behalf of each plan participant.

Defined Contribution Plan

A pension plan that specifies the contributions made by employees and, in many cases, the employer on behalf of each plan participant. These funds accumulate for each plan participant until retirement. At retirement, funds are distributed either as a lump sum or monthly annuity. Benefits are based on the amount of contributions plus earnings.

Disability Income Insurance

Insurance that provides periodic payouts when you are unable to work due to illness or injury.

Dividend

In life insurance, an amount of money returned to the holder of a participating policy. The money is a partial refund of the premium paid. It results from actual mortality, interest and expenses that were more favorable than expected when the premiums were set.

Evidence of Insurability

A requirement for potential insurance policyholders to obtain proof of physical or medical tests, such as blood pressure or cholesterol screening, before purchasing an individual insurance policy.

Face Amount

The amount stated on the face of a life insurance policy that will be paid in the case of death or policy maturity. It does not include dividend additions, or additional amounts payable under accidental death or other special provisions.

Fiduciary

A person or organization that is authorized to control or manage pension assets, or that is authorized or responsible for administering a pension plan. Fiduciaries are legally obligated to discharge their duties solely in the interest of plan participants and beneficiaries, and are accountable for any actions that may be construed by courts as breaching that trust.

Fixed Annuity

An annuity contract in which the premiums you pay are invested in the general assets of the life insurance company, and the company guarantees fixed payout every month.

Flexible-Premium Deferred Annuity

An annuity contract that permits varying the amount and frequency of premium payments from year to year for payouts that will occur in the future.

401(k) Plan

An employer-sponsored retirement savings plan which allows employee contributions to be made on a before-tax basis.

403(b) Plan

A retirement savings plan similar to a 401(k) plan for employees of charitable and educational organizations.

Grace Period

A period (usually 30 or 31 days) following each insurance premium due date, other than the first due date, during which an overdue premium may be paid. All provisions of the policy remain in force throughout this period.

Guaranteed Interest Contract

A contract offered by insurance companies that guarantees a rate of return on assets for a fixed period, and payment of principal and accumulated interest at the end of the period.

Immediate Annuity

A contract in which annuity payouts begin immediately or within one year.

Insured

The person on whose life an insurance policy is issued.

Joint and Survivor Annuity

An annuity where payouts are made as long as a person lives, and after death, to a designated beneficiary as long as he or she lives.

Lapsed Policy

An insurance policy terminated at the end of the grace period because of nonpayment of premiums. (See nonforfeiture values.)

Long-Term Care Insurance

An insurance contract that provides financial protection if a person is unable to care for himself or herself because of a chronic illness, disability, or cognitive impairment, such as Alzheimer's disease.

Nonforfeiture Values

The value of a life insurance policy if it is cancelled, either in cash or in another form of insurance.

Ordinary Life Insurance

This is the most common type of permanent life insurance. With this type of policy, premiums generally remain constant over the life of the policy and must be paid periodically in the amount specified in the policy.

Permanent Life Insurance

Life insurance designed to provide lifelong financial protection. As long as the person pays the necessary premiums, the death benefit will be paid. Most permanent policies have a feature known as cash value that builds up, tax-deferred, over the life of the policy and can be used to help fund financial goals, such as retirement or education expenses.

Policy

The printed document issued to the policyholder by a company stating the terms of the insurance contract.

Policy Illustration

A policy illustration shows how your life insurance policy will work. It illustrates premiums, death benefits, cash values, and information about other factors that may affect your costs.

Policy Loan

The amount that can be borrowed under an insurance policy at a specified rate of interest from the issuing company by the policyholder, who uses the value of the policy as collateral for the loan. In the event the policyholder dies with the debt partially or fully unpaid, the insurance company deducts the amount borrowed, plus any accumulated interest, from the amount payable to beneficiaries.

Premium

The payment, or one of regular periodic payments, that a policyholder makes to own an insurance policy.

Qualified Plan (Tax-Qualified Plan)

An employee benefit plan that meets Internal Revenue Code requirements. Employer contributions to such plans are immediately deductible by the employer, and contributions to and earnings in such plans are not included in the employee's or beneficiary's income until actually distributed to that recipient.

Reinstatement

The restoration of a lapsed insurance policy. The company requires evidence of insurability and payment of past-due premiums plus interest.

Rider

An amendment to an insurance policy that modifies the policy by expanding or restricting its benefits or excluding certain conditions from coverage.

Roth IRA

An individual retirement account (IRA) in which earnings on contributions are not taxed, as long as the contributions have been in the account for five years, and the account holder is at least age 59 ½, disabled or deceased. Contributions to a Roth IRA are not tax deductible.

Settlement Options

One of several ways, other than immediate payment in a lump sum, in which the insured or beneficiary may choose to have policy proceeds paid.

Straight Life Annuity

An annuity whose periodic payouts stop when the annuitant dies.

Term Insurance

Life insurance that covers the insured for a certain period of time, known as the term. The policy pays death benefits only if the insured dies during the term.

Traditional IRA

An individual retirement account set up by an individual to provide retirement income that allows contributions to be deducted from income and permits earnings on contributions to accumulate tax-deferred until retirement.

Underwriting

The process of classifying applicants for insurance by identifying characteristics such as age, gender, health, occupation and hobbies. People with similar characteristics are grouped together and are charged a premium based on the group's level of risk.

Universal Life Insurance (Adjustable life)

A type of permanent life insurance that allows you, after your initial payment, to pay premiums at any time, in virtually any amount, subject to certain minimums and maximums. This policy also permits the insured to reduce or increase the death benefit more easily than under a traditional whole life policy. To increase a death benefit, the insurance company usually requires a person to furnish satisfactory evidence of continued good health.

Variable Annuity

A contract in which the premiums paid are invested in funds offered by the insurance company, including bond and stock funds. The selection of funds should depend on the level of risk you want to assume. The account value reflects the performance of the funds in which you decide to invest. Over the long term, variable annuities invested in equities generally reflect the growth and performance of the economy and can serve as a hedge against inflation.

Variable Life

A type of permanent insurance that provides death benefits and cash values that vary with the performance of a portfolio of investments. A person allocate premiums among a variety of investments offering different degrees of risk and reward, including stocks, bonds, combinations of both, or accounts that guarantee interest and principal.

Vesting

The right of an employee to all or a portion of the benefits he or she has accrued, even if employment terminates. Employee contributions, as in a 401(k) plan, always are fully vested. Employer contributions vest according to a schedule defined by the plan and are usually based on years of service.

Viatical Settlement Contract

Awritten agreement entered into between a viatical settlement provider and a viator under which the viatical settlement provider will pay compensation in return for the viator's assignment, transfer, sale devise or bequest of the death benefit or ownership of all or a portion of the insurance policy or certificate of insurance to the viatical settlement provider. A viatical settlement contract also includes a contract for a loan or other financial transaction secured primarily by an individual or group life insurance policy, other than a loan by a life insurance company pursuant to the terms of the life insurance contract, or a loan secured by the cash value of a policy.

Viator

The owner of a life insurance policy or a certificate holder under a group policy insuring the life of an individual with a catastrophic, life-threatening or chronic illness or condition who enters or seeks to enter into a viatical settlement contract.

Waiver of premium

A provision that sets certain conditions under which an insurance policy will be kept in full force by the company without the payment of premiums. It is used most frequently for those policyholders who become totally and permanently disabled, but may be available in certain other cases.

Whole Life Insurance

The most common type of permanent life insurance. With this type of policy, premiums generally remain constant over the life of the policy and must be paid periodically in the amount specified in the policy.

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