Glossary

1035 exchange See **section 1035 exchange**.

401(k) plan Qualified defined contribution retirement plan permitting employees to defer some of their compensation on a pretax basis; plans may also allow employers to make qualified matching contributions.

Absolute assignment Complete transfer by a policyowner of all rights in a policy to another person or entity.

Accelerated benefit rider See **living benefit rider**.

Accelerated death benefit See **terminal illness coverage**.

Accidental death benefit Rider to or a provision of a life insurance policy and sometimes other policies that promises to pay a specified additional death benefit if the insured dies as a result of an accident. Often called **double indemnity** when the additional benefit is twice the face amount of the base policy.

Accidental means Definition of accidental death that requires both the cause and result of the death being accidental.

Account value See **cash value**.

Account value provision See **policy value provision**.

Accredited investor Wealthy investor who meets requirements of the *Securities and Exchange Commission* as to minimum net worth (in excess of $1.0 million) or annual income (in excess of $200,000).

Accumulated book profits model Simulation of anticipated operating experience for a block of policies using the best estimates of what the individual factors will be for each future policy year with profits and losses carried forward at a selected hurdle rate and maintained separately in a profit account.

Accumulated value (1) Future value of a principal amount or amounts accumulated at interest. (2) See **cash value**.

Accumulation period Time before annuity benefits commence and during which cash values accumulate and one or more premiums are paid.

Accumulation period provision Under medical expense benefits, specified period of time during which multiple claims may be accumulated to satisfy the deductible and coinsurance provisions.

Accumulation universal life Universal life policy that emphasizes cash value accumulation but requires higher premiums per $1,000 of face amount.

Actual authority That authority granted to an agent by a principal in specific language or terms. Also called **express authority**.

Actuarial equity State achieved when each participant in an insurance pool pays an actuarially fair price.

Actuarial opinion Annual certification required of an insurer's appointed actuary by state insurance laws as to whether reserves and related actuarial items are computed appropriately, are based on assumptions that satisfy contractual provisions, are consistent with prior reported amounts, and comply with applicable state laws.

Actuarially fair price Value of the *ex ante* expected loss of each participant in an insurance pool that is paid to the pool.

Additional purchase option See **guaranteed insurability option**.

Adhesion Characteristic of personal insurance contracts providing that their terms and provisions are fixed by one party (the insurer) and, with minor exceptions, must be accepted or rejected word for word by the other party (the prospective policyowner).

Adjusted gross estate Under federal tax law, gross estate less allowable deductions except bequests to the surviving spouse and to charities.

Adjusted premium Under the *Standard Nonforfeiture Law*, the level premium necessary to pay guaranteed policy benefits (the net level premium) plus the level equivalent of a defined special first year expense allowance.

Adjusted premium method Descriptor indicating derivation of minimum nonforfeiture values.

Adjusted taxable gifts Under federal tax law, those made after 1976, net of annual exclusions taken, for which a gift tax return was filed and which are not otherwise included in the decedent's gross estate.

Administrative fee Expense charge assessed periodically against an unbundled policy's account value, stated as a flat dollar amount such as $10, a charge per $1,000 of death benefit such as $0.10, and/or sometimes as a percentage of the account value.

Administrative services only Contractual arrangement under which an employer-sponsor of a self-funded benefit plan purchases specific administrative services from an insurer or other entity.

Administrator Individual or institution responsible for the administration of an estate of a person who dies without a valid will.

Admitted asset Asset recognized and accepted on the annual statement of an insurer for the purpose of satisfying an insurer's statutory solvency requirements.

Admitted value Value recorded on an insurer's balance sheet for its admitted assets.

Adult day care Provides assistance with the activities of daily living and allows socialization in a long term care facility or community program facility. Commonly covered by long term care insurance policies up to a percentage (e.g., 50 percent) of the full nursing home benefit.

Advance directive Legal document that provides one's family and physicians with written instructions regarding one's preferences regarding medical treatment in the face of serious medical conditions.

Adverse selection Tendency of self selected insurance applicants to exhibit average claim experience greater than that of an otherwise identical randomly selected group of exposure units, representing an asymmetric information problem resulting from the fact that the customer knows more than the seller about the customer's situation and can use that fact to the seller's detriment. Also called **antiselection**.

Adverse selection spiral Tendency of insureds who are charged premiums sufficiently greater than the actuarially fair price to withdraw from the insurance pool thereby precipitating premium increases for the remaining insureds, from among whom still more withdrawals occur, etc., leading to a continuing spiral of withdrawals and premium increases that can result in the pool collapsing.

Affiliated distribution channel Insurer-owned or directed system composed of individual intermediaries, called variously **captive agents, career agents, exclusive agents**, and **tied agents**, who are engaged full time in the sale of insurance exclusively or primarily for a single insurer or affiliated group of insurers. Also called **agency-building system**.

Age of majority Minimum age at which a person can enter into contract, typically 18 in the U.S.

Agency problem Asymmetric information problem in which the incentives and interests of one party (the agent) differ from those of the party that it represents (the principal).

Agency-building system See **affiliated distribution channel.**

Agent Person who acts for another. See also **insurance agent.**

Agent's report Report providing supplementary information about a proposed insured and/or applicant and his or her relationship to the agent, which is prepared by the agent and submitted to the underwriter in connection with a life or health insurance application.

Aggregate mortality table Mortality table showing probabilities of death by age and other possible criteria such as sex of insureds within both the select and ultimate mortality groups.

Aleatory Characteristic of insurance contracts providing that outcomes are governed by chance and that one party may realize more than the other.

Alien insurer In U.S. terminology, an insurance company organized in another country.

Allowable deductions Under federal estate tax law, items that qualify for deductibility from the gross estate to derive the taxable estate, which include funeral and administration expenses, debts of the decedent, as well as bequests to charities and the surviving spouse.

Alternative minimum taxable income Alternative calculation of taxable income determined by adding tax preference items to regular taxable income.

Alternative valuation date Under federal tax law, option to use the fair market value of the estate property at a date six months after death.

Ambulatory instrument One taking effect only at death.

Amortized value Difference between a bond's acquisition cost and par value, increased or decreased in successive stages over time until that value equals the bond's par value at maturity.

Annual exclusion Value of yearly gifting exempt from gift taxation and from filing a federal gift tax return.

Annual renewable term See **yearly renewable term**.

Annual report Required by the NAIC *Life Insurance Policy Illustration Model Regulation* to be provided annually on policies designated by the insurer as ones for which illustrations are used, shows the financial status and relevant transactions that took place under the policy during the preceding policy year. Also called **annual statement**.

Annual reset method Equity index annuity indexing method that determines index-linked interest annually by comparing the index value at the end of the contract year with the value at the beginning of the contract year.

Annual statement See **annual report**.

Annuitant Person whose lifetime is used to measure the length of time that benefits are payable under a life annuity. Sometimes used also to mean the recipient of annuity payments.

Annuitization Election to liquidate as an annuity accumulated savings from a fixed or variable annuity or other savings media.

Annuity Series of periodic payments or receipts.

Annuity certain Annuity payable over a set period without reference to whether the annuitant is alive.

Annuity contract Insurance policy that promises to make a series of payments through systematic liquidation of principal and interest and possibly benefit of survivorship for a fixed period or over an annuitant's lifetime.

Annuity due Annuity whose payments are made at the beginning of each period**.**

Antiselection See **adverse selection**.

Any gainful occupation With disability income insurance, clause that deems an insured to be totally disabled if he or she cannot perform the major duties of any gainful occupation for which he or she is reasonably suited because of education, training, or experience.

Apparent authority That authority which a third person believes an agent to possess by virtue of circumstances made possible by the principal and upon which the third party is justified in relying.

Applicant Person or entity applying for a life or health insurance policy.

Application Instrument by which an applicant provides answers to insurer's questions used to determine proposed insured's insurability. Applicant's offer to an insurer for insurance.

Appointed actuary Person designated by an insurer's board of directors to render the actuarial opinion required by state insurance law.

Approval conditional premium receipt Formal acknowledgement that the applicant has tendered the first policy premium and which provides insurance coverage only after the application has been approved by the insurer.

Assessment basis Insurance contracts that permit insureds (members) to be assessed retrospectively as claims occur to provide promised benefit payments. In the past, used by fraternal organizations whose contributions were not scaled according to the age or insurability of members thus resulting in adverse selection.

Asset accumulation phase Preretirement economically productive years of life when both financial and real assets are acquired.

Asset liquidation phase Economically nonproductive postretirement years of life during which assets are liquidated.

Asset share The conceptual segmentation to individual policies of an insurer's general account investments accumulated on behalf of a group of policies.

Asset share model Simulation of anticipated operating experience for a block of policies, using the best estimates of what the individual factors will be for each future policy year.

Asset Valuation Reserve Accounting mechanism required by regulators designed to minimize volatility in an insurer's statutory surplus by earmarking portions of it to absorb realized and unrealized capital gains and losses not attributable to interest rates.

Asset-liability management Practice of matching the sensitivity of the net of asset and liability values to interest rate changes.

Asset-liability matching Asset-liability risk management practice of designing insurance policies and managing liability-matched asset portfolios to interact in a way that protects an insurer's surplus capital position under changing economic conditions and customer behavior.

Asset-liability risk Possibility that the same external factors can affect the value of assets and liabilities simultaneously and disproportionately, the most important of which is a change in market interest rates.

Asset-liability risk management Process of preserving or enhancing a life insurer's surplus capital position as asset and liability values change in response to changing economic conditions and customer behavior.

Assignment provision Policy provision stating that the policyowner has the right to transfer ownership of the policy and advising that the insurer need not recognize a transfer unless the insurer is notified of it.

Assisted living facility Provides supervision, assistance, and limited health services to relatively healthy senior citizens as an alternative to nursing home care.

Commonly covered by long term care insurance policies up to a percentage (e.g., 50 percent) of the full nursing home benefit.

Assumed interest rate Under a variable annuity during annuitization, the interest rate that, if earned uniformly throughout the liquidation period, would produce level annuity benefit payments. Also called the **benchmark rate** or **target return**.

Assuming company Reinsurer or direct writing insurer that sells reinsurance.

Assumption reinsurance Total transfer of assets, liabilities, and risk from one insurer to another under which the assuming company legally replaces the ceding company in transactions on sections or books of business, and issues assuming certificates to affected policyholders.

Asymmetric information problem Situation in which one party to a transaction has relevant information that the other does not have and can take advantage of that fact to the first party's benefit and the other party's detriment.

Attained-age conversion Exercise of a conversion feature with the premium cost of insurance for the new policy based on the insured's attained age as of the date of conversion, being the same as that which the company offers to new insureds who qualify as standard.

Attribution rules *Internal Revenue Code* provision that attributes the stock owned by family members or estate beneficiaries to a decedent for estate taxation purposes.

Audit and control procedures Protocols designed to limit the risk associated with mistakes, fraud, and other irregularities in the process of reporting and managing assets and liabilities.

Authorized control level Under the state-mandated risk-based capital system, the minimum amount of total adjusted capital that must be held to avoid possible regulatory intervention, its value derived by a formula intended to reflect the insurer's particular contingency risks.

Automatic increase benefit Feature of some disability income policies and riders providing for scheduled increases in the monthly benefit amount, typically in each of five consecutive years at a fixed rate (e.g., 5 percent or so), with annual premium increases at attained age rates for the portion of increased benefit.

Automatic premium loan provision Cash value life insurance policy provision, usually at the policyowner's option, stating that the amount of a premium due and unpaid will be advanced automatically as a loan against the policy at the end of the grace period if the policy has sufficient net cash surrender value.

Automatic reinsurance Reinsurance under which the direct writing company must transfer an amount in excess of its retention of each applicable insurance policy to the assuming company immediately upon payment of a direct premium and the issuance of the policy, and the reinsurer must accept transfers that fall within the scope of the agreement. Also called **treaty reinsurance**.

Aviation exclusion Policy provision occasionally included in life insurance policies insuring pilots that excludes coverage if the insured dies in an aviation accident.

Aviation questionnaire Supplement to a life or health insurance application that elicits additional aviation information from a proposed insured who engages in commercial, private, or military aviation activities.

Backdating Practice of establishing a policy date before the application date to enable premiums or COI charges to be based on an earlier age of the proposed insured.

Back-end load See **surrender charge**.

Balance sheet Financial statement showing assets, liabilities, and owners' equity or surplus.

Bankruptcy Application of bankruptcy laws to a debtor who may or may not be insolvent.

Basic illustration Required in a specified format by the NAIC *Life Insurance Policy Illustration Model Regulation* to be provided to applicants on policies designated by the insurer as those for which illustrations are used, includes a narrative summary, a numeric summary, and tabular detail.

Basic mortality table Tabulation that displays yearly probabilities of death drawn from records of the actual experience of the population from which the data were drawn.

Basis With regard to life insurance and annuities income taxation, the sum of premiums and other contributions paid into a contract, reduced by the amount of refunds, dividends, cash surrenders, and other withdrawals that were not included in taxable income. In the case of an annuity, may be further reduced by a prescribed proportion if the payout includes a refund feature. Also called cost basis, investment in the contract, and tax basis.

Basis risk Possibility that offsetting investments in a hedging strategy will not experience precisely identical inverse price changes because the notional amount or timing of cash flows of risk management assets are not precisely matched to the assets or liabilities hedged.

Basket clause Provision in state insurance law that permits insurers to invest a limited percentage (e.g., 10 percent) of its assets in any lawful investment. Also called **leeway clause**.

Behavioral economics Positive or descriptive discipline that seeks to predict how investors and savers actually behave.

Benchmark rate See **assumed interest rate**.

Beneficiary In an insurance context, person or entity entitled to insurance death or health benefits in the event of a policy claim.

Beneficiary clause Life insurance policy provision stating that the policyowner may have policy death proceeds paid to whomever and in whatever form desired, subject to contract terms and naming or referring to the designated person or entity entitled to receive death benefits.

Benefit base balance Under a guaranteed lifetime withdrawal benefit, the benefit base after reduction due to withdrawals.

Benefit of survivorship. (1) Survivors' share of the unliquidated funds of those annuitants or insureds who die before their expected age of survival or before their policies endow. (2) Contributions remaining in the insurance pool of those who had no claims or whose claims were less than their contributions to the pool, thus providing funds to other claimants.

Benefit period With disability income insurance, the longest period of time for which benefits will be paid, usually the same for sickness and injury and generally available for durations of two or five years or to age 65.

Beta Measure of the volatility or variance of a stock's performance relative to the performance of the stock market as a whole.

Binding premium receipt Formal acknowledgement that the applicant has tendered the first policy premium and which provides insurance coverage from the application date.

Blending See **term blending**.

Block of policies Set of all policies issued by an insurer under the same schedules of policy elements and on the same policy form.

Bond dedication Informal allocation of the cash flows from a portfolio of bonds to the cash flows of a prescribed set of liabilities.

Bonus (1) Extra interest (e.g., 1.0 percent) credited to annuity cash values or deposits, paid over the standard crediting rate for a limited initial period. (2) In U.K. and Commonwealth terminology, policy dividend.

Book value Acquisition cost of an asset less accumulated depreciation.

Branch office Office owned and operated by an insurer and its general manager that recruits, trains, houses, and supervises individual producers.

Break even Measure of profitability calculated as the number of years until earnings equal disbursements.

Broker Independent salesperson who does not sell exclusively or primarily for a single insurer or group of insurers. Also called a **producer**.

Brokerage general agent See **brokerage representative.**

Brokerage representative Insurer's salesperson who appoints brokers and promotes their efforts to sell the insurer's products. Also known as a **brokerage supervisor** or **brokerage general agent.**

Brokerage supervisor See **brokerage representative.**

Budget accounting Employed by management for future expense planning purposes in both an operational or short-term context and a strategic context lasting five years or more.

Bundled policy Life insurance policy that does not disclose to the policyowner the portions of his or her premium that are allocated to specific policy elements: the costs of the internal insurance charges, interest crediting rates, and loadings for expenses, taxes, profits, and contingencies.

Business continuation agreement. See **buy/sell agreement**.

Business overhead expense insurance Type of disability income insurance that covers the monthly expenses of a business owner or professional in private practice if he or she is disabled. Also called **overhead expense insurance**.

Buy/sell agreement Pre-death arrangement for the disposition of a business ownership interest on the death of its owner. Also called **business continuation agreement**.

Buyer ignorance An asymmetric information problem in which the seller knows more than the buyer about the seller's situation and can use that fact to the buyer's detriment. Also called **lemons problem**.

Buyer's Guide Document required to be provided to prospective life insurance buyers by the NAIC *Life Insurance Disclosure Model Regulation*, intended to assist prospective purchasers in deciding how much and what type of life insurance to buy and comparing the costs of similar policies.

Buy-term-and-invest-the-difference Strategy under which an individual who has sufficient funds to purchase cash value life insurance instead purchases a lower-premium term policy and separately invests the difference between the two policies' premiums.

Cafeteria plans Employer-sponsored benefits plans under which participants may select from a variety of benefits based on an employer-provided budget.

Call Option to buy.

Capital In general finance, financial wealth used to start and/or maintain a business.

Capital allocation Asset-liability risk management practice of attributing operational and risk capital to specified projects for risk management and performance measurement purposes.

Capital bonus See **terminal bonus**.

Capital cost Return required by those who provide financial capital plus the cost of hedging.

Capital liquidation approach Method of life insurance need determination that derives a life insurance amount by assuming that both the life insurance death benefit (capital) and interest earned thereon are liquidated to meet an income objective.

Capital retention approach Method of life insurance need determination that derives a life insurance amount by assuming that interest earned on the life insurance death benefit (capital) alone will be used to meet an income objective, with the insurance death benefit retained and ultimately transferred to heirs when its income-producing role has been fulfilled.

Capital stock and surplus Excess of assets over liabilities.

Capitation fee Amount paid per person or family by a health maintenance organization to a physician and hospital in return for the provision of health care services to that person or family.

Captive agent See **career agent.**

Capture theory of regulation Positive economic theory holding that special interest groups within the regulated industry, being well organized and well financed, influence legislation and regulation for their own benefit.

Care risk Possibility that an individual will be unable to care for him- or herself due to a physical or mental impairment.

Career agent Individual producer engaged full time in the sale of insurance exclusively or primarily for a single insurer or affiliated group of insurers. Also called **captive agent, exclusive agent**, and **tied agent.**

Cascading failure Type of systemic risk in which the failure of one financial institution is the cause of the failure of others, with the result that harm occurs elsewhere within the economy.

Cash accumulation method Cost comparison method used for comparing a term life insurance policy with a cash value life insurance policy, involves observing differences in resulting cash surrender values or side fund accumulations for the policies after setting cash outlays and death benefits to the same levels for all policies.

Cash flow statement Financial statement showing the net change in a cash position over a reporting period.

Cash matching Technique wherein a portfolio is constructed whose interest and principal payments exactly match a set of liability cash flows.

Cash refund annuity Fixed life annuity that promises a single sum payment to a beneficiary on the annuitant's death, equal to the difference, if any, between the annuity purchase price and the simple sum of previously made payments.

Cash surrender value Amount payable to the policyowner on voluntary policy termination, ignoring policy loans, and less any surrender charges. Also called the **surrender value** and sometimes the **cash value**, especially if the policy has no identifiable surrender charges.

Cash value Life insurance policy's internal savings before deduction of any surrender charges or policy loans. Also called the **policy value**, **account value**, and **accumulated value**, especially with unbundled policies, and the **gross cash value**.

Cash value accumulation test One method of qualification under *Internal Revenue Code* §7702 to be met by a life insurance policy for favorable income tax treatment; the policy's cash surrender value cannot at any time exceed the net single premium that would be required to fund future contract benefits provided under the policy. Typically used with bundled whole life policies.

Cash value corridor limitation One of the two prongs of the guideline premium/cash value corridor test method of qualification under *Internal Revenue Code* §7702 used for determining whether a life insurance policy qualifies for favorable income tax treatment; promised benefits at all times must be at least equal to certain percentage multiples of the policy's cash value. Typically used with unbundled life policies.

Cash value life insurance Policies that combine term insurance and internal savings – called the cash value – within the same contract; that is, they accumulate funds that are available to the policyowner. Also sometimes called **permanent life insurance**.

Catastrophic illness coverage Life insurance policy provision that promises to pay up to a specified percentage (e.g., from 25 to 100 percent) of the policy's face amount if the insured has been diagnosed as having one of several listed catastrophic illnesses, often subject to an overall maximum payment (e.g., $250,000). Also called **dread disease coverage.**

Catastrophic reinsurance Nonproportional reinsurance designed to protect a ceding company against adverse results occurring from a specific event that affects multiple policies simultaneously.

Catch-up provision Feature under a no lapse guarantee universal life policy that permits payment of additional premiums to restore the guarantee if the minimum premium requirement was not met.

Centers of influence Persons who have an opportunity to recommend agents because of their status in a community or their role as an advisor, such as an attorney or accountant.

Certificate of annuity Single premium deferred fixed annuity that guarantees an interest rate for a set period of time, typically three to 10 years, but with no withdrawals permitted during the accumulation period.

Certificate of participation Written evidence of an employee's participation in a group deferred annuity plan, which provides details of plan benefits.

Change in reserves Marginal amount allocated each period to a life insurer's reserves (whether SAP, GAAP, or economic).

Charitable remainder trust Irrevocable trust funded with a split-interest gift by a grantor, which (1) pays an income to a named non-charitable beneficiary for life or a specified term of up to 20 years and (2), at the end of the term, pays the remaining assets to the charitable beneficiary.

Charitable split-interest gift Gift shared by charitable and non-charitable beneficiaries according to the wishes of the donor.

Chose in action Ownership right in personal property that is evidenced by a legal right; e.g., an insurance policy, rather than the possession of something tangible.

Chose in possession Ownership right in tangible personal property.

Churning Systematic and indiscriminate replacement of existing life insurance policies.

Close corporation See **closely held corporation**.

Closed block In a demutualization, a specified group of policies with participation rights protected by the allocation of specific investment, expense, and mortality results to such policies.

Closed corporation See **closely held corporation**.

Closely held business Any business typically owned and managed by a small number of investors, often family members, and whose ownership interest has no ready market.

Closely held corporation Closely held business whose shares of stock are not listed on any organized exchange. Also called **close corporation** and **closed corporation**.

Codicil Amendment that adds provisions or amends a part of a will but does not replace the will.

Coinsurance (1) Specified proportion of the excess of incurred medical expenses over the deductible that is payable by the insured. (2) Proportional reinsurance under which the ceding company pays the assuming company a proportionate part of the gross direct premium less commissions and other allowances, premium taxes, and overhead allocable to reinsured policies and the assuming company assumes a proportionate share of the risk according to the terms that govern the original policy.

Coinsurance with funds withheld Coinsurance under which the ceding company retains premiums normally paid to the assuming company, while the assuming company keeps the allowances normally paid to the ceding company.

Collateral assignment Temporary transfer by a policyowner of partial rights in a policy to another person or entity, commonly to secure a loan to the policyowner.

Collateral assignment approach Split dollar life insurance plan under which the insured employee applies for the policy and is primarily responsible for premium payments, with the policy collaterally assigned to the employer to secure amounts it advanced to the employee for premiums.

Combination distribution system See **home service distribution**.

Combination plan Life insurance or annuity contract that includes a long term care insurance rider commonly providing for an acceleration of a policy's death benefit payment in the form of monthly payments for qualified expenses.

Commercial insurance Any insurance designed for organizations, such as businesses. Commercial life, health, and retirement insurance coverages are more commonly referred to as **group insurance** in the U.S.

Commissioner's reserve valuation method Modified reserve method permitted under statutory accounting principles that allows deferred reserve funding by dividing policies into two groups: (1) those for which the net level premium for the second and subsequent policy years do not exceed the corresponding modified net premium for a 20-payment whole insurance policy, in which case the full preliminary term method is applied, and (2) those with higher premiums, in which case the additional amount for expenses is limited to that amount permitted under the full preliminary term method for a 20-payment whole life policy.

Community property Joint interest property under which all property acquired during marriage is joint property of the spouses.

Commutative Characteristic of contracts involving an approximately equal exchange of value between contracting parties.

Comparative interest rate Cost comparison method used for comparing a term life insurance policy with a cash value life insurance policy that solves for the interest rate that causes the accumulated value of the annual differences in policy premiums (the side fund) to be equal to the higher premium policy's cash surrender value at the end of the period of analysis after setting cash outlays and death benefits to the same levels for both policies. Also called **Linton yield.**

Complete financial market Theoretical market construct in which users and providers of funds have complete information about each other, borrowing/lending functions are frictionless, and monitoring is costless.

Component risk Life insurer risk associated with its internal operations, in contrast to those stemming from external social, competitive, economic, and other factors.

Composite mortality table Mortality table whose death rates include experience from both smokers and nonsmokers.

Compound interest Interest credited on both the principal amount and the interest credited thereon.

Compound probability Likelihood of the occurrence of two independent events calculated by taking the product of the simple probability of the occurrence of each event.

Comprehensive medical insurance Medical expense benefit coverage of a wide range of medical care charges with few internal limits and a high overall maximum benefit.

Comprehensive Medicare supplement policy Medicare supplemental insurance that generally has high maximum benefit limits or is unlimited with respect to the duration of confinement in a hospital or skilled nursing facility.

Concealment Withholding of information.

Conditional Characteristic of insurance contracts providing that the insurer's obligation to pay a claim depends upon the performance of certain acts by the owner or beneficiary, such as payment of premiums and furnishing proof of death.

Conditional tail expectation Refinement of value at risk that takes the average of the worst cases occurring outside the group specified by the value at risk probability or confidence level. Designed to capture the expected value of a loss, given a loss; i.e., the occurrence of an event with probability less than the confidence level. Also called **tail VaR**.

Conflict of interest Situation in which an individual or corporation has an interest in promoting one product or service over another that does not necessarily align with the customer's interest; can arise when a financial institution offers multiple financial services and promotes proprietary products of subsidiaries through formal or informal coercion.

Consanguinity Blood relationship.

Conservation Typically a customer service function undertaken to minimize policy lapses and surrenders.

Consideration clause Provision summarizing the factors that led the insurer to agree to issue a requested policy, ordinarily a simple statement that the applicant has completed an application and paid a premium in exchange for the company's promise to provide insurance.

Constant returns to scale Condition associated with the size of a firm in which further growth neither adds to nor detracts from firm efficiency; i.e., average costs are constant.

Constructive receipt Income deemed received by a taxpayer irrespective of whether it is taken in cash.

Consumer report As defined by the U.S. *Fair Credit Reporting Act*, a written, oral, or other communication of any information by a consumer reporting agency that has a bearing on the consumer's creditworthiness, credit standing, credit capacity, character, general reputation, personal characteristics, or mode of living, and that is used or expected to be used in whole or in part to establish eligibility for credit, personal insurance, employment, or certain other purposes.

Consumer reporting agency See **inspection company.**

Contagion Arises when financial distress in one unit of a financial services conglomerate becomes a source of distress throughout the group. Also called **financial infection**.

Contagion risk Possibility of cascading failures because of financial intermediaries being highly connected.

Contingency risk System devised by U.S. actuaries and used by them and insurance regulators to classify the risks faced by insurers, to include the following categories: C-1 or asset risk that arises from the possibility of defaults and changes in market values of investments; C-2 or pricing risk that arises from the possibility of inadequate risk and expense charges; C-3 or non-market interest rate risk that arises from the correlation of asset and liability cash flows; and C-4 or miscellaneous business risks that are not easily amenable to actuarial prediction.

Contingent deferred annuity Life-insurer-issued guaranteed lifetime withdrawal benefit attached to a mutual fund or managed investment account. Also called **stand alone living benefit**.

Continuation rider Provision of or a rider attached to a life insurance policy that promises to provide long term care benefit payments for a specified period after benefit payments under the provision or rider would otherwise be exhausted. Also called **extension of benefits rider**.

Continuing care center Facility providing a range of sensitive living arrangements and services that reflect each person's level of needed care and assistance under which individuals purchase for an initial, large single amount plus monthly payments, the right to live and receive support from the center. Not commonly covered by long term care insurance policies. Also called **life-care center**.

Contra proferentum Legal doctrine emanating from the notion that insurance policies are contracts of adhesion, and, therefore, any ambiguities in contract language are construed strictly in favor of the party not drafting the contract (policyowner and/or insured). Corollary is that a contract will be construed precisely as written, in the absence of any ambiguity.

Contributed surplus Amount paid for shares in excess of their par value.

Contribution principle Precept holding that divisible surplus should be distributed under participating policies in the same proportions as the policies are considered to have contributed to surplus.

Contribution to surplus Amount contributed each period to surplus capital after claims, expenses, and any required increase in reserves are satisfied.

Contributory plan Employee benefit plan in which both the employer and employees make contributions toward plan costs.

Conversion feature Life insurance policy provision that affords the owner of a term policy the option of exchanging the policy for a cash value insurance policy of a form currently being issued by the insurer, without having to provide evidence of insurability.

Coordination of benefits Provision within some health benefit plans and insurance policies setting forth guidelines to determine the order in which two insurers covering the same claim will pay.

Corporate governance Set of factors that affect the direction, administration, and control of a corporation, with particular application to the nature and extent of accountability of management.

Corporation Business entity legally separate and distinct from its owners and characterized by owners' limited liability for corporate obligations, ability to transfer owners' interests by the sale of their stock, and owners' deaths having no effect legally on the its continued existence.

Corpus Property held in a trust.

Corrective order. Provision in state insurance law that permits the insurance regulator to seek court approval to require an insurer to (1) obtain state approval before undertaking certain transactions, (2) limit or cease its new business writings, (3) infuse capital, and/or (4) cease certain business practices.

Cost accounting Convention employed to make discrete expense analyses across different product lines, services, and operations.

Cost basis See **basis**.

Cost of insurance The internal age-based rates assessed against each life insurance policy and based on its net amount at risk to cover its share of mortality charges for the period.

Cost of living adjustment Feature of some disability income policies providing for adjustments of benefits each year during a long term claim to reflect changes in the cost of living from the time that the claim began.

Cost recovery rule Under the *Internal Revenue Code*, general rule for taxation of lump sum cash surrender value payments under life insurance and annuity policies under which the amount included in the policyowner's gross income is the excess of the gross proceeds over the cost basis.

Cost-of-living-adjustment rider Term insurance rider that automatically increases a policy's death benefit each year in accordance with increases in inflation as measured by a national cost-of-living index, such as the *Consumer Price Index* in the U.S.

Creator See **grantor**.

Credit default swaps Financial instruments bought by investors to protect against defaults on bonds.

Credit insurance Special class of life and health insurance that pays off a debtor's outstanding loan balance if he or she dies or becomes disabled during the loan term.

Credit life and health insurance Life and health insurance provided through financial institutions to cover debtors' obligations if they die or become disabled.

Credit risk Category of risk specified by the *International Actuarial Association/ Association Actuarielle Internationale*, possibility that obligations due a life insurer may not be paid as due, the most important of which are bond defaults and reinsurer insolvency.

Cross purchase buy/sell agreement Arrangement under which each owner of an interest in a business obligates his or her estate to sell and the other owners are obligated to purchase any owner's interest at his or her death.

Crummey power See **Crummey trust**.

Crummey provision See **Crummey trust**.

Crummey trust Irrevocable, living trust in which gifts to the trust qualify as present interest gifts and thus the annual gift exclusion, by providing trust beneficiaries a reasonable opportunity to demand distribution of amounts contributed. Also referred to as a **Crummey provision** or a **Crummey power** (within an irrevocable trust).

Current assumptions See **nonguaranteed policy elements**.

Current assumption policy Unbundled life insurance policy containing nonguaranteed policy elements.

Current assumption whole life insurance Unbundled, nonparticipating whole life insurance with nonguaranteed elements. Also called **interest sensitive whole life** and **fixed premium universal life**.

Custodial care Basic non-skilled care excluded from Medicare, typically in the form of assistance with the activities of daily living and commonly covered by long term care insurance policies.

Death benefit See **face amount.**

Death benefit internal rate of return Cost comparison method that solves for the interest rate that causes accumulated scheduled premiums (net of dividends, if appropriate) at selected policy durations to equal that duration's death benefit.

Death benefit only plan Nonqualified deferred compensation arrangement that promises to pay an income benefit to a named person on the employee's death.

Death benefit provision Universal life policy provision that sets out the various death benefit options and explains the method of determining the policy death benefit.

Death benefit solve Value solve measure that solves for the death benefit that a particular premium amount, pattern, and duration and, if applicable, attainment of a target cash surrender value by a specified policy year will support.

Death benefit universal life Universal life policy that emphasizes death benefits and provides for very low premiums per $1,000 of face amount but typically also offers low cash value accumulation and/or has heavy surrender charges. Also called **protection universal life**.

Debit Geographical territory assigned to a commissioned exclusive agent of a home service life insurer.

Debit distribution system See **home service distribution**.

Debit insurance See **industrial insurance**.

Decreasing returns to scale Condition associated with the size of a firm in which further growth diminishes firm efficiency; i.e., average costs increase.

Decreasing term life insurance Term life insurance whose face amount decreases with policy duration.

Deductible Specified incurred amount of loss to be paid by the insured before any costs are paid by an employee benefit plan or insurer.

Default risk Possibility that an insurer will become insolvent and unable to perform its contractual obligations. Also called **ruin risk**.

Deferred acquisition costs Asset under generally accepted accounting principles representing that portion of first year policy expenses incurred by an insurer not charged against income in that year and amortized, usually over the premium paying period, via a charge to income in those later years.

Deferred dividends Divisible surplus payable only at the close of a stipulated number of years, such as 5, 10, 15, and 20.

Deferred income annuity See **longevity annuity**.

Deferred life annuity Life annuity for which payments begin more than one period hence.

Deficiency reserve Used in the past in the U.S., a supplemental reserve required to be maintained if a policy's gross premiums were less than valuation net premiums.

Defined benefit pension plan Retirement plan under which income benefits to be received by each participant are specified. Contribution requirements are implicit and vary according to plan investment performance and employee eligibility.

Defined contribution pension plan Retirement plan under which contributions to be made on behalf of each participant are specified. Benefits are distributed in cash to the participant at retirement (or applied to an employer-sponsored post-retirement option).

Delay clause Required life insurance policy provision that grants the insurer the right to defer cash surrender value payments, withdrawals, and the granting of policy loans (except for purposes of paying premiums) for up to six months following the request.

Demutualization Conversion of a mutual insurance company to a stock insurance company or upstream holding company.

Deposit taking institution Financial intermediary that takes deposits from and makes loans to consumers.

Derivatives Traded securities or contractual agreements whose cash flows depend on the value of other specified securities or indices.

Direct expenses Those expenses directly attributable to a specific product (e.g., agent's commission).

Direct insurance Insurance sold to the public as opposed to reinsurance.

Direct premiums Premiums written on direct insurance.

Direct response Distribution channel that serves purchasers directly without the initial intervention of an individual or institutional intermediary.

Direct writing insurer Insurer that sells direct insurance. Also called **primary insurer**.

Directive Legislation adopted by the European Parliament instructing member states to enact laws or regulations consistent with the legislation to ensure harmonization of law and regulation throughout the union.

Disability income insurance Health insurance that pays a stated, usually monthly benefit, if illness or injury prevents the insured from working.

Discharge planning Managed care function designed to limit the length of hospital stays to the medically necessary minimum.

Disciplined current scale That schedule of current nonguaranteed values shown in a basic illustration for which each set of implicit assumptions is based on the insurer's actual recent current, determinable, and credible experience.

Disintermediation Withdrawal of funds from a financial intermediary for purposes of investing elsewhere, commonly for a higher expected return.

Distributable surplus provision See **participation provision**.

Diversifiable risk That particular to a given company, usually measured by its beta. Also called **unsystematic risk** and **specific risk**.

Dividend Pro-rata share of divisible surplus paid by an insurer to the owner of a participating policy. Also called **bonus**.

Dividend history Schedule of dividends actually paid under a particular participating policy or policy form.

Dividend illustration Shows dividends that would be paid in the future under a policy if the investment, mortality, and loading factors implicit in the currently payable dividends were to remain unchanged in the future.

Dividend options Alternative applications of dividends paid under participating life insurance policies, including most or all of the following: (1) cash – pay in cash to the policyowner, (2) apply toward premium payment – credit toward premiums due, (3) accumulate at interest – held by the insurer on deposit at interest, (4) purchase paid up additional insurance – apply as a net single premium at the insured's attained age to purchase life insurance of the same type as the policy, (5) purchase one year term life insurance – either in an amount equal to the cash value or for the maximum amount that the dividend will purchase, or (6) add-to-cash-value – accumulate as additional cash value only, with no additional net amount at risk.

Dividends actually paid Amounts paid in the past under a particular participating policy or policy form. See **dividend history**.

Divisible surplus That portion of an insurer's surplus that its board of directors decides to share with owners of its participating policies.

Do not resuscitate order Advance directive requesting no cardiopulmonary resuscitation intervention if one's heart stops or one stops breathing.

Doctrine of substantial compliance Legal concept that a change of beneficiary will have been deemed effectuated even if the policyowner did not follow prescribed procedure if he or she did all that he or she could to effect the change but factors beyond his or her control precluded such.

Domestic insurer In U.S. terminology, an insurance company domiciled (incorporated) in the state in which it is licensed to do business,

Donee Person receiving a gift.

Donor Person making a gift.

Double gearing Accounting twice for subsidiary capital; once within the subsidiary and again at the conglomerate level.

Double indemnity See **accidental death benefit**.

Dread disease coverage See **catastrophic illness coverage**.

Dread disease insurance policy See **specified disease insurance policy**.

Due care Process suggesting that those offering life insurance advice conduct their business affairs with diligence, prudence, and competence, such that recommended insurance is suitable for the individual's circumstances, reasonably expected to offer good value, and procured from insurers that are financially sound.

Due diligence As applied to variable products and other securities, process by which a broker/dealer ensures that an investment is as represented.

Durable power of attorney Advance directive designating an individual to make financial and other decisions for a person who becomes incapacitated or is declared incompetent to conduct his or her own affairs; survives the person's incapacity, unlike some nondurable powers.

Duration Weighted average time to maturity of a fixed income asset or liability or portfolio of fixed income assets or liabilities.

Duration matched Property of a portfolio such that changes in asset values will be exactly offset by changes in liability values when market interest rates change.

Dynamic financial analysis Stochastic-based projection of an insurance company's cash flows and financial condition over time, taking account of a full range of economic scenarios, asset and liability cash flows, the interrelationships of the cash flows, and the factors that affect cash flows individually and collectively.

Economic capital Amount of financial capital required to absorb a maximum expected loss occurring with a specified probability over a specified time horizon.

Economic wealth Sum of human and investment capital at any point in life.

Economies of scale Marginal cost savings associated with the size of a firm in which output increases at a rate faster than attendant increases in production costs, holding product mix constant; i.e., average costs decrease.

Economies of scope Condition in which a firm's average production costs decline as it produces a greater number of different products or services.

Economizing problem Condition of unlimited wants and limited resources.

Effective date Time insurance protection begins.

Eligibility period Under a contributory employee benefit plan, the period of time that an employee is given during which he or she is entitled to apply for insurance without submitting evidence of insurability.

Elimination Period With disability income insurance, the length of time at the start of disability during which no benefits are paid. Also called the **waiting period**.

Emancipation Time at which a young person leaves the family and its authority.

Embedded value Measure of the expected value of a book of business (e.g., a product line) derived by taking the present value of projected future net cash flows and changes in reserves.

Employee Stock Ownership Plan Noncontributory qualified defined contribution retirement plan that permits shares of the employer-sponsor stock to be contributed to the plan and assets of the plan to be invested in the stock of the employer-sponsor.

Employer owned life insurance Under the *Internal Revenue Code*, life insurance on an employee's life payable to his or her employer; unless certain conditions are met, benefits in excess of the employer's basis are taxable as ordinary income.

Endorsement approach Split dollar life insurance plan under which insurance on the employee's life is applied for and owned by the employer, which is primarily responsible for premium payments.

Endow Condition under which a maturity value becomes payable under a life insurance policy upon the insured surviving to a specified date or number of years.

Endowment insurance Life insurance that makes two mutually exclusive promises: to pay a stated benefit if the insured dies during or survives the policy term.

Enhanced cash value rider Eliminates or reduces surrender charges applicable to qualified policies during the first few policy years.

Enter onto an annuity Point at which annuitization commences.

Enterprise risk management Range of processes and techniques designed to protect and create value by assisting companies uncover hidden risks, improve the stability of earnings, identify opportunities in assuming risk and risk arbitrage, and discovering natural synergies across business lines.

Entire contract clause Required life insurance policy provision stating that the policy itself and the application, if a copy is attached to the policy, along with amendments and riders, constitute the entire contract between the parties.

Entity buy/sell agreement Arrangement under which an owner of an interest in a business obligates his or her estate to sell and the business entity obligates itself to purchase that interest on the owner's death.

Equal outlay method Cost comparison method that involves observing differences in resulting cash surrender values or side fund accumulations for two or more policies by setting cash outlays and initial death benefits to the same level for all policies.

Equity-indexed annuity Fixed annuity contract whose interest crediting rate is the insurer's current crediting rate and/or a specified external index, such as the *Standard & Poor's 500 Index.*

Equity-indexed universal life Universal life policy under which the owner elects the proportion of account value to be allocated to the insurer's fixed, general account-based interest crediting rate and to an indexed account whose crediting rate is tied directly to some external index, such as the *Standard & Poor's 500 Index.* Also called **indexed universal life**.

Escheat Condition under which unclaimed property passes to the state.

Estate conservation Term used to describe the use of life insurance death proceeds to cover some or all of one's estate obligations, the most relevant of which typically are estate taxes. Also referred to as providing **estate liquidity**.

Estate tax credit Under federal tax law, credit allowed against the tentative federal estate tax for the lesser of death-related taxes paid to a state or a maximum permitted federal credit.

Estoppel Principle that prevents an individual from denying or asserting any position contrary to that established by the individual's own conduct or by previous legal determinations.

Excess of retention Proportional reinsurance whereby specified amounts of claim are shared between ceding and assuming companies.

Excess SERP Supplemental executive retirement plan providing a benefit amount equal to the difference between (1) the amount that would be paid to the executive under the employer's qualified retirement benefit formula ignoring any ERISA-imposed limits and (2) the actual retirement benefit payable to the executive under the qualified retirement plan and Social Security.

Exclusion ratio Ratio of the investment in an annuity contract to the expected return under the contract, which determines the proportion of each annuity payment excluded from taxable income.

Exclusion rider Policy endorsement excluding from coverage any loss arising from the peril named in the rider.

Exclusive agent See **career agent.**

Executive bonus plan Arrangement under which an employer pays premiums on a life insurance policy for a selected executive who owns the policy. Also called **Section 162 plan**.

Executor Individual or institution responsible for the execution of a will's provisions and the administration of the estate.

Exempt income That which is excluded from taxable income based on its character or the status of the recipient.

Exempt property By law, property excluded from the claims of creditors.

Exhaustive Condition wherein events under consideration cover all possibilities; e.g., a person will either live or die during a given year.

Expectancy interest With revocable life insurance beneficiaries, an expectation of receiving policy death proceeds but with no current vested interest or rights prior to claim maturity.

Expected return Used for determining the income tax treatment of payout annuities, the amount of the annuity payment multiplied by prescribed expected return multiples for life annuities or by the number of payments for annuities certain.

Expense margin In insurance policy pricing, amounts added to anticipated expenses and taxes intended to provide for contingencies, profits, surplus accumulations, and to cover losses associated with early policy lapses. Also called **safety margin**.

Experience factors Actual results experienced by an insurer on a block of policies as to mortality, investment returns, expenses, taxes, and persistency.

Experience rating Method of adjusting charges under an employee benefit plan by considering past financial results of the group.

Expire Termination of an insurance policy without maturity value at the end of its specified contractual duration.

Exposure unit In insurance practice and theory, a person, place, or thing exposed to the possibility of loss or other insured event.

Express authority See **actual authority**.

Extended care benefits Health care benefits paid for active nursing and other skilled care when required in an extended care facility or at home.

Extension of benefits rider See **continuation rider**.

Externality Type of market failure in which a firm's production or an individual's consumption has direct and uncompensated effects on others.

Face amount Sum of money that a life insurance policy promises to pay on the death of the insured. Also called the **sum assured** and the **death benefit**.

Facultative reinsurance Reinsurance on a policy-by-policy basis under which applications received by a primary insurer are submitted to an assuming company that chooses whether to accept the risk based on its own underwriting standards.

Fair market value Under federal tax law applicable to gifts of life insurance and annuities, the approach used to place a value on a gifted policy.

Family income policy/rider Decreasing term policy or rider that pays a death benefit to the beneficiary (usually the surviving spouse) as a monthly income until the beneficiary attains a certain age or for a set period of from 10 to 20 years from the date of policy issuance.

Family policy/rider. When issued as a policy, provides whole life insurance on one parent and term insurance generally on the spouse and children. When issued as a rider, provides level term insurance on the spouse and children.

Federal estate taxes owed Under federal tax law, net amount owed to the government after applying applicable credits against the tentative federal estate tax.

Fiduciary With regard to trusts, standard of care requiring a trustee to act solely in the beneficiary's interest.

Financial capital Funds provided to companies by investors either directly or through retained earnings, which are necessary to finance the production of goods and services.

Financial infection See **contagion**.

Financial questionnaire Supplement to a life insurance application that elicits additional financial information about and from a proposed insured or applicant who applies for a comparatively large amount of insurance.

Financial reinsurance Reinsurance transacted primarily to achieve financial goals, such as capital management, tax planning, or the financing of acquisitions.

Financially impaired insurer As defined by *A.M. Best*, insurer for which its ability to conduct normal operations is impaired, capital and surplus have been determined to be insufficient to meet legal requirements, and/or financial condition has triggered regulatory concern.

First year expense allowance Maximum allowance permitted under the *Standard Nonforfeiture Law* to derive the adjusted premium, defined as the sum of (1) 1.0 percent of the average amount of life insurance over a policy's first 10 years (or $10 per $1,000) and (2) the lesser of 125 percent of the nonforfeiture net level premium or $40 per $1,000.

First-to-die life insurance See **joint life insurance**.

Fixed annuity Annuity contract that credits investment returns based indirectly on the performance of the insurer's general account investments or directly on changes in a specified inflation or equity index, subject to a guaranteed minimum crediting rate.

Fixed premium universal life See **current assumption whole life**.

Flat extra premium method Method used in rating substandard risks in life insurance under which a constant extra premium is charged to provide for expected additional mortality.

Flexible premium deferred annuity Fixed or variable annuity contract purchased with owner-determined periodic premiums, whose benefit payments are deferred until annuitization following the accumulation period.

Flexible spending account As part of an employer-sponsored cafeteria plan, permits accumulation of pretax salary reductions for reimbursement of a variety of participant health care, dependent care, and other benefits.

Foreign insurer (1) In U.S. terminology, an insurance company domiciled (incorporated) in a state different from that in which it is licensed to do business. (2) In international terminology, an insurer organized in another country.

Form 8-K Filing required by the U.S. *Securities and Exchange Commission* between filings of its 10-K and 10-Q if significant material events occur, such as the sale of an affiliate or change of independent auditors or CEO.

Form 10-K Filing required annually by the U.S. *Securities and Exchange Commission* for companies greater than a certain minimum size whose stock is traded in public markets, which provides detailed information related to the company's history, nature of its business, organizational structure, risk factors, equity, subsidiaries, and audited financial statements, among other information.

Form 10-Q Abbreviated version of a Form 10-K filing required quarterly by the U.S. *Securities and Exchange Commission* for companies above a certain size whose stock is traded in public markets.

Fractional premium See **modal premium**.

Fraternal benefit society Entity organized under specific state law, which operates under a lodge system through which social and insurance benefits are provided to members and their family members.

Fraud Intentional deception or misrepresentation made for personal gain.

Fraudulent conveyance See **fraudulent transfer**.

Fraudulent transfer Under the *Uniform Fraudulent Transfer Act*, payment made with the actual intent to hinder, delay, or defraud a creditor. Also called **fraudulent conveyance**.

Free capital See **unassigned surplus**.

Free look provision See **right to return provision**.

Free rider problem Type of market failure in which goods or services supplied to one person are available to others at no extra cost.

Free withdrawal corridor Maximum stated proportion of annuity cash value that can be withdrawn without incurring a surrender charge, such as 10 percent.

Front-end load Explicit amount deducted from premium payments to cover some or all of an insurer's expenses, taxes, contingencies, and sometimes profits.

Full costing Allocation of both direct and indirect expenses to specific product lines.

Full preliminary term method Modified policy reserve method permitted as part of the Commissioner's reserve valuation method under U.S. statutory accounting principles that allows an insurer to assume that the first year's premium under some policies pays only for term insurance for the first policy year and that the actual policy for reserve purposes comes into operation one year later than the age of issue and will have a one year shorter premium payment and coverage period.

Funded nonqualified retirement plan Arrangement under which the employer establishes and maintains assets in an escrow account or trust fund as security for its promise to make future payments to one or more employees.

Future increase option See **guarantee of future insurability**.

Future interest Condition such that a person has possession and enjoyment of property only in the future.

General account Location of assets that support guaranteed interest-crediting contractual obligations, such as those arising from traditional and many contemporary life insurance policies, including whole life and universal life.

General agency Individual business managed by a general agent who recruits, trains, houses, and supervises individual intermediaries.

General agent Agent whose powers are identical to those of its principal within the limit of the particular business or territory in which the agent operates.

General counsel memorandum U.S. *Treasury Department* detailed analysis prepared to explain the reasoning underlying a regulation, revenue ruling, or private letter ruling.

General insurance See **nonlife insurance**.

General partnership One in which partners are actively involved in the management of the firm and fully liable for partnership obligations.

General power of appointment Right to dispose of property not owned by the person holding the power, including giving it to him- or herself.

Generation skipping transfer tax Under federal tax law, tax levied when a property interest is transferred to persons who are two or more generations younger than the transferor.

Gift splitting Under federal tax law, condition under which a spouse joins in making a gift.

Gift tax marital deduction Under federal tax law, the value of property gifted to a surviving spouse that is exempt from gift taxation and from filing a federal gift tax return.

Gompertz–Makeham law of mortality Contemporary version of the law of mortality that holds that death rates can be considered to be the sum of the traditional age-dependent exponential component (Gompertz part) and a component that works independent of age (Makeham part) that takes into consideration life shortening situations such as poor sanitation, malnourishment, and poor health or health care.

Good faith and fair dealing Implied covenant or duty that requires insurers to make prompt and full settlement with insureds and beneficiaries and to consider the insured's interest in settling claims.

Grace period provision Required life insurance policy provision that prevents its termination and requires the insurer to accept premium payments for a certain period (usually 30 or 31 days) after a premium due date or if the policy has insufficient account value to permit it to continue in force.

Graded premium whole life insurance Whole life insurance under which initial premiums are substantially (e.g., 50 percent) less than those of a comparable ordinary life policy and which increase annually for a period of from five to 20 years and remain level thereafter.

Graduation Smoothing of a mortality curve, performed to eliminate irregularities in observed data that are believed not to be true characteristics of the universe from which the sample experience was extracted.

Grantor Person who establishes a trust. Also called **creator** or **settlor**.

Gross estate Under federal tax law, value of all property and interests in property owned or controlled by at deceased person.

Gross premium (1) Net premium plus loading. (2) Premium paid to an insurer for an insurance policy.

Gross proceeds Under the *Internal Revenue Code*, amounts paid on life insurance policy surrender, including the cash value of any paid up additions and the value of dividends accumulated at interest.

Group deferred annuity Under an employer-sponsored pension plan, the purchase by the employer of units of single premium deferred annuities to provide specified amounts of life income to be paid to participants at retirement.

Group insurance Type of commercial insurance in which a group of persons who usually have a business or professional relationship to the contract owner are provided coverage under a single master contract.

Group sales representative Insurer's salesperson who generates personal group insurance sales or promotes commissioned sales by others or both.

Group term carve out Arrangement under which older, higher-paid employees are "carved out" of a group plan and provided with cash value life insurance.

Growth cap Under an equity-indexed universal life policy or annuity, the maximum possible interest crediting rate.

Growth floor Under an equity-indexed universal life policy or annuity, the guaranteed minimum interest crediting rate.

Growth rate Under an equity indexed universal life policy or annuity, the product of the index performance rate and the participation rate.

Guarantee of future insurability Feature of some disability income policies typically available for an additional premium guaranteeing that an insured can purchase additional disability income insurance in future years without having to provide evidence of insurability. Also called **future increase option**.

Guaranteed insurability option Life insurance policy rider that grants the insured the right to purchase additional life insurance at specified future periods and on the occurrence of specified events (e.g., marriage) without having to provide evidence of insurability. Also called **additional** or **guaranteed purchase option**.

Guaranteed investment contract Investment instrument offered by life insurers that promises to credit a specified interest rate for a specified period much like a certificate of deposit at a bank.

Guaranteed lifetime withdrawal benefit Under a variable or fixed annuity, promise of a lifetime minimum income benefit if the cash value is exhausted due to withdrawals or investment losses, while providing access to a substantial part of the cash value throughout the deferral and life income benefit period.

Guaranteed lifetime withdrawal benefit base With a guaranteed lifetime withdrawal benefit provision or rider, the amount which together with a distribution factor determines the annual guaranteed withdrawal amount.

Guaranteed living benefits Accumulation, income, and withdrawal guarantee features of annuities.

Guaranteed minimum accumulation benefit Rider offered under a variable annuity contract promising that the cash value will not be less than the simple sum of premiums paid.

Guaranteed minimum death benefit (1) Under a variable universal life policy, feature or rider that, for an additional premium, guarantees that a specified minimum death benefit will be paid irrespective of whether the policy account value is positive, provided benchmark premiums have been paid. (2) Under a variable annuity contract, guarantee that the amount paid on death will be the greater of the cash value or the amount invested in the contract.

Guaranteed minimum income benefit Rider offered under a variable annuity contract promising a minimum amount of retirement income based on assumptions in effect at purchase.

Guaranteed minimum withdrawal benefit Under a variable or fixed annuity, promise of a minimum income benefit for a stated period or amount if the cash value is exhausted due to withdrawals or investment losses, while providing complete access to a substantial part of the cash value throughout the deferral and income benefit period.

Guaranteed minimum withdrawal benefit base Under a guaranteed lifetime withdrawal benefit, the total amount available for withdrawal, determined as the sum of premiums paid or the sum of premiums paid and a stated interest rate to the date of determination (sometimes termed premium roll up) or periodically based on the cash value at specified contract anniversary dates (sometimes termed account value step up) until the date of determination.

Guaranteed policy elements Those policy components that are fixed and guaranteed and that the insurer may not change, commonly including mortality and loading charges, interest crediting rate, premiums, and death benefits.

Guaranteed purchase option See **guaranteed insurability option**.

Guaranteed renewable The contractual right within a health insurance policy to continue the policy by the timely payment of premiums, usually to a specified age such as 65, but with no guarantee as to the magnitude of future premiums.

Guaranteed withdrawal amount With a guaranteed lifetime withdrawal benefit provision or rider, the dollar amount of guaranteed withdrawals determined by multiplying the guaranteed lifetime withdrawal benefit base by the distribution factor for the age and sex of the annuitant.

Guaranteed withdrawal phase With a guaranteed lifetime withdrawal benefit provision or rider, the phase of the liquidation period when the account value has been depleted and the guaranteed withdrawal amount is paid by the insurer.

Guaranteed-cost, nonparticipating life insurance Nonparticipating life insurance under which all policy elements are guaranteed and fixed at policy issuance.

Guideline level premium limitation One of the two guideline premium limitations of the guideline premium/cash value corridor test that is met by a life insurance policy if cumulative premiums paid under the contract do not at any time exceed the level annual premium payable at least to age 95 that would be required to fund future insurance benefits under a contract at the insured's attained age and based on certain required assumptions.

Guideline premium test Greater of the guideline level premium and the guideline single premium as defined in *Internal Revenue Code* §7702. One of the two prongs of the guideline premium/cash value corridor method of qualification used for determining whether a life insurance policy qualifies for favorable tax treatment.

Guideline premium/cash value accumulation test One of two tests under *Internal Revenue Code* §7702 used for determining whether life insurance policies qualify for favorable tax treatment; a two-pronged test that provides (1) cumulative premiums paid under a contract may not at any time exceed the greater of a guideline single premium or a guideline level premium and (2) the cash value may not exceed the cash value corridor limitation.

Guideline single premium limitation One of the two guideline premium limitations of the guideline premium/cash value corridor test that is met by a life insurance policy if cumulative premiums paid under the contract do not at any time exceed the gross single premium that would be required to fund future insurance benefits provided under a contract at the insured's attained age and based on certain required assumptions.

Health insurance (1) Insurance that indemnifies the insured for costs incurred or wages lost because of illness, injury, and/or incapacity. (2) Insurance to cover medical expenses incurred to treat an insured's sickness or injury.

Health maintenance organization Health care financing and delivery corporation that contracts with physicians, hospitals, and other providers to provide services to beneficiaries, rather than to provide cash reimbursement.

Health reimbursement account Qualified, noncontributory employer-sponsored arrangement under which employer contributions may be used as tax-free reimbursements to employees for incurred qualified medical expenses not reimbursed under the employer's specified standard plan(s), up to specified maximums.

Health risk Possibility that an individual loses his or her ability to work or incurs medical expense because of illness or injury.

Health savings account Permits individuals to accumulate pretax contributions to pay qualified medical expenses associated with a high deductible health plan.

Hedge capital Risk management asset cash flow that substitutes for and complements surplus capital.

Hedging Strategy of acquiring securities whose gains and losses offset losses and gains in other securities or portfolios of securities, often achieved through the purchase of derivatives.

High deductible health plan Health plan carrying an annual deductible of at least specified amount ($1,250 for an individual, $2,500 for a family as of 2014) and providing for a maximum out-of-pocket expenditure of a specified amount ($6,350 for an individual, $12,700 for a family as of 2014). Health savings accounts are often combined with these plans.

High-water mark method Equity index annuity indexing method that determines index-linked interest by retrospectively selecting the highest index value recorded at specified dates, usually policy anniversaries

Holding company Corporation that owns the outstanding stock of other companies and usually does not produce goods or services itself.

Home health care Skilled nursing care, physical therapy, related professional services, and/or personal services such as assistance with the activities of daily living, with care provided in the patient's home or community, typically on a part-time basis. Commonly covered by long term care insurance policies up to a percentage (e.g., 50 percent) of the full nursing home benefit.

Home service distribution system System of commissioned exclusive agents who are assigned a geographic territory. Also known as the **combination distribution system** or **debit distribution system.**

Home service life insurance Encompasses industrial and monthly debit ordinary insurance.

Homogeneous See **identically distributed**.

Hospice care Special care and emotional support for persons diagnosed with terminal illness and imminent death, provided in a facility or in the person's home. Commonly covered by long term care insurance policies up to a percentage (e.g., 50 percent) of the full nursing home benefit.

Hospital confinement indemnity Individual health insurance policy that pays a fixed sum for each day of hospital confinement.

Hospital expense benefits Medical expense benefits paid in connection with use by a consumer of hospital services, usually distinguished between (1) room and board charges which cover the daily room charge, meals, and routine nursing care and (2) other hospital services that include charges for medical testing related to the hospitalization, operating room charges, and ambulance services.

Human capital (1) Productive capacity within each person, considered to be the driving force in economic growth. (2) Present value of an individual's future earnings.

Human life value Measure of the future earnings or value of services of an individual; i.e., the capitalized value of an individual's future earnings less self-maintenance costs such as food, clothing, and shelter.

Hurdle rate Minimum acceptable investment return an insurer expects from a product line.

Identically distributed Random variables whose probability distributions prescribe the same probability to each potential occurrence, which renders the distributions' expected values and variances equal. Also called **homogeneous**.

Illustration actuary Person designated by an insurer's board of directors to make annual certifications to the insurance regulator and the insurer's board of directors that the insurer's illustration practices comply with the requirements of the NAIC *Life Insurance Policy Illustration Model Regulation*, including that nonguaranteed values within basic illustrations rely on a disciplined current scale.

Immediate life annuity Life annuity for which payments are made at the end of the first and succeeding periods

Immunization Practice of structuring assets and liabilities such that a change in interest rates affects asset and liability values equally.

Implied authority That authority implicitly possessed by an agent associated with common duties, such as the cashier's authority to take payment for merchandise at a checkout counter.

Inactive guaranteed living withdrawal benefit phase With a guaranteed lifetime withdrawal benefit provision or rider, the initial period of the annuity deferral stage preceding the withdrawal benefit determination period when no fees are charged for the benefit provision or rider and the account accumulates as with any deferred EIA or variable annuity.

Income elasticity of insurance premiums Relative change in insurance premiums written for a given change in national income.

Income replacement ratio Gross earned income after retirement divided by gross income before retirement.

Incontestable clause Required life insurance policy provision stating that the validity of an insurance contract cannot be contested after it has been in force for a period of time, commonly two years.

Increasing premium term See **yearly renewable term**.

Increasing returns to scale Condition associated with the size of a firm in which further growth increases firm efficiency; i.e., average costs decrease.

Indemnity Payment of an amount not greater than that which would be necessary to place the insured in the same pre-loss financial position.

Indemnity reinsurance Reinsurance that indemnifies the ceding company for some or all of its reinsured underwriting losses.

Independent Relationship between random variables (e.g., exposures units) such that the occurrence of an event affecting one has no affect on the other variables.

Independent distribution channel Distribution system not owned or directed by the insurer and that relies on individual producers, usually called **brokers**, who are independent salespersons who are not required to sell insurance exclusively or primarily for a single insurer or affiliated group of insurers. Also called **non-agency building system.**

Independent practice association Health maintenance organization that relies on nonexclusive contracts with independent providers for health care services for its members.

Independent property/casualty agent Commissioned agent whose primary business is the sale of property and casualty insurance for several insurers; may also sell life insurance products to property/casualty customers.

Indeterminate premium Life insurance policy premium charged the policyowner that can be less than that guaranteed in the contract.

Index account That portion of the equity indexed universal life policy or annuity account value for which the crediting rate is determined by changes in an equity index.

Index crediting rate Under an equity indexed universal life policy or annuity, the crediting rate applied to the index account, which is the growth rate adjusted to take account of the segment growth floor and growth cap.

Index performance rate Under an equity indexed universal life policy or annuity, the change in the index's market value, typically excluding dividend income.

Index term For an equity index annuity, the specified period of time over which the performance of the equity index and the annuity guarantee determine the amounts credited to the account value.

Indexed universal life See **equity indexed universal life**.

Indexed whole life insurance Whole life insurance under which the face amount increases with increases in the inflation rate as measured by some national price index, such as the CPI in the U.S.

Index-linked interest Amounts credited to an equity index annuity based on the performance of a specified equity index.

Indirect expenses Those expenses attributable to general insurer operations that cannot be directly attributed to a specific product line.

Individual health insurance Generic term to describe any arrangement in which health-related coverage is provided to a specific individual under a policy issued to individuals (and sometimes covering multiple family members).

Individual intermediary Business person who sells insurance products on an interpersonal level and is compensated by commission for each policy sold. Also called **producers.**

Individual Retirement Account Tax-advantaged retirement plan available for individuals. Contributions are tax deductible only for those not participating in any other qualified pension, profit sharing, or Keogh plan.

Industrial life and health insurance Type of personal insurance in which policies of modest benefit amounts are sold to individuals of low to modest incomes and whose premiums are collected weekly or monthly at the insured's residence or place of employment. Also called **debit insurance**.

Inflation protection Included in some long term care insurance policies for an additional premium, coverage designed to ensure that the benefit amount more or less increases with the cost of living.

Inflation risk Possibility that an individual's cost of living will exceed that anticipated.

Informal funding The establishment of a reserve fund by an employer to meet future nonqualified retirement plan obligations but with the fund not formally linked to the obligation and that remains a general asset of the business subject to attachment by its general creditors.

Initial capital and paid-in surplus Minimum amount required by a state to establish a domestic insurer.

Initial reserve Value of a policy reserve at the beginning of a policy year, equal to the terminal reserve for the preceding year increased by the net level annual premium for that policy year.

Injury With disability income insurance, accidental bodily injury whose results were unforeseen or unexpected occurring while the policy is in force.

Inside interest buildup Interest credited to cash values under tax-qualified life insurance policies that is not subject to current taxation.

Insolvency Inability to pay one's debts.

Inspection company Industry term for a consumer reporting agency, which is an organization that collects and sells information about individuals' employment history, driving record, financial situation, creditworthiness, character, personal characteristics, mode of living, and other possibly relevant personally identifiable information.

Inspection report Industry term for a consumer report used by underwriters and prepared by an inspection company, which is intended to verify and/or supplement mainly nonmedical information provided by a proposed insured and/or applicant.

Installment refund annuity Fixed life annuity that promises continuation of income payments to a beneficiary on the annuitant's death, until total payments equal the annuity purchase price.

Institutional intermediary Deposit taking, investment intermediary, and other financial firm that sells insurers' products.

Insurability conditional premium receipt Formal acknowledgement that the applicant has tendered the first policy premium and that provides insurance coverage from the later of the application date or physical exam date, provided the proposed insured is found insurable on a basis at least as favorable as that shown in the insurance application.

Insurable interest Public policy and legal requirement that an applicant (or sometimes beneficiary) possess a lawful and substantial economic interest in the continued life, health, or bodily safety of the insured person or, for persons closely related by blood or law, a substantial interest engendered by love and affection.

Insurance (1) From an economic perspective, a financial intermediation function under which insureds each contribute to a insurance pool from which payments are made to them or on their behalf if specified contingencies occur; a contingent claim on the pool's assets. (2) From a legal perspective, an agreement (insurance policy or contract) by which one party (policyowner) pays a stipulated consideration (premium) to the other party (insurance company) in return for which the insurance company agrees to pay a defined amount or provide a specific service if specified contingencies occur during the policy term.

Insurance agent Sales person licensed by the state and under contract to sell at least one insurer's products, typically for a commission and on a face-to-face basis. Also called **producer**.

Insurance code Statutory law that specifies the scope and standards that govern the administration of the jurisdiction's insurance law and related requirements, procedures, standards, and enforcement mechanisms.

Insurance density Average annual per capita direct premium written within a market.

Insurance penetration Ratio of yearly direct premiums written to gross domestic product within a market.

Insurance pool Grouping together of similar exposure units. Also called **risk pool** and **risk class**.

Insured Person whose life or health is the object of an insurance policy.

Insuring agreement See **insuring clause**.

Insuring clause Required life or health policy provision stating the insurer's promise to pay the death or health benefits due, subject to policy conditions. Also called **insuring agreement**.

Intentionally defective grantor trust See **intentionally defective irrevocable trust**.

Intentionally defective irrevocable trust Deferred sale arrangement between a grantor and an irrevocable trust that allows the grantor to make transfers of appreciated income producing property to junior generations free of gift tax. Also called an **intentionally defective grantor trust**.

Inter vivos trust One created during life. Also called **living trust**.

Interest The price paid for the use of money.

Interest Maintenance Reserve Accounting mechanism required by regulators designed to minimize volatility in an insurer's statutory surplus by earmarking portions of it to absorb realized capital gains and losses attributable to changing market interest rates.

Interest margin Difference between the insurer's actual investment return and its interest crediting rate. Also called **investment margin** and **spread**.

Interest rate cap Specified interest rate of an interest option above which an interest rate index results in payment to its holder.

Interest rate floor Specified interest rate of an interest option below which an interest rate index results in payment to its holder.

Interest sensitive whole life See **current assumption whole life**.

Intermediate nursing care Non-continuous skilled nursing care, commonly covered by long term care insurance policies.

Intermediation Process of policyowners making payments to an insurer for investment, ordinarily in the form of premiums, policy loan interest payments, or policy loan repayments.

Internal rate of return Measure of insurer profitability derived as that rate of interest that causes the present value of positive and negative cash flows to be zero.

Interpleader Payment of disputed insurance policy proceeds to a court for it to decide the rightful recipient.

Intestate Condition of dying without a valid will or having made a complete disposition of property and debt.

Intestate succession statute State law that determines the identity of heirs and their shares of distributed property of a person who dies intestate.

Investigative consumer report Consumer report in which information on a consumer's character, general reputation, personal characteristics, or mode of living is obtained from personal interviews with the consumer's neighbors, friends, or associates.

Investment asset risk Possibility of poor relative investment performance.

Investment bank Financial institution that brings together investors and firms that issue securities; some investment banking activities involve the underwriting of securities and some are strictly sales intermediary activities; may engage in the sale of life insurers' products.

Investment capital Income from financial and real assets.

Investment expenses Costs of making, processing, and protecting an insurer's investments.

Investment generation method Technique by which an insurer determines the interest crediting rate applicable to blocks of policies by allocating segmented investment portfolios to the blocks of policies, based on the timing of investment acquisitions.

Investment in the contract See **basis.**

Investment margin See **interest margin**.

Investor owned life insurance See **stranger-originated life insurance**.

Irrevocable beneficiary designation One that can be changed only with the beneficiary's express consent.

Irrevocable life insurance trust Living trust created to own and be beneficiary of life insurance that is not part of the grantor's gross estate yet with proceeds typically available to provide estate liquidity.

Irrevocable trust One in which the grantor permanently relinquishes ownership and control of donated property.

Issue and participation limit Underwriting limitation imposed by insurers as to the maximum amount of disability income coverage that they will issue to an applicant, such that the total of all monthly benefits does not exceed 85 percent or so of earned income for insureds with low incomes, grading downward to 65 percent or less for those with the highest incomes.

Issue date Sometimes included within life insurance contracts to indicate the date of policy issuance, with contestable and suicide periods sometimes running from this date. See also **policy date.**

Joint and last survivor annuity Life annuity whose payments are determined with reference to two (or more) annuitants, providing payments for as long as either of them lives.

Joint interest property Property owned jointly by two persons.

Joint life insurance Life insurance that promises to pay the face amount on the first death of two (or more) insureds. Also called **first-to-die life insurance**.

Joint tenancy with right of survivorship Joint interest property in which a decedent's interest passes automatically to survivor owners.

Judgment method In life insurance underwriting, process under which an insurance company relies on the combined judgment of underwriting, medical, and actuarial personnel to make underwriting decisions.

Juvenile endowment insurance Endowment insurance sold on the lives of juveniles, maturing at specified ages or events associated with a child's education, marriage, or independence.

Key employee disability insurance Disability income insurance purchased to indemnify a business for a decrease in earnings brought about by the disability of a key person.

Key employee insurance See **key person insurance**.

Key man insurance See **key person insurance**.

Key person insurance Life insurance purchased to indemnify a business for a decrease in earnings brought about by the death of a key person. Also called **key employee** and **key man insurance**.

Lapse Termination of a life insurance policy and the insurer's obligations after expiration of its grace period for failure to pay a premium necessary to maintain it in full effect**.**

Lapse-supported policy One in which later policy values rely on gains from policy lapses and surrenders to support those values.

Lapse-supported pricing Practice of pricing a product such that gains from lapses and surrenders are allocated to subsidize later policy benefits.

Last-to-die life insurance See **second to die life insurance**.

Law of large numbers Rule or theorem that holds that, as the number of units or trials becomes large, (1) the variation of actual from probable experience decreases and (2) each additional unit lowers the variation in outcome, *ceteris paribus*.

Law of mortality Concept first put forward by Benjamin Gompertz in 1825 that the death rate increases exponentially with age, as the body at first slowly then more rapidly deteriorates or fails. See also **Gompertz-Makeham law of mortality**.

Ledger pages See **tabular detail**.

Leeway clause See **basket clause**.

Legal capacity Competency of an individual or business entity to enter an enforceable contract.

Legislative history Testimony and documents considered by the U.S. Congress during its deliberations in enacting a law.

Lemons problem See **buyer ignorance**.

Level-premium whole life See **ordinary life.**

Life annuity Any annuity whose payments are contingent on whether the annuitant is alive.

Life annuity certain and continuous The combination of an annuity certain followed by a pure life annuity. Also called **life annuity with installments certain.**

Life annuity with installments certain See **life annuity certain and continuous**.

Life assurance See **life insurance**.

Life cycle hypothesis Normative explanation of consumer financial behavior proposing that individuals can be expected to maintain a more or less constant or increasing level of consumption over their lifetimes. Earned income will be low in the beginning and end stages of life and high during the middle stage of life.

Life insurance (1) Classification of insurance providing protection against the risks associated with mortality, longevity, and/or morbidity. (2) Type of insurance that pays a benefit to a named beneficiary on the death of the insured. Also called **life assurance**.

Life insurance company Corporation authorized under the law of its sovereign state to sell products that involve life and/or health contingencies.

Life settlement Sale of an existing life insurance policy in the secondary life insurance market. Also called **viatical**.

Life-care center See **continuing care center**.

Limited liability company Form of business combining features of partnerships and corporations, whose governance and owners' rights are defined more by the operating agreement of its members than by statute, featuring limited liability and flexibility in the tax status of participants.

Limited partnership One having at least one general partner and one or more limited partners who are not actively engaged in partnership management and who are liable for partnership obligations only to the extent of their investment in the partnership.

Limited-payment whole life insurance Type of whole life insurance with uniform premiums payable over some period shorter than the insured's entire possible lifetime, such as to age 65, after which the policy guarantees that no further premiums will be due.

Lingering implied authority Condition existing when a customer has no reason to believe that an agency relationship has ended.

Linton yield See **comparative interest rate**. Named after M. A. Linton of the Provident Mutual Life Insurance Company, who devised it.

Liquid withdrawal phase With a guaranteed lifetime withdrawal benefit provision or rider, the initial phase of the liquidation period when withdrawal amounts are made from the policy account value.

Liquidation Complete and final termination of an insolvent insurer's operations under provisions of state insurance law that permit the insurance regulator under court approval to entirely dispose of all assets and liabilities in accordance with state law.

Liquidation period Time during which annuity benefits are paid.

Liquidity risk (1) Category of risk specified by the *International Actuarial Association/Association Actuarielle Internationale*, possibility of policyowners and borrowers making unexpected payments or withdrawals in response to changing interest rates. (2) Possibility that a security or asset transaction cannot be completed quickly enough to capture a gain or prevent a loss.

Living benefit feature/rider Life insurance policy provision or rider that promises to pay some or all of a policy's face amount prior to the insured's death if the insured suffers specified adverse health conditions. Also sometimes called **accelerated benefit rider**.

Living will Advance directive setting forth an individual's wishes as to the use of life sustaining measures in case of terminal illness, prolonged coma, or serious incapacitation.

Loading Amount added to a net premium to derive a gross premium and designed to cover an insurer's expenses of operation, taxes, profits, and a margin for contingencies.

Loading charge Policy element within an unbundled policy designed to cover some or all of an insurer's future expenses, taxes, profits (or surplus accumulations), and contingencies. Also called **expense charge**, **fee**, and **policy load**.

Long straddle Position established by an options speculator through the simultaneous purchase of a put and a call on the same asset.

Long term care Broad range of supportive medical, personal, and social services needed by individuals who are unable to meet their basic living needs for an extended period of time because of accident, illness, or frailty.

Long term care insurance Type of health insurance that pays a stated, usually monthly, benefit if incapacity of the insured prohibits him or her from engaging in specified activities of daily living.

Long term care insurance rider Attachment to a life insurance policy that promises to pay up to a specified (e.g., 2.0 percent) of the policy's face amount monthly if the insured is unable to perform specified activities of daily living because of accident, illness, or frailty, subject often to a maximum monthly payment amount.

Longevity annuity Single premium deferred annuity contract that guarantees future income payments based on current rates, typically commencing a decade or more into the future and providing no death benefit or surrender value during the accumulation period. Also called **deferred income annuity**.

Longevity risk Possibility of outliving one's financial resources.

Managing general agent Individual, partnership, or corporation that holds at least one direct brokerage contract with a life insurance company registered to do business in Canada.

Marginal costing Allocation of only direct expenses to specific product lines.

Margins Additional deaths added to a basic mortality table to develop a valuation mortality table.

Marital deduction Under federal tax law, the value of property left to a surviving spouse, which may be deducted from the gross estate in determining the taxable estate.

Market A system of exchange where goods or services are bought and sold.

Market conduct Practices associated with agents' and insurers' advertising, sales, counseling, and servicing activities.

Market consistent embedded value Present value of future profits attributable to in-force business and the value of surplus, based on market-derived asset and liability values (as opposed to statutory values).

Market failure See **market imperfection**.

Market imperfection Market-based (as opposed to governmental) deviation from the conditions for perfect competition, which leads to an inefficient allocation of resources. Also called **market failure**.

Market power Market failure in which one or a few sellers or buyers has the power to influence the price of a product or service. Conditions giving rise to market power include: (1) barriers to entry or exit, (2) economies of scale or scope, and (3) product differentiation/price discrimination.

Market risk (1) Category of risk specified by the *International Actuarial Association/Association Actuarielle Internationale*, possibility of volatile values and uncertainty in financial markets that can affect expected cash flows. (2) Possibility that an investment will decrease in value due to changes in market risk factors, the four standard such factors being stock prices, interest rates, foreign exchange rates, and commodity prices.

Market value Amount that an asset would realize in a current market sale.

Market value adjusted annuity Single premium deferred fixed annuity that permits contract owners to lock in a guaranteed interest rate over a specified maturity period, typically from three to 10 years. Also called a **market value annuity**.

Market value annuity See **market value adjusted annuity**.

Marketing mix Aggregation and coordination of product origination and development, distribution, compensation, and promotion of a specific product.

Marketing program Tactical plan that deals primarily with the product, price, distribution, and promotion strategies that a company will follow to reach its target markets and to satisfy their needs.

Material misrepresentation Inaccurate statement by a proposed insured or applicant that induces an insurer to issue a policy on more favorable terms or at a more favorable price than would have been the situation had the insurer possessed the accurate information.

Materiality Property of information or of a representation that has a natural tendency to influence or be capable of influencing the decision of a decision maker to which it was addressed. In an insurance context, quality of concealed or misrepresented information such that an insurer would have refused to issue requested insurance, charged a higher premium, or issued a more limited policy had it known the truth.

Mature Final performance event of a life insurance policy that terminates upon payment of the death or endowment benefit.

Mean reserve Value of a mid-year policy reserve, equal to the arithmetic average of the initial reserve and the terminal reserve for the year of valuation.

Medical expense insurance Health insurance that indemnifies the insured for costs incurred because of sickness or injury. Also called **health insurance**.

Medical Information Bureau Membership-sponsored corporation that collects personally identifiable information from and supplies such information to its members about individuals who have applied for life or health insurance from them and who have certain medical and other conditions that might affect their insurability.

Medical necessity Health care services that generally are considered to be reasonable, necessary, and appropriate based on accepted clinical standards of care**.**

Medical power of attorney Advance directive designating an individual, referred to as the individual's health care agent or proxy, to make medical decisions for the person if he or she is unable to do so.

Medicare U.S. social insurance program providing health insurance coverage for the elderly, defined as anyone age 65 and over.

Medicare Advantage Plan See **Medicare Part C**.

Medicare Part A Under Medicare, covers (1) hospital stays of up to 90 days subject to cost sharing provisions, with a lifetime reserve of 60 additional days and (2) up to 100 days in a skilled nursing facility, subject to daily cost sharing.

Medicare Part B Under Medicare, optional coverage subject to an additional premium payment that covers physician, nursing, and testing services as well as durable medical equipment such as mobility devices (e.g., canes or wheelchairs), prosthetic devices, and oxygen supply machines, subject to cost sharing.

Medicare Part C Under Medicare, optional coverage that provides the option of receiving Medicare benefits under private insurance plans for beneficiaries with both Part A and B coverages under which benefits are more liberal than standard Medicare benefits and may require supplemental premiums by policyowners. Also called **Medicare Advantage Plan**.

Medicare Part D Under Medicare, optional prescription drug coverage available only through private insurers and subject to an additional premium, providing benefits distinct from Medicare Parts A, B, and C.

Medicare supplemental insurance Individual health insurance policy that pays benefits not covered under Medicare.

Minimum continuation premium Specified minimum premium amount that must be paid under a universal life policy for its no lapse guarantee to remain in effect.

Minimum efficient scale Condition at which a firm's long-run average costs are at a minimum, with further growth yielding no additional efficiencies thus exhibiting decreasing returns to scale.

Minimum premium plan Partially self funded medical expense plan that has premium tax savings as the primary objective under which the employer deposits funds into a bank account to cover employee claims, with an insurer paying claims first from this account then from its own resources after a set limit.

Misrepresentation Giving of false information.

Misstatement of age provision Required life insurance policy provision stipulating that, if the insured's age is found to have been misstated, adjustment will be made in policy values to reflect the true age.

Modal premium Premium paid other-than-annually. Also called **fractional premium**.

Modified coinsurance Proportional reinsurance under which the ceding company pays the assuming company a proportionate part of the gross premium, as under the conventional coinsurance plan, but at year's end, the reinsurer pays to the ceding company a reserve adjustment equal to the net increase in the reserve during the year, less one year's interest on the total reserve held at the beginning of the year.

Modified endowment contract Life insurance policy entered into after June 20, 1988 that meets the *Internal Revenue Code* §7702 definition of life insurance but that fails to meet the seven-pay test and therefore is not entitled to favorable income tax treatment of distributions.

Modified endowment insurance Term used outside the U.S. describing endowment insurance that provides periodic payments of a set percentage of the insured amount over the policy term, as well as a maturity amount. See **modified endowment contract** for the different U.S. usage.

Modified life insurance Whole life insurance under which premiums are less than those of a comparable ordinary life policy during the first three to five policy years then somewhat higher thereafter.

Monopolistic competition Market condition under which a large number of firms produce similar but not identical products, which gives the firms an element of market power in the short run.

Monte Carlo method Technique of applying randomly selected values to variables in a deterministic cash flow model that is repeated thousands of times to produce a range of possible results and their probabilities.

Monthly debit ordinary insurance Ordinary insurance in the $5,000 to $25,000 range whose premiums can be collected by the agent.

Moral hazard Asymmetric information problem resulting from the presence of insurance causing a change the loss prevention behavior – called *ex ante* moral hazard – or loss minimization behavior – called *ex post* moral hazard – of the insured.

Morbidity risk Possibility that injury, illness, or incapacity creates unacceptable financial consequences for an individual.

Morbidity table Tabulation showing periodic probabilities and durations of incapacity, sickness, or injury by age (or age brackets) and often by other factors, such as smoking status.

Mortality margins Amounts added to underlying mortality rates to develop actual mortality charges under a policy.

Mortality risk (1) Possibility that one's death creates undesirable financial consequences for others. (2) Possibility that a budgeting and savings program designed to support an individual or family to and through retirement is not completed due to the death of a breadwinner during his or her working life.

Mortality table Tabulation showing yearly probabilities of death by age and usually other variables such as sex and smoking status.

Mortality table with projection Mortality table whose yearly probabilities of death decrease with each calendar year, often using projection factors.

Mortgage protection term Term life insurance whose face amount decreases to match the projected decreases in the principal amount owed under a mortgage loan.

Mudarabah In Islam, form of partnership for which one party provides the funds while another provides the expertise and management.

Multiple table extra method Most common method used to classify substandard life insurance risks, it divides them into groups according to their numerical ratings for which additional charges or premiums are levied.

Multiple-line exclusive agent Commissioned exclusive agent who sells the life and health and property and casualty insurance products of a single group of affiliated insurers.

Mutual life insurance company Limited liability corporation authorized to sell life insurance, which is operated for the benefit of its policyowners who have an ownership interest in the company.

Mutually exclusive Condition wherein the occurrence of one event precludes the possibility of the occurrence of another.

Narrative summary Component of the basic illustration required by the NAIC *Life Insurance Policy Illustration Model Regulation* to be provided to prospective policyowners, which contains information about the illustrated policy including descriptions of its benefits and mechanics, available riders and options, and identification and descriptions of column headings and key terms used in the illustrations.

Natural monopoly Condition that exists when efficiency increases (i.e., average costs decrease) over an industry's entire relevant output range and fixed costs are high and cannot be recouped on exit.

Necessaries Those things reasonably necessary for the condition in life of a minor, including necessities such as food, clothing, and shelter but also items appropriate for the minor's social position and financial status.

Negative externality Condition in which a firm's or individual's activities impose costs on others without their being compensated.

Net amount at risk Difference between the policy death benefit and the cash value or policy reserve.

Net cash surrender value Gross cash value less surrender charges and the value of any outstanding loans plus the cash value of any paid up additional insurance and dividends held on deposit.

Net GAAP reserves Policy reserves reduced by deferred acquisition costs under generally accepted accounting principles; similar to modified statutory reserves with both reflecting the need to ease surplus strain.

Net interest margin Difference between the return earned on investments and the interest credited on customer savings.

Net level premium Periodic premium equivalent to the net single premium, annualized over a specified premium payment period derived by dividing the net single premium by the present value of a life annuity due for the premium payment period.

Net level premium reserve Policy reserve established for certain life insurance policies in recognition that early net level premiums are intended to prefund future insurance charges, derived for any policy year as the present expected value of future benefits less the present expected value of future premiums.

Net payment cost index Cost comparison method required by the NAIC *Life Insurance Disclosure Model Regulation* intended to inform a prospective life insurance buyer of the estimated average annual net payment or outlay per $1,000 of insurance over selected time periods (ordinarily 10 and 20 years) taking into consideration only the policy's premiums and illustrated dividends, if any, and adjusting them for the time value of money.

Net rates Insurance rates calculated to recognize the probability of the insured event, the time value of money, and the benefits promised, with no allowance for loading.

Net single premium Present value of future benefits promised under a life insurance policy.

No lapse guarantee Rider attached to or provision of some universal life policies under which the insurer guarantees that the policy will not lapse for a stipulated period of time or for life if at least a minimum continuation premium is paid. Sometimes called **guaranteed minimum death benefit rider** if coverage is guaranteed for less than the whole of life.

Non-admitted assets Those that may not be counted in meeting an insurer's statutory solvency requirements.

Non-agency-building system See **independent distribution channel.**

Noncan See **noncancellable**.

Noncancellable Health insurance policy under which premiums are guaranteed and the insured has a contractual right to continue the policy by the timely payment of premiums, usually to a specified age such as 65.

Noncontributory plan Employee benefit plan in which only the employer makes contributions toward plan costs.

Non-disabling injury benefit Provision within some disability income insurance policies that will pay up to a specific sum (e.g., one quarter of the monthly benefit) to reimburse the insured for medical expenses incurred for treatment of an injury that did not result in total disability.

Nondiversifiable risk That applicable to an entire market or class of assets or liabilities, which cannot be reduced by diversification. Also called **systematic risk**.

Nonforfeiture factor Adjusted premium when it is amortized over a period shorter or at an uneven rate than that permitted.

Nonforfeiture options Required options usually stated within the nonforfeiture provision, which are activated automatically on policy lapse or can be elected by the policyowner who chooses to terminate his or her policy. The three options ordinarily provided are (1) cash – the policy's net cash surrender value is paid in cash (e.g., check) to the owner, (2) reduced paid up insurance – the policy's net cash surrender value is applied as a net single premium to purchase a reduced amount of paid up insurance of the same type as the basic policy, and (3) extended term insurance – the policy's net cash surrender value is applied as a net single premium to purchase paid up term insurance for the policy face amount less policy loans for whatever duration that value will carry the policy.

Nonforfeiture provision Required provision of cash value life insurance policies stating the nonforfeiture options available if the policy is terminated or lapses and giving the mortality table, rate of interest, and method used in calculating the values of those options.

Nonguaranteed policy elements Those policy elements that are not guaranteed and that the insurer may increase or decrease as long as policy guarantees are respected, commonly including mortality and loading charges, interest crediting rate, dividends, and sometimes the policy premium. Also called **current assumptions**.

Nonguaranteed renewable health insurance Policy under which the insurer may unilaterally refuse to renew it, sometimes subject to restrictions.

Nonlife insurance Insurance that involves other than life or health contingencies; ordinarily insurance against property and liability losses. Also called **property/casualty insurance** and **general insurance**.

Nonmedical insurance Life or health insurance that can be written without a medical or paramedical examination, although medical questions usually are included in the application and the insurer reserves the right to request an examination.

Nonparticipating Insurance policies that are not entitled to receive dividends declared by an insurer. Also called **without bonus** policies.

Nonparticipating provision Within nonparticipating life insurance policies, provision stating that the policy is not eligible to participate in any divisible surplus and/or that the policy does not pay dividends.

Nonproportional reinsurance Reinsurance under which risk is shared on aggregate losses attributable to a specified group of policies and not to individual policies.

Nonqualified deferred compensation plan Contractual arrangement between an employer and an employee under which compensation for services rendered to an organization is postponed, usually until retirement.

Normal profit (1) Opportunity cost of enterprise. (2) Minimal profit that firms must acquire to remain in operation. (3) Maximum profit achievable in a perfectly competitive market.

Notional amount Value of capital hedged.

Numeric summary Component of the basic illustration required by the NAIC *Life Insurance Policy Illustration Model Regulation* to be provided to prospective policyowners, which is a one-page synopsis of illustrated policy values for at least policy years five, 10, and 20 and at age 70, if applicable, based on guaranteed policy elements, current nonguaranteed elements, and a midpoint set of assumptions.

Numerical rating system In life insurance underwriting, process under which an insurance company relies on a system of debits and credits representing adverse and positive expected marginal mortality rates to derive an expected mortality classification for a proposed insured.

One-way buy/sell agreement Arrangement under which the sole owner of a business obligates his or her estate to sell and another party is obligated to purchase the owner's interest on his or her death.

Operating capital That required to meet expenses, fund required reserves, and pay expected claims.

Operating expenses Costs incurred by an insurer in normal business operations, other than investment operations, usually recorded as acquisition, development, maintenance, and overhead expenses.

Operational risk Category of risk specified by the *International Actuarial Association/Association Actuarielle Internationale*, possibility of internal or external failure of people, processes, or systems to function as intended.

Option buy/sell agreement Arrangement under which an owner of an interest in a business obligates his or her estate to sell and another party has the option but not obligation to purchase that interest on the owner's death.

Ordinary insurance Individually issued life, health, and retirement coverages, other than industrial insurance.

Ordinary life insurance Type of whole life insurance with uniform premiums payable for the entirety of the insured's life. Also called **level-premium whole life.**

Original-age conversion Exercise of a term life policy's conversion feature via a retroactive conversion, with the whole life or other cash value policy bearing the original issue date and premium rate that would have been paid had the cash value policy been taken out originally instead of a term policy.

Out-of-network provider Health care services offered through a provider not affiliated with the patient's health maintenance organization or preferred provider organization, which are reimbursed in cash by the network plan.

Out-of-pocket maximum Specified maximum incurred amount of medical expenses (generally total expenses less deductibles and coinsurance paid by the participant) that is to be paid by the insured.

Overhead expense insurance See **business overhead expense insurance**.

Overloan protection rider Guarantees that a policy will not lapse if policy loans equal or exceed the policy account value.

Override commission Compensation paid to a general agency based on an agency's first-year and renewal premiums.

Own occupation With disability income insurance, clause that deems an insured to be totally disabled if he or she cannot perform the major duties of his or her regular occupation, which is the one in which the insured was engaged at the time disability began.

Owners' equity See **capital and surplus**.

Ownership provision Life insurance policy provision stating that the policyowner can exercise all rights under the policy, unless a beneficiary is named irrevocably.

Paid-up Condition under which a policy is guaranteed to remain in effect with no further premium payments due, in accordance with the terms of the contract.

Partial disability benefit Reduced disability income benefit payable if an insured has returned to work on a limited basis after a period of compensable totally disability, commonly equal to 50 percent of the monthly total disability benefit, payable for up to six months.

Participating Insurance policies that are entitled to receive dividends declared by the insurer. Also called **with bonus** policies.

Participation Retrospective allocation to policyowners of favorable experience that develops when mortality, investment, and expense assumptions used to calculate premiums is more than sufficient to provide policy benefits.

Participation provision Required provision of participating life insurance policies stating that the policy is eligible to participate in any divisible surplus. Also called **distributable surplus provision**.

Participation rate Under an equity indexed universal life policy or annuity, the proportion of the index performance rate that is counted in deriving the growth rate.

Partnership Voluntary association of two or more individuals or entities for the purpose of conducting a business for profit as co-owners.

Payor benefit Decreasing term rider insuring the life of the premium payor under a policy insuring the life of a juvenile, which pays a death benefit earmarked to cover policy premiums remaining until the juvenile attains a certain age.

Pension Benefit Guaranty Corporation Independent agency of the U.S. government created by the *Employee Retirement Income Security Act* to insure the benefits of participants of defined benefit pension plans against employer default.

Pension maximization strategy Election by a retiree of a single life income option in lieu of a joint and survivor life income option, using the income difference to purchase life insurance on the annuitant's life for the benefit of the survivor.

Perfectly competitive market In economic theory, one with no imperfections and, therefore, in which societal welfare is maximized.

Permanent disability Defined under a disability income policy and waiver of premium features/riders as any total disability lasting longer than the waiting period specified in the policy, often six months.

Permanent life insurance See **cash value life insurance**.

Persistency Percentage of a block of life insurance policies not terminated by lapse or surrender during a given time period.

Personal insurance (1) Any insurance purchased by individuals for non-commercial purposes. (2) Life, accident, and other insurance covering a person, in contrast to insurance covering property and liability losses.

Personal-producing general agent Independent commissioned insurance producer who generally works alone, is not housed in one of an insurer's field offices, engages primarily in the sales of new policies, holds contracts with several insurers, and usually focuses on personal production as opposed to the recruitment and management of career agents.

Planned premium Amount of periodic premium that the owner of a universal life policy intends to pay and instructs the insurer to bill.

Point-of-service preferred provider organization Hybrid preferred provider organization under which beneficiaries typically are treated by an in-network primary care physician who may make referrals to in-network or out-of-network specialists as the beneficiary chooses.

Point-to-point method Equity index annuity indexing method that is based on the simple difference in the index value at the beginning and end of the index term.

Policy date Date appearing on an insurance policy that often determines period of suicide exclusion and period of incontestability. See also **issue date.**

Policy elements The pricing components of life insurance policies, including premiums, benefits, values, credits, and charges.

Policy loan provision Cash value life insurance policy provision requiring the insurer to make requested loans to policyowners on the sole security of the policy's cash value.

Policy reserves Liabilities representing the present amount that, with future premiums and interest earned, is expected to cover future benefit payments under existing policies.

Policy Summary Document required to be provided to prospective life insurance buyers by the NAIC *Life Insurance Disclosure Model Regulation*, intended to help prospective purchasers understand the specific policy being considered for purchase and which contains illustrated and guaranteed policy values along with other policy information.

Policy value See **cash value**.

Policy value provision Provision of nonparticipating life insurance policies that contain nonguaranteed policy elements, which explains the nature of the policy's nonguaranteed elements and the determination of cost of insurance charges, loading charges, and interest crediting rates, with guaranteed maximum charges and, for non-variable contracts, the guaranteed minimum interest crediting rate. Also called **account value provision**.

Policyholder See **policyowner.**

Policyowner Person who has the contractual right to exercise all policy options and with whom the insurer deals. Also called **policyholder**.

Pooled rates Used for small group cases, method of rating under which a uniform rate is applied to all groups; no experience rating.

Pooling of resources Rule that, the larger the number of fairly priced exposure units in an insurance pool, the greater the likelihood that the insurer's premium receipts and investment income will be sufficient to pay all claims that arise during the coverage period, *ceteris paribus*.

Portability Under federal estate tax law, allows any unused exemption amount following the death of a spouse to be added to the exemption amount of the surviving spouse on his or her death.

Portfolio average method Technique by which an insurer determines the interest crediting rate applicable to policies based on the investment return of its entire general account investment portfolio.

Positive externality Condition in which a firm's or individual's activities carry benefits for others without their having to pay for them.

Postmortem dividend Divisible surplus payable on the death of an insured in an amount in proportion to the part of the policy year of death for which premiums have been paid or as a one-time distribution of surplus, mainly on term insurance, in lieu of dividends on each policy anniversary while the insured was living.

Precertification Prior approval of procedures, hospital admission, and length of stay that stipulates benefits will be paid.

Predatory pricing Lowering of prices to unprofitable levels to weaken or eliminate competition with the idea of raising prices after competitors are driven from the market.

Preexisting condition With disability income insurance, exclusion of benefits, commonly during the first two policy years, for any loss that results from a condition that the insured misrepresented or failed to disclose in the insurance application.

Preferred provider organization Health care intermediary between sponsors and physicians and other health care providers who agree to provide services at discounted rates.

Premium provision Required life insurance policy provision stating that, for fixed-premium policies, premiums are due and payable as indicated elsewhere in the policy, and, for flexible premium policies, that premiums may be paid at any time, subject to insurer minimums and tax-constrained maximums. The provision also may state that premiums can be paid monthly, quarterly, semi-annually, or annually by check, automatic draft, or electronic funds transfer.

Premium solve Value solve measure that solves for the premium necessary to support a particular death benefit amount, pattern, and duration and, if applicable, attainment of a target cash surrender value by a specified policy year.

Premium waiver feature/rider See **waiver of premium feature/rider**.

Preneed funeral insurance Whole life insurance that pays death proceeds specified by the details of the goods and services to be delivered by a funeral provider.

Present interest Interest in property such that an individual has immediate possession and enjoyment of property.

Present value Value today of a future payment or payments discounted for interest.

Presumptive disability With disability income insurance, clause that deems an insured to be totally disabled if sickness or injury results in the loss of the sight of both eyes, the hearing of both ears, the power of speech, or the use of any two limbs, irrespective of whether the insured can work.

Price discrimination Offering of identical products at different prices to different groups of customers.

Price elasticity Percentage change in demand for a good or service resulting from a given percentage change in price.

Price taker Buyers and sellers that cannot influence the price of a product; trait of a perfectly competitive market.

Primary insurer See **direct writing insurer**.

Primary life insurance market Market in which new life insurance policies are bought and sold.

Principal amount Value of original investment. Also called **principal**.

Principal sum benefit Lump sum amount payable under some disability income and other insurance policies if the insured's death results from an accident.

Private letter ruling U.S. Treasury Department interpretation of a specific fact situation deemed not to be of general interest.

Private placement The negotiation of the terms of a loan offering directly between the borrower and the buyer, in contrast to securities traded on public exchanges.

Private placement life insurance Individually tailored variable life insurance designed specifically for and available only to qualified investors and not subject to *Securities and Exchange Commission* registration requirements.

Probate property That which passes by will or state intestacy laws.

Probationary period Period of time (usually one to six months) after being hired when the employee becomes eligible to participate in an employee benefit plan.

Producer See **insurance agent**.

Product differentiation Condition occurring because product quality, service, location, reputation, or other attributes of one firm's products are preferred by some buyers over rivals' products.

Product homogeneity Condition in which competing products are perfect substitutes in the minds of buyers.

Product implementation Final determination of rates, values, and other policy elements; the design of policy and application forms; the filing of these forms with regulatory authorities; the creation of supporting marketing materials and administrative systems that facilitate effective distribution and administration of the product; and the actual introduction of the product.

Product life cycle Theoretical marketing construct that describes the approximate key turning points and stages in the life of a product from introduction to decline. The four stages of the product life cycle are introduction, growth, maturity, and decline.

Product margin Total of expense, mortality, and interest margins.

Professional reinsurer Insurer that specializes in writing reinsurance.

Profit account Mechanism for capturing accumulated book profits under the accumulated book profits model.

Profit margin Measure of insurer profitability calculated as the present value of profits divided by the present value of premiums.

Profit-sharing plan Noncontributory qualified defined contribution retirement plan that does not require but allows annual contributions by the employer.

Program sales Sales efforts targeted at a limited, particular need that can be addressed with a particular product.

Projection factors Values applied to static mortality tables to account for estimated future changes in death probabilities.

Property Ownership rights of possession, control, and disposition in property, which can be real property (ownership rights associated with land and objects permanently attached to land) or personal property (ownership rights in movable property or choses in action).

Property/casualty insurance See **nonlife insurance**.

Proportional reinsurance Reinsurance under which the assuming and ceding company share risk on a per policy basis.

Proprietary life and health insurance Life and health insurance targeted and priced for a specific market and available to be sold exclusively by a cohesive group of agents.

Prospective bonus Provision under some cash value policies providing that, after a predefined time period, future interest crediting rates will be augmented by a bonus rate.

Protection universal life See **death benefit universal life**.

Provider Individual or organization providing health care services.

Provider network Health care services offered through providers affiliated with a patient's health maintenance organization or preferred provider organization.

Public good Good or service exhibiting a free rider problem or an extensive positive externality.

Public interest theory of regulation Normative economic theory holding that government regulation should be practiced in the public interest, correcting market imperfections and promoting allocative efficiency and social welfare.

Pure endowment Promise to pay a maturity amount if the insured is living at the end of a specified period, with nothing paid in case of prior death or surrender.

Put Option to sell.

Qualified family-owned business interest Under federal tax law, any trade or business with its principal place of business in the U.S., which is owned at least 50 percent by one family, 70 percent by two families, or 90 percent by three families provided the decedent's family owned at least 30 percent.

Qualified plan Retirement plan that satisfies the requirements of the U.S. *Employee Retirement Income Security Act* and *Internal Revenue Code*. The main requirements are (1) the plan must be written, legally binding, and communicated to participants in accordance with regulations; (2) participants' benefits must vest according to schedules specifying participants' lengths of service; and (3) plans must not discriminate in favor of highly compensated employees.

Qualified purchaser Under *Securities and Exchange Commission* requirements, individual or family organization with net investments of $5.0 million or more.

Qualified terminable interest property Under federal tax law, property qualifying for the marital deduction but for which the surviving spouse's interest terminates on death.

Quota share Proportional reinsurance whereby premiums and claims are shared between ceding and assuming companies. The premium share is adjusted to reflect the direct writer's expenses.

Rabbi trust One under which trust assets remain subject to the claims of the employer's general creditors if the employer becomes insolvent, but, in the absence of such claims, trust assets must be used solely to provide promised deferred compensation benefits.

Radix With a mortality table, arbitrary number of persons assumed to be alive at the youngest age for which death rates are shown.

Ratchet guaranteed minimum death benefit Type of guaranteed minimum death benefit under which a new minimum death benefit is set periodically or set to equal premiums paid accumulated at a stated interest rate, but never an amount less than the highest previously calculated amount.

Rating agency Business that provides commentary and opinions about and ratings of the ability of financial firms to meet their obligations.

Rating agency capital Amount of surplus capital required to receive the quality rating an insurer desires from a rating agency.

Reasonable expectations doctrine Viewed by many legal authorities as an extension of the *contra proferentum* doctrine, requires that the objectively reasonable expectations of applicants and intended beneficiaries regarding the terms of insurance contracts be honored even if policy provisions negated those expectations.

Rebating Practice by an agent (or insurer) of giving something of value (e.g., a portion of the agent's commission) not specified in the insurance contract to an applicant in return for the purchase of a policy.

Recurrent periods of disability With disability income insurance, provision that a new period of total disability will be considered to be one continuous period of disability unless each period is separated by a recovery of six months or more.

Reentry feature Provision within some term life policies that allows for the payment of premiums lower than guaranteed renewal premiums and sometimes lower than indeterminate renewal premiums if the insured can demonstrate that he or she meets continuing insurability criteria.

Referral Customer of an individual intermediary arising from the recommendation of another person that the customer establish a relationship with the intermediary.

Regulation Government agency's interpretation for proper implementation of a law.

Regulatory arbitrage Shifting of activities within a financial group to take advantage of different regulatory approaches in different financial sectors; e.g., insurance and banking.

Regulatory capital Legally required amount of reserves and risk-based capital and the implicit premium income necessary to fund the reserves.

Rehabilitation Provision in state insurance law that permits the insurance regulator to seek court approval to become an insurer's receiver and be granted title to its assets and the authority to carry on its business until the insurer either is returned to private management after the grounds for issuing the order have been removed or is liquidated.

Rehabilitation benefit Provision within some disability income insurance policies that generally allows a specific sum (e.g., 12 times the monthly benefit) to cover costs not paid by other insurance or public funding if the insured enrolls in a formal retraining program that will help him or her return to work.

Reinstatement clause Required life insurance policy provision stating that the policyholder has the right to reinstate a lapsed policy under certain conditions, the two most important of which are furnishing evidence of insurability and paying past due premiums or charges.

Reinsurance Insurance for insurers written by an assuming company to hedge a direct insurer's portfolio of underwriting or financial risks.

Reinsurance premiums Premiums paid for reinsurance.

Reinsurer Professional reinsurer or a direct writing insurer that writes reinsurance

Reinvestment risk Possibility that policyowners will repay loans and increase flexible premiums when interest rates fall; occurs when insurers' interest crediting rates are higher than those policyowners otherwise generally would earn.

Renewable Right of the policyowner to continue an insurance policy for one or more specified periods merely by paying the billed premium. For life insurance, the premium ordinarily increases at each renewal.

Replacement Purchase of a new life insurance policy and, in connection with that purchase, termination of an existing policy or values extracted from it.

Replacement cost Under federal tax law applicable to gifts of paid up insurance, its fair market value deemed to equal the single premium that an insurance company would charge for a comparable contract issued at the insured's/annuitant's attained age.

Representation Statement made to induce an insurer to accept a risk.

Repudiation Express act of voiding a contract.

Reserve Actuarially determined amount representing an insurer's liability attaching to the payment of future policy benefits. Assumptions used in the reserve calculation may be statutory (SAP reserves), accounting (GAAP reserves), or economic (economic reserves) depending on context. Also called **reserve capital**.

Reserve capital See **reserve**.

Reset provision Feature under a no lapse guarantee universal life policy that permits the guaranteed duration or the amount of guaranteed coverage to be reset based on future adjusted specified premiums.

Residual disability benefit Provision within some disability income insurance policies providing for a reduced monthly benefit in proportion to the insured's loss of income resulting from disability when he or she has returned to work at reduced earnings.

Respite care Temporary, short term placement of an individual needing long term care in a long term care facility for purposes of providing temporary relief for family members providing care in the individual's home or having someone stay with the individual in his or her home temporarily. Commonly covered by long term care insurance policies up to a percentage (e.g., 50 percent) of the full nursing home benefit.

Retained asset account Option granted beneficiaries to have death benefit payments retained in an interest bearing account on which drafts may be written.

Retaliatory tax law Requires out-of-state insurers to pay the higher of the tax due using their home state's and the host state's laws.

Retention Dollar amount or percentage of an insurance policy's risk that a ceding company retains for its own account.

Retirement income insurance Endowment insurance commonly used in insured pension plans under which the amount payable at death is the greater of the face amount or cash value.

Retirement tail risk Possibility of having insufficient resources at retirement to cover an individual's entire life span.

Retroactive bonus Provision under some cash value policies providing that, after a predefined time period (e.g., 10 years), a bonus interest rate will be retroactively applied to policy cash values for all previous periods.

Retrocession Ceding of an assuming company's reinsurance to another assuming company.

Retrocessionaire Insurer or reinsurer accepting a retrocession.

Retrospective premium arrangement Within employee benefit plans, type of experience rating providing for lower initial premiums than normal but with the insurer reserving the right to collect additional premiums at the end of the contract period to cover unexpected claims and expenses.

Return on assets Measure of insurer profitability calculated as the ratio of profits to the assets that result from a product for a set period of time.

Return on equity Measure of insurer profitability calculated as the ratio of profits to surplus generated for a product for a set period of time.

Return on investment Measure of insurer profitability calculated as the ratio of the present value of profits to the initial surplus employed to support the product for a set period of time.

Return-of-premium feature/rider Increasing term insurance provision or rider stipulating that, if the insured dies within a set number of years (e.g., 20 years) from the policy issue date, the death benefit will be augmented by an amount equal to the sum of all premiums paid to that point.

Return-of-premium term policy/rider (1) Increasing cash value feature of a term or other policy that promises to provide a cash value at the end of a term of from 10 to 30 years in an amount equal to the sum of premiums paid for the policy if the insured survives to that period. (2) Under a disability income insurance policy, rider providing a benefit amount after a specified number of policy years equal to the sum of premiums paid if no claims have been made for benefits.

Revenue ruling U.S. Treasury Department interpretation of a specific fact situation deemed to be of general interest.

Reversionary bonus In U.K. and Commonwealth terminology, the use of divisible surplus (bonus) to increase a policy's face amount (sum assured) and its surrender value.

Revocable beneficiary designation One that may be changed by the policyowner without the beneficiary's consent.

Revocable trust One that may be altered or terminated by the grantor and ownership of the corpus regained.

Rider Amendment attached to an insurance policy that provides supplemental benefits or options, usually requiring an additional premium payment.

Right-of-return policy provision Required life insurance policy provision that affords its policyowner an unconditional right to return a policy to the insurer within a certain number of days of its receipt, such as 10, and to receive a refund of all premiums paid. Also called a **free look provision**.

Risk capital Unencumbered funds set aside to pay unexpected claims and benefits, which are expected to remain idle and is necessary to provide confidence to policyowners and their advocates (regulators and rating agencies) that an insurer will remain solvent under reasonably extreme circumstances.

Risk class See **insurance pool**.

Risk discount rate Hurdle rate sometimes selected for application to the policy account in the accumulated book profits model, which is the rate that market investments of comparable risk command.

Risk pool See **insurance pool**.

Risk premium Additional amount that rational risk-averse individuals will pay to purchase insurance in excess of the expected value of the loss.

Risk-adjusted return on capital Project's net economic income divided by its economic investment.

Rollover Transfer of funds from one qualified retirement plan to another.

Roth Individual Retirement Account Individual Retirement Account for which contributions are not deductible but whose investment returns and distributions are received tax free, subject to limitations.

Ruin When total insured losses exceed total premiums and investment returns received by an insurance pool.

Ruin risk See **default risk**.

Run Policyowners or depositors demanding their money at once. Can lead to systemic risk.

Safety margin See **expense margin**.

Savings risk Possibility that unexpected expense, a lack of planning, or carelessness impedes or interrupts an individual's planned conversion of human capital to investment capital.

Secondary life insurance market Market in which existing life insurance policies are bought and sold.

Second-to-die life insurance Life insurance that promises to pay the face amount on the death of the second (or last) insured to die. Also called **survivorship life insurance** and **last-to-die life insurance**.

Section 1035 exchange *Internal Revenue Code* provision permitting a tax free exchange of certain types of life insurance policies and annuities for others. Also called a **1035 exchange**.

Section 162 plan See **executive bonus plan**.

Section 2503 (b) and (c) trusts One established for the benefit of a minor, which, by meeting certain requirements, permits a gift of a future interest to qualify for the annual exclusion.

Section 303 stock redemption *Internal Revenue Code* provision permitting an income-tax-free redemption of shares of stock by qualifying estates in an amount up to federal and state death taxes due, funeral expenses, and estate administration expenses.

Secular trust One under which trust assets are not subject to the claims of the employer's general creditors.

Securitization Selling of asset-backed bonds that will be repaid regularly from the cash flows of specified assets backing the securities.

Segment term Under an equity indexed universal life policy, the specified duration associated with each new transfer of funds into the index account, often from one to three years in length.

Select and ultimate mortality table Mortality table that shows probabilities of death by both age and duration of insurance.

Select mortality table Mortality table showing probabilities of death by age, duration of insurance for newly insured lives only, and other possible criteria such as sex of insureds.

Self funded plan Employee benefit plan under which large employers pay claims in cash as they arise with no funding via commercial insurance. Also called **self insured plan**.

Self insured plan See **self funded plan**.

Semi-endowment insurance Endowment insurance that pays upon survival one-half the sum payable on death during the endowment period.

Separate account Mutual fund-type account maintained by a life insurer to receive premiums and other payments from its contract holders who bear 100 percent of the investment risk.

Settlement options Provision under a life insurance policy that grants policyowners and beneficiaries the right to elect to have death and usually surrender value proceeds paid under modes of settlement other than a lump cash sum, including (1) interest option under which proceeds remain with the company and only the earned interest is paid to the beneficiary, (2) fixed period option under which proceeds are systematically liquidated as an annuity certain over a defined period of months or years, (3) fixed amount option under which proceeds are systematically liquidated as an annuity certain via fixed, periodic amounts, and (4) life income options under which death proceeds are systematically liquidated as a pure life annuity, life annuity with refund feature, or life annuity with period certain, based on a single life or joint and survivor life configuration.

Settlor See **grantor**.

Seven-pay test Determines whether a life insurance policy is a modified endowment contract, which it is if cumulative amounts paid under the contract at any time during the first seven contract years exceeds the cumulative amount that would have been paid had the policy's annual premium equaled the net level premium for a seven-pay life policy of the same type, using certain required assumptions.

Shadow account Used for ensuring that a no lapse guarantee is in effect; derived from a modified universal life account value calculation using a set of guaranteed policy elements different from the set applicable to the regular account value calculation.

Shared benefit long term care Long term care insurance policy insuring two lives with the total benefit available for one or both lives.

Short straddle Position established by an options speculator through the simultaneous sale of a put and a call on the same asset.

Sickness With disability income insurance, sickness or disease that first manifests itself while the policy is in force.

Silo risk Segregation of mortality, investment, and asset/liability risk from each other, with each having its particular risk management methods.

Simple interest Interest credited or paid on the original or unpaid principal balance amount only and not on the interest itself.

Simple probability Likelihood of the occurrence of an event calculated by dividing the number of events satisfying a stipulated condition (e.g., death) by the total number of events or exposures (e.g., lives).

Single life annuity Life annuity whose payments are determined with reference to one annuitant only.

Single market Principal existential purpose of the European Union, with the objective of presenting the union as a common entity externally and to maintaining nondiscriminatory relations between its members. Characterized by the free circulation of goods, capital, people, and services within the union.

Single premium deferred annuity Fixed or variable annuity contract purchased with a single premium, whose benefit payments are deferred until annuitization following the accumulation period.

Single premium immediate annuity Fixed or variable annuity contract purchased with a single premium, whose benefit payments commence one period (e.g., month) later.

Single premium whole life insurance Limited-payment whole life insurance under which only one premium payment is made.

Skilled nursing care Highest level, 24-hour nursing care ordered by a physician and provided by a registered nurse, licensed practical nurse, or licensed therapist. Commonly covered by long term care insurance policies.

Skip person Under federal tax law, heir beyond those of the immediately following generation.

Social insurance substitute See **social insurance supplement**.

Social insurance supplement Supplemental disability income insurance benefit that approximates the amount an insured might reasonably expect to receive in Social Security disability benefits but which is payable only if the insured meets the policy's definition of total disability and does not qualify for any social insurance disability income benefit. Also called **social insurance substitute**.

Sole proprietorship Unincorporated business owned by an individual who usually also manages it.

Special agent Agent whose powers are limited, extending only to acts necessary to accomplish particular transactions for which it is engaged.

Special power of appointment Right to dispose of property to anyone except the person holding the power.

Special surplus funds Voluntarily earmarked surplus designated to meet general contingencies.

Specific risk See **diversifiable risk**.

Specified disease insurance policy Individual health insurance policy that pays up to substantial maximums solely for the treatment of a disease named in the policy, including most typically cancer and heart disease. Also sometimes called **dread disease insurance policy**.

Specified premium test Used for ensuring that a no lapse guarantee is in effect; if actual premiums paid equal or exceed a cumulative minimum premium requirement to date, the guarantee remains in effect.

Spendthrift trust clause Provision within a trust or life insurance settlement option stating that the beneficiary has no power to assign, transfer, or otherwise encumber installment payments to which he or she is entitled.

Spinlife See **stranger-originated life insurance**.

Split dollar life insurance Arrangement under which one party, commonly an employer, pays portions of the premiums of a life insurance policy insuring another party, commonly an employee, with policy benefits and premium payments shared between the two parties.

Split option Under a survivorship policy, option to divide the policy into two individual policies of the same generic type as the survivorship policy, one on the life of each insured life, under specified circumstances such as divorce.

Spousal lifetime access trust Irrevocable life insurance trust that can preserve the favorable estate tax treatment of insurance death proceeds while allowing indirect access to policy cash values.

Spread See **interest margin**.

Spread loss reinsurance Nonproportional reinsurance designed to smooth claim volatility experience of a ceding company.

Staff model health maintenance organization One with its own health care providers.

Stand alone living benefit See **contingent deferred annuity**.

Standard nonforfeiture value method Descriptor indicating that nonforfeiture values are higher than required minimums because of the use of nonforfeiture factors.

Stated value basis With any insurance policy, stated policy benefit payable without regard to the actual economic loss suffered. Also called **valued policy**.

Static mortality table Mortality table whose probabilities of death do not change as a function of the calendar year.

Stock life insurance company Limited liability corporation authorized to sell life insurance, which is owned by and operated for the benefit of shareholders who seek an adequate return on the capital they risk.

Stock redemption buy/sell agreement Entity buy/sell agreement under which the corporation is to purchase a deceased owner's shares.

Stop loss reinsurance (1) Reinsurance that reimburses an employer for large claims incurred in a self funded medical expense plan. (2) Nonproportional reinsurance that reimburses a ceding company for aggregate claims above a fixed amount, a percentage of premiums, or a percentage of expected mortality.

Stranger-originated life insurance Policy purchased with the intent at inception that it will be sold in the secondary life insurance market to those with no insurable interest, almost always involving material misrepresentations. Also called **stranger-owned life insurance, investor-owned life insurance,** and **spinlife**.

Stranger-owned life insurance See **stranger-originated life insurance**.

Stress test (1) In life insurer risk management, method of applying a set of extreme assumptions to a deterministic model to ascertain financial results under a limited set of economic scenarios. (2) In life insurance policy evaluations, running illustrations with reduced crediting rates and/or at less favorable charges to provide an idea of potential downside policy performance.

Structured settlement annuity Single premium deferred annuity contract issued by a life insurer on behalf of a defendant under which the plaintiff (the injured party) in a personal injury lawsuit receives periodic payments rather than a lump sum payment.

Subrogation Transfer of one party's legal rights against a third party to another.

Subrogation provision Within comprehensive medical plans, provision that gives the employer or insurer that pays a claim the rights that a covered employee or insured might have against a third party.

Substandard Higher-than-average mortality or morbidity risk classifications.

Substandard risks Insureds who are expected or do exhibit higher than average mortality or morbidity experience.

Substantial risk of forfeiture Condition under which deferred income is not considered constructively received because either (1) it is subject to the claims of the employer's creditors or (2), if the employee's rights are nonforfeitable, the deferred compensation agreement was entered into before the compensation was earned and the employer's promise to pay is unsecured.

Suicide clause Optional life insurance policy provision that excludes payment of claims if the cause of the insured's death is suicide occurring within the first two policy years.

Sum assured. See **face amount.**

Summary of operations Insurer's income statement providing a summary of income and its disposition.

Supplemental executive retirement plan Nonqualified retirement plan providing retirement benefits to selected employees only.

Supplemental illustration Optional tabulation under the NAIC *Life Insurance Policy Illustration Model Regulation* that may be provided to prospective policyowners, which is intended to augment the data and information contained in the basic illustration.

Supplier induced demand With regard to paying for health care services, the incentive of reimbursable providers to recommend and perform more health services than they would in the absence of insurance.

Surgical expense benefits Medical expense benefits for surgery paid either (1) in accordance with a schedule particular to the insurer or plan, which states amounts payable per procedure, or (2) on a usual and customary basis.

Surplus See **surplus capital**.

Surplus capital Difference between the values of an insurer's assets and liabilities as defined by a particular accounting convention.

Surplus strain Condition that occurs when a life insurance policy is surrendered and its asset share is less than its cash surrender value.

Surrender Voluntary termination of a life insurance policy by its owner for its cash surrender value.

Surrender charge Amount assessed against a policy's cash (account) value as a type of penalty for early policy termination. Also called **back-end load**.

Surrender cost index Cost comparison method required by the NAIC *Life Insurance Disclosure Model Regulation* intended to inform a prospective life insurance buyer of the estimated average annual net cost per $1,000 of insurance over selective time periods (ordinarily 10 and 20 years) taking into consideration the policy's premiums, illustrated dividends or other nonguaranteed policy values (if any), and cash surrender values and adjusting these values for the time value of money.

Surrender gain Condition that occurs when a life insurance policy is surrendered and its asset share is greater than its cash surrender value.

Surrender value See **cash surrender value**.

Surrender value internal rate of return Cost comparison method that solves for the interest rate that causes accumulated scheduled premiums (net of dividends, if appropriate) at selected policy durations to equal that duration's cash surrender value.

Surrender value solve Value solve measure that solves for the cash surrender value that a particular premium and death benefit amount, pattern, and duration will develop.

Survivorship clause Condition elected by the owner of a life insurance policy under which the beneficiary must survive the insured by a fixed period, such as 60 days, after the insured's death to be entitled to the proceeds. Also called a **time clause**.

Survivorship life insurance See **second-to-die life insurance**.

Systematic risk See **nondiversifiable risk**.

Systemic risk Possibility that, because of linkages and interdependences, the difficulties of a financial system or market, as opposed to those of individual institutions, have significant adverse effects elsewhere within an economy.

Tabular detail Component of the basic illustration required by the NAIC *Life Insurance Policy Illustration Model Regulation* to be provided to prospective policyowners, which includes policy values on a guaranteed and nonguaranteed basis for at least each policy year from one to 10 and for every fifth year thereafter, ending at the policy's terminal age. Also called **ledger pages**.

Tail risk Outlier risk associated with low frequency/high severity losses.

Tail Var See **conditional tail expectation**.

Takaful In Islam, type of solidarity or mutual fund separate from the management operation, which relies on a pact among participants to guarantee each other.

Target premium Amount of periodic premium under a universal life policy on which an agent can receive the maximum commission rate and which the insurer may believe provides reasonable policy funding.

Target return See **assumed interest rate**.

Target SERP Supplemental executive retirement plan intended to replace retirement benefits lost by ERISA-imposed limits and to counteract the bias in Social Security retirement benefits that favors low income workers.

Tax basis See **basis**.

Taxable estate Under federal tax law, portion of estate on which taxes are computed, derived by subtracting allowable deductions from the gross estate.

Taxable gift Gift of more than the annual exclusion amount made to any one person during a calendar year.

Technical advice memorandum U.S. Treasury Department statement prepared after the fact in response to a tax issue, usually in connection with a taxpayer audit.

Temporary life annuity Life annuity payable for the lesser of a set number of years or until the annuitant dies.

Tenancy by the entirety Joint interest property between spouses in which a decedent's interest passes automatically to the surviving spouse.

Tenancy in common Joint interest property in which each person owns his or her share outright, which share passes to the person's heirs.

Tentative federal estate tax Under federal tax law, product of the appropriate tax rate and the tentative tax base; estate tax before application of credits.

Tentative tax base Under federal tax law, sum of adjusted taxable gifts and the adjusted gross estate.

Term blending Rider providing term life insurance that replaces portions of a cash value policy's death benefit. Also called **blending**.

Term life insurance Policy that pays a prescribed death benefit if the insured dies during the policy term, which is a specified number of years, such as 10 or 20 years, or to a specified age, such as age 85.

Terminal bonus In U.K. and Commonwealth terminology, the payment of a supplemental bonus on policy maturity as an endowment or death benefit, the intent of which is to allow the policyowner or beneficiary to share more equitably in the favorable operations of the insurer. Also called **capital bonus**.

Terminal dividend Supplemental dividend payable when a policy terminates by death or surrender, the purpose of which is to return to terminating policyowners or beneficiaries part of the general surplus to which they have contributed or adjusting for a guaranteed cash value less than the asset share.

Terminal illness coverage Life insurance policy promise to pay up to a specified percentage (e.g., from 25 to 100 percent) of the policy's face amount if the insured is diagnosed as having a terminal illness, often subject to an overall maximum payment (e.g., $250,000). Also called **accelerated death benefits**.

Terminal reserve Value of a policy reserve at the end of a policy year, equal to the present value of future expected benefits less the present value of future expected premiums.

Testamentary trust One created through a decedent's will.

Testator Person making a will.

Third party marketer Organization that specializes in the distribution of insurance products in a banking system; may provide sales staff or support a bank's affiliation with a more traditional agency.

Three factor contribution formula Method of implementing the contribution principle of surplus distribution which recognizes that surplus derives from three main sources or factors which are (1) gains from investment earnings; i.e., actual investment returns that exceed the policy guaranteed crediting rate, (2) gains from loadings; i.e., actual expenses that are less than those implicit in policy pricing, and (3) gains from mortality; i.e., actual mortality experience that is more favorable than that implicit in policy pricing.

Tied agent See **career agent.**

Time clause See **survivorship clause**.

Tontine Any arrangement under which amounts are paid into a fund by participants who receive payments from the fund only for as long as they live, with a portion of the forfeited funds of deceased participants being used to augment payments to survivors.

Total adjusted capital Within the state-mandated risk-based capital system, value equal to statutory capital, paid-in surplus, Asset Valuation Reserve, and, in the case of mutual companies, 50 percent of any declared and unpaid dividend.

Total disability Under a disability income policy and waiver of premium features/riders, the inability of the insured, because of illness or injury, to perform either (1) the duties of his or her own occupation or (2) the duties of any occupation for which he or she is reasonably suited by reason of education, training, or experience, with the two definitions sometimes combined to provide that the first definition applies for the first few (e.g., two) years of disability, with the second definition applying thereafter.

Transfer for value rule *Internal Revenue Code* §101(a)(2) which provides that death proceeds under a life insurance policy are included in gross income to the extent of the excess of gross policy death proceeds over the policy's cost basis if the policy or any interest in it was transferred to another person for a valuable consideration.

Transfer pricing Pricing of goods and services between related parties.

Transferor Person who transfers a property interest; for estate tax, the decedent and, for gift tax, the donor.

Transplant benefit Provision within some disability income insurance policies that, if the insured is totally disabled because of the transplant of an organ from his or her body to the body of another individual, the insurer will deem him or her to be totally disabled as a result of sickness.

Treaty reinsurance See **automatic reinsurance**.

Trigger point Date designated in a formal buy/sell agreement at which a disabled owner's business interest must be purchased.

Trust Legal arrangement whereby one party transfers property to another who holds legal title and manages the trust property for the benefit of others as a fiduciary.

Trustee Person or institution receiving legal title to and managing the property of a trust.

Twisting Practice by an agent of inducing a policyowner through misrepresentation to replace an existing life insurance policy with another one.

Ultimate mortality table Mortality table showing probabilities of death by age and other possible criteria such as the sex of insureds after the select mortality period.

Unassigned surplus Surplus amounts not earmarked for special purposes. Also called **free capital**.

Unbundled policy Life insurance policy that discloses to the policyowner the portions of his or her premium that are allocated to specific policy elements: the internal insurance charges, cash values, and loadings for the insurer's expenses, taxes, profits, and contingencies.

Underwriting Process by which an insurer decides whether to issue insurance and on what terms and at what price.

Underwriting guidelines Set of recommended courses of action that underwriters generally follow in underwriting.

Underwriting risk Category of risk specified by the *International Actuarial Association/Association Actuarielle Internationale*, possibility of inadequate pricing arising from assumptions made with respect to claims and expenses and to policyowner behavior such as persistency and loan activity.

Unfunded nonqualified retirement plan Arrangement under which the employer does not formally earmark assets to fund the plan; the employee must rely exclusively on the employer's unsecured promise to make payments.

Unified credit Under federal tax law, tax credit that can be applied to offset estate and gift taxes; for deaths occurring in 2014, the credit is $2,081,800.

Unilateral Characteristic of insurance contracts providing that only one party, the insurer, gives a legally enforceable promise.

Unique risk See **diversifiable risk.**

Unit cost Measure of operating expenses allocated to some measured unit, such as face amount per thousand.

Unit linked annuity See **variable annuity**.

Unit linked life insurance See **variable life insurance**.

Universal life insurance Unbundled life insurance policy characterized by flexible premium payments and adjustable death benefits whose cash values and coverage period depend on the premiums paid into it.

Unsystematic risk See **diversifiable risk**.

Utility A measure of consumer satisfaction derived from economic goods.

Utilization management See **utilization review**.

Utilization review Determination of the medical necessity of procedures and treatments, including precertification and discharge planning**.** Also termed **utilization management.**

Utmost good faith Principle holding that parties to an insurance contract are entitled to rely in good faith upon the representations of the other, and each is under an obligation not to attempt to deceive or withhold material information from the other.

Valuation Practice of estimating future revenues, expenses, and reserves; central to reporting of both solvency and profitability.

Valuation mortality table Tabulation that displays yearly probabilities of death used in the calculation of minimum reserves and cash surrender values; usually contains margins.

Value at Risk Maximum acceptable loss associated with an asset or liability or portfolio of assets and liabilities over a specified time period with a specified probability or confidence level.

Value solve measure Comparison method commonly used to discern differences in the illustrated performance of life insurance policies, which solves for one element (e.g., premiums, death benefits, or cash values) by setting the remaining elements to identical values.

Valued policy See **stated value basis**.

Variable annuity Annuity whose cash values and benefit payments vary directly with the investment performance of assets held in one or more separate accounts. Also called **unit linked annuity**.

Variable life insurance Either bundled or unbundled life insurance under which the policyowner allocates premium payments to separate accounts offered by the insurer, with the cash values and usually death benefits directly determined by the investment performance of the assets held in these accounts, which are separate from the insurer's general account assets. Also called **unit linked life insurance**.

Variable universal life Variable life insurance configured as a universal life policy with its transparency, premium flexibility, and death benefit adjustability. Also called **flexible premium variable life** and **unit linked life insurance**.

Vesting Legal event that perfects ownership rights by an employee in retirement account balances or benefits contributed by or promised by an employer on the employee's behalf by making them nonforfeitable. Vesting may occur at any time according to the retirement plan provisions, but must occur no later than dates specified in the *Employee Retirement Income Security Act*. Employee contributions are never forfeitable.

Viatical See **life settlement**.

Void Agreement that has no legal force or effect.

Voidable Agreement that can be made void at the option of the innocent party.

Volatility Deviation of actual from average returns.

Wage risk Possibility that an individual's earnings from employment decline by more than expected.

Wait-and-see buy/sell agreement Arrangement under which shareholders and the corporation postpone the decision between a cross purchase and stock redemption agreement until the death of a stockholder.

Waiting period See **elimination period**.

Waiver of premium feature/rider Provision of or a rider attached to an insurance policy providing disability income coverage earmarked to pay ("waive") (1) premiums otherwise due under fixed-premium products or (2) premiums of a specified amount (often called wavier of a specified premium rider) or the monthly cost of insurance and expense charges (often called wavier of monthly charges rider) under flexible-premium policies. Also called **premium waiver feature/rider**.

War exclusion Optional clause within a life insurance policy that excludes claims arising from or while the insured is serving in the armed forces.

Warranty Attestation that a statement is absolutely and literally true.

Wealth replacement trust Irrevocable life insurance trust designed to provide a death benefit to beneficiaries roughly equivalent in value to property transferred by the donor/grantor to a charitable remainder trust or others.

Whole life annuity Life annuity payable for as long as the annuitant lives.

Whole life insurance Typically a bundled life insurance policy characterized by fixed death benefits and fixed uniform premiums designed to enable the policy to remain in effect for the entirety of the insured's life.

Will Legal declaration of an individual's wishes as to the disposition of his or her property on death.

With bonus In U.K. and Commonwealth terminology, a participating policy.

Without bonus In U.K. and Commonwealth terminology, a nonparticipating policy.

Yearly price per $1,000 of protection Cost comparison method that derives year-by-year measures for a policy's implicit mortality charges per $1,000 of net amount at risk.

Yearly rate of return Cost comparison method that derives year-by-year measures for the implicit rate of return on the savings component of a cash value policy.

Yearly renewable term Term life insurance whose premiums increase yearly. Also called **annual renewable term**.

Yearly renewable term reinsurance Proportional reinsurance under which the assuming company assumes the reinsured policy's net amount at risk in excess of the ceding company's retention, with premium rates varying by the age, sex, rating, and other underwriting factors.