Insurance 101

Below is a list of helpful definitions and useful information regarding insurance.

A

Acceleration Clause – The part of a contract stating when a loan may be declared due and payable.

Accidental Death Benefit – This benefit or rider typically are not included in a standard life insurance policy; however, they may be added to basic life insurance policies at the request of the insured party. The benefits are paid to the beneficiary of an accidental death insurance policy and often end at a specific age, as set by the insurance company. Insurance companies typically have strict perimeters of what constitutes an accidental death.

Activities of Daily Living – Examples of this would include bathing, preparing and eating meals, moving from room to room, getting into and out of beds or chairs, dressing, etc.

Actual Cash Value – The cost of replacing damaged or destroyed property with comparable new property, less depreciation, at the time the loss occurred; in other words; the actual value for which the property could be sold, which is always less than what it would cost to replace it. For example, you have a claim for a 10-year-old sofa, you would receive compensation for what a 10-year-old sofa would sell for at today's market pricing, not for what a new sofa would cost.

Adjustable Rate – An interest rate that changes, based on changes in a published market-rate index.

Adjuster – A representative of the insurance company who investigates personal/commercial or property claims and makes estimates for effecting claim settlements.

Admitted Assets – Assets permitted by state law included in an insurance company's annual statement. These assets are a crucial factor when regulators measure an insurance company's solvency. They include mortgages, stocks, bonds and real estate.

Agent – An individual who sells and services insurance policies in either of two classifications:

1. Independent agent – They represent at least two insurance companies and (at least in theory) service clients by searching the market for the most advantageous price and coverage.

2. Direct or Captured agent – They represent only one company and sell only the one company's policies.

Aggregate Limit – This usually refers to liability insurance and indicates the maximum amount an insurer will reimburse a policyholder for all covered losses during a set time period, usually one year. Insurance policies typically set caps on both individual claims and the aggregate of claims.

Annual Administrative Fee – Charge for expenses associated with administering a group employee benefit plan.

Annual Crediting Cap – The maximum rate that the equity-indexed annuity can be credited in a year. If a contract has an upper limit, or cap, of 7 percent and the index linked to the annuity gained 7.2 percent, only 7 percent would be credited to the annuity.

Annuitization – The process by which you convert part or all the money in a qualified retirement plan or nonqualified annuity contract into a stream of regular income payments, either for your lifetime or the lifetimes of you and your joint annuitant. Once you choose to annuitize, the payment schedule and the amount is fixed and cannot be altered.

Annuitization Options – The ways the owner of an annuity can get paid by the insurance company after the accumulation phase has ended. For example, life with 10-year period certain means payouts will last a lifetime, but should the annuitant die during the first 10 years, the payments will continue to beneficiaries through the 10th year. Selection of such an option reduces the amount of the periodic payment.

Annuity – An agreement by an insurer to make periodic payments that continue during the survival of the annuitant(s) or for a specified period.

Attained Age – A persons age at a particular point in time. In terms of insurance, life insurance companies refer to this figure to help determine the risk of death for potential policyholders, which affects premium pricing. Moreover, it is also used to determine the point in time at which beneficiaries can receive certain benefits.

Automobile Liability Insurance – This is a type of insurance that covers damages the insured causes to a third party or their property while driving a vehicle. It does not cover any damages to the driver, their automobile, or other property. It does not have a deductible and is required in every state.

B

Benefit Period – A benefit period is the length of time during which an insurance policyholder or their dependents may file and receive payment for a covered event. All insurance plans will include a benefit period, which can vary based on policy type, insurance provider, and policy premium.

Broker – Insurance salespersons search the marketplace in the best interest of their clients, not the insurance companies.

Broker-Agent – Independent insurance salespersons represent insurers but also might function as a broker by searching the entire insurance market to place an applicant’s coverage to maximize protection and minimize cost. This person is licensed as an agent and a broker.

C

Captive Agent – They are an insurance agent that works for only one insurance company. Captive agents only sell the products of the insurance company they work for and cannot help individuals outside of that offering.

Casualty – A liability or loss resulting from an accident.

Casualty Insurance – Casualty insurance is a broad category of insurance coverage for individuals, employers, and businesses against loss of property, damage, or other liabilities. Casualty insurance includes vehicle insurance, liability insurance, and theft insurance. Liability losses are losses that occur because of the insured's interactions with others or their property.

Claim – An insurance claim is a formal request by a policyholder to an insurance company for coverage or compensation for a covered loss or policy event. The insurance company validates the claim (or denies the claim). If it is approved, the insurance company will issue payment to the insured or an approved interested party on behalf of the insured.

Coinsurance – In property insurance, coinsurance requires the policyholder to carry insurance equal to a specified percentage of the value of property to receive full payment on a loss. Coinsurance is the amount, generally expressed as a fixed percentage, an insured must pay against a claim after the

deductible is satisfied. In health insurance, a coinsurance provision is similar to a copayment provision, except copays require the insured to pay a set dollar amount at the time of the service. For example, a 20% health insurance coinsurance clause, the policyholder pays the deductible plus 20% of their covered losses. After paying 80% of losses up to a specified ceiling, the insurer starts paying 100% of losses.

Collision Insurance – When two drivers are in an accident, collision insurance pays for the damage, and it will cover damage from potholes, and accidents involving an inanimate object. Collision insurance cover events within a driver's control or when another driver hits your car.

Commercial Lines – Commercial lines protect businesses against potentially devastating financial losses caused by accidents, lawsuits, natural disasters, and other adverse events. Examples of this type of insurance include products, such as commercial auto insurance, workers compensation insurance, medical malpractice insurance, etc.

Common Carrier – A common carrier is defined by U.S. law as a private or public entity that transports goods or people from one place to another for a fee. Examples would include trucking companies, bus lines and airlines.

Comprehensive Insurance – Comprehensive insurance is a type of automobile insurance that covers damage to your car from causes other than a collision. Comprehensive insurance will cover your vehicle if destroyed by a tornado, dented by a run-in with a deer, spray-painted by a vandal, damaged by a break-in, or crushed by a collapsing garage, among other causes.

Concurrent Periods – This refers to a period of time during which the policyholder of a temporary disability policy has more than one disability or injury. It allows the insurance company to treat the health issues as one single injury or disability, even if they are unrelated. Thus, they can pay one single disability benefit, instead of multiple ones.

Coverage – More specifically insurance coverage, is the amount of protection in terms of a sum of money that an insurance company provides to an insured person whereby, in the event of risk or risks insured against take place, such as death or accident, the policyholder or a designated beneficiary or beneficiaries shall receive an indemnification or payment up to the extent of the loss. Coverage may pertain to life, property, or health insurance.

Convertible – A convertible insurance policy is a term related to life insurance. Term life insurance is a policy that provides the insured person coverage for a certain period of time. On the other hand, a "whole" or "universal" policy is considered permanent, providing coverage for the entire life of the insured. Now, a convertible term policy allows the insured to convert a term policy to a permanent policy at a later date.

Copayment – A health insurance copayment is a fixed amount set by an insurance plan for sharing the cost of covered services between the plan and the customer. For example, some plans require a $10 copayment for each office visit, regardless of the type or level of services provided during the visit. Copayments are not usually specified by percentages.

Coverage Area – This refers to the geographic region in which an insurance policy’s benefits apply. The insurance coverage area for a travel health insurance plan, for example, might be defined as “anywhere in the world.”

Creditable Coverage – Creditable coverage is most closely associated with prescription drug coverage. Most companies that provide prescription drug coverage to Medicare-eligible beneficiaries must disclose their status as creditable or non-creditable coverage. Creditable coverage means that the policy meets or exceeds the coverage offered by a Medicare Part D prescription drug plan. This may be important to people eligible for Medicare Part D but who do not sign up at their first opportunity because if the other plans provide creditable coverage, plan members can later convert to Medicare Part D without paying higher premiums than those in effect during their open enrollment period.

D

Death Benefit – A death benefit is a payout to the beneficiary of a life insurance policy, annuity, or pension when the insured or annuitant dies. For life insurance policies, death benefits are not subject to income tax and named beneficiaries ordinarily receive the death benefit as a lump-sum payment.

Deductible – Amount of loss that the insured pays before the insurance company picks up its share of the loss.

E

Earned Premium – The amount of the premium that has been paid for in advance that has been “earned” in which the insurance policy was in effect. A three-year policy paid in advance and has been in effect for one year would have only partly earned the entire premium.

Elimination Period – The time period between an injury and the receipt of benefit payments is known as the Elimination Period. In other words, it is the length of time between the beginning of an injury or illness and receiving benefit payments from an insurer. It is sometimes referred to as a 'waiting' or 'qualifying' period.

Employers Liability Insurance – This is a coverage that helps pay a business owner’s costs related to a lawsuit resulting from an employee’s work-related injury or illness. Without employer’s liability insurance, you’d have to pay for these legal costs out of pocket.

Encumbrance – An encumbrance refers to anything that affects, limits, interrupts, or obstructs an insurance policy and its provisions. In the context of insurance, encumbrances refer to claims to a property that is under the care, custody and control of another individual. A worker's lien is an example of an encumbrance. This situation typically occurs when the owner of a property does not pay a worker for the labor provided. For instance, if a carpenter does some woodwork in a house and does not receive payment for it, the carpenter can seek an encumbrance on the owner's property.

Exclusions – Items or conditions that are not covered by the insurance policy is called an exclusion. For instance, a personal auto insurance policy does not cover the vehicle if you use it for commercial purposes. This is because the policy specifies commercial use of the vehicle as an exclusion in the policy.

Exposure – An individual, business, or entity's susceptibility to various losses or risks they might encounter in life or in the ordinary course of business is called exposure. Using car insurance as an example, the more miles you drive on a regular basis, the more exposure to losses you have. Every second you are on the road increases your likelihood of being in an accident—even one that you are not at fault for.

Extended Replacement Cost – This option usually refers to an insurance policy that provides a benefit over and above the limits specified by the policy for replacing a damaged house. This coverage could pay a benefit ranging from approximately 120 to 125 percent.

F

Face Value – This also known as a death benefit, which is the dollar amount that the policy owner's beneficiaries will receive upon the insured's death. The actual death benefit may be higher or lower depending on the options selected, outstanding policy loans or premium owed.

First Party Loss – First-party insurance is insurance that covers the losses of the person named on the policy. The policyholder may be a company, an individual, or a group of individuals of a particular class such as employees of a company, a person's family, or occupants of a particular vehicle.

Floater – Floater insurance is a type of insurance policy that covers personal property that is easily movable and provides additional coverage over what normal insurance policies do not. Also known as a "personal property floater," it can cover anything from jewelry and furs to expensive stereo equipment.

Free Examination Period –This is also known as "10-day free look" or "Free Look" period. After the delivery of an insurance policy, the insurer may allow 10 to 14 days of a free examination period for the policyholder to consider the terms and decide whether they are satisfied or not. They may also ask any questions about certain conditions or stipulations. Cancellation during this period does not result in any penalties.

Future Purchase Option – Life and health insurance provisions that guarantee the insured the right to buy additional coverage without proving insurability. Also known as "guaranteed insurability option."

G

General Liability Insurance A general liability insurance policy is type of insurance policy that protects insured commercial entities from a variety of liability risks, except for automobile and professional liability. Liability insurance protects the policyholder from the risks of liabilities arising from lawsuits and other similar claims.

Grace Period – The length of time (usually 31 days) after a premium is due and unpaid during which the policy, including all riders, remains in force. If a premium is paid during the grace period, the premium is considered to have been paid on time. In Universal Life policies, it typically provides for coverage to remain in force for 60 days following the date cash value becomes insufficient to support the payment of monthly insurance costs.

Guaranteed Insurability Option – See “future purchase option.”

Guaranteed Issue Right – Under the Guaranteed Issue Rights law, insurance companies cannot deny coverage to a person with Medicare who wants to buy health insurance, even if they have prior health conditions. The company is also forbidden to charge more for prior conditions.

Guaranteed Renewable – An insurance policy feature ensures an insurer is obligated to continue coverage as long as premiums are paid on the policy. While re-insurability is guaranteed, premiums can rise based on the filing of a claim, injury, or other factors which potentially could increase the risk of future claims.

H

Hazard – A circumstance increasing the likelihood or probable severity of a loss. For example, the storing of explosives in a home basement is a hazard that increases the probability of an explosion.

Hazardous Activity – A hazardous activity refers to a recreational or occupational activity that is considered highly risky in the context of life or disability insurance. This includes car racing, horse riding, bungee jumping, scuba diving, hang gliding, construction work, and underground mining.

Health Maintenance Organization (HMO) – A health maintenance organization (HMO) is a network or organization that provides health insurance coverage for a monthly or annual fee. With an HMO plan, your primary care physician (PCP) will refer you to specialists, and you must stay within a network of providers to receive coverage. On the other hand, HMO plans typically have lower premiums

Health Reimbursement Arrangement – Owners of high-deductible health plans who are not qualified for a health savings account can use an HRA. A health reimbursement arrangement (HRA) is an employer-funded plan that reimburses employees for qualified medical expenses and, in some cases, insurance premiums.

Health Savings Account – Plan that allows you to contribute pre-tax money to be used for qualified medical expenses. HSAs, which are portable, must be linked to a high-deductible health insurance policy.

I

Indemnity – Indemnity is a legal contract in which a company agrees to pay for financial losses and damages caused by another party or event. Insurance contracts typically contain indemnity agreements in which the insurer agrees to compensate the policyholder or the insured for any financial losses and damages to the assets covered under the policy.

Independent Insurance Agents & Brokers of America (IIABA) – Founded in 1896, Formerly the Independent Insurance Agents of America (IIAA), the IIABA has seen several name changes. The association was founded under the title National Local Association of Fire Insurance Agents, then became the National Association of Insurance Agents in 1913, the Independent Insurance Agents of

America in 1975, and finally the Independent Insurance Agents and Brokers of America in 2002. These name changes reflect the changes that have taken place in the insurance industry over the decades, as the industry has expanded to include new insurance lines. Today, the IIABA is often referred to as the Big "I”. The IIABA helps steer the ongoing development of the insurance brokerage industry through both internal industry events and political initiatives.

Inflation Guard Protection – An optional property coverage endorsement offered by some insurers that increases the policy’s limits of insurance during the policy term to keep pace with inflation.

Insurable Interest – A person or entity has an insurable interest in an item, event, or action when the damage or loss of the object would cause a financial loss or other hardships.

Insurance Adjuster – An insurer adjuster works directly for the insurer who seeks to determine the extent of the insurer’s liability for loss when a claim is submitted. Independent insurance adjusters are hired by insurance companies on an “as needed” basis and might work for several insurance companies at the same time. Public adjusters work for the insured in the settlement of claims and receive a percentage of the claim as their fee. A.M. Best’s Directory of Recommended Insurance Attorneys and Adjusters lists independent adjusters only.

L

Least Expensive Alternative Treatment – A provision in a health insurance policy stating the insurer will cover the least expensive option in situations when multiple possibilities are available. This means policyholders will have to opt for the least expensive treatment or pay out of pocket for a more expensive one. The clause helps reduces costs for the insurer.

Liability – A liability (generally speaking) is something that is owed to somebody else. The term is most commonly used in a pecuniary sense.

Liability Insurance – Insurance that pays and renders service on behalf of an insured for loss arising out of his responsibility, due to negligence, to others imposed by law or assumed by contract.

Lifetime Reserve Days – Lifetime reserve days are most often associated with Medicare policies. When an insured person enters a medical facility, such as a hospital, the benefit period begins, lasting until the person leaves the facility. If the policyholder needs to stay longer than the days allotted per benefit period, they may continue to stay using the lifetime reserve days. For example, if a patient stays in the hospital or nursing facility for 100 days but is only allotted 90 days per benefit period, the patient will have to use 10 lifetime reserve days. As of 2022, Medicare offered 60 lifetime reserve days during a patient's lifetime.

Living Benefits – This feature allows you, under certain circumstances, to receive the proceeds of your life insurance policy before you die. Such circumstances include terminal or catastrophic illness, the need for long-term care, or confinement to a nursing home. Also known as “accelerated death benefits.”

M

Medical Loss Ratio – Total health benefits divided by total premium.

Member Month – Total number of health plan participants who are members for each month.

Mortality and Expense Risk Fees – A charge that covers such annuity contract guarantees as death benefits.

Mortgage Insurance Policy – In life and health insurance, a policy covering a mortgagor with benefits intended to pay off the balance due on a mortgage upon the insured’s death, or to meet the payments due on a mortgage in case of the insured’s death or disability.

Mutual Insurance Companies – Companies with no capital stock, and owned by policyholders. The earnings of the company–over and above the payments of the losses, operating expenses and reserves–are the property of the policyholders. There are two types of mutual insurance companies. A nonassessable mutual charges a fixed premium and the policyholders cannot be assessed further. Legal reserves and surplus are maintained to provide payment of all claims. Assessable mutuals are companies that charge an initial fixed premium and, if that isn’t sufficient, might assess policyholders to meet losses in excess of the premiums that have been charged.

N

Named Perils – Perils specifically covered on insured property.

National Association of Insurance Commissioners (NAIC) – Association of state insurance commissioners whose purpose is to promote uniformity of insurance regulation, monitor insurance solvency and develop model laws for passage by state legislatures.

Net Income – The total after-tax earnings generated from operations and realized capital gains as reported in the company’s NAIC annual statement on page 4, line 16.

Net Investment Income – This item represents investment income earned during the year less investment expenses and depreciation on real estate. Investment expenses are the expenses related to generating investment income and capital gains but exclude income taxes.

Net Leverage – The sum of a company’s net premium written to policyholder surplus and net liabilities to policyholder surplus. This ratio measures the combination of a company’s net exposure to pricing errors in its current book of business and errors of estimation in its net liabilities after reinsurance, in relation to policyholder surplus.

Net Liabilities to Policyholder Surplus – Net liabilities expressed as a ratio to policyholder surplus. Net liabilities equal total liabilities less conditional reserves, plus encumbrances on real estate, less the smaller of receivables from or payable to affiliates. This ratio measures company’s exposures to errors of estimation in its loss reserves and all other liabilities. Loss-reserve leverage is generally the key component of net liability leverage. The higher the loss-reserve leverage the more critical a company's solvency depends upon maintaining reserve adequacy.

Net Premium – The amount of premium minus the agent's commission. Also, the premium necessary to cover only anticipated losses, before loading to cover other expenses.

Net Premiums Earned – The adjustment of net premiums written for the increase or decrease of the company's liability for unearned premiums during the year. When an insurance company's business increases from year to year, the earned premiums will usually be less than the written premiums. With the increased volume, the premiums are considered fully paid at the inception of the policy so that, at the end of a calendar period, the company must set up premiums representing the unexpired terms of the policies. On a decreasing volume, the reverse is true.

Net Premiums Written – Represents gross premium written, direct and reinsurance assumed, less reinsurance ceded.

Net Underwriting Income – Net premiums earned less incurred losses, loss-adjustment expenses, underwriting expenses incurred, and dividends to policyholders.

Nonstandard Auto (High Risk Auto or Substandard Auto) – Insurance for motorists who have poor driving records or have been canceled or refused insurance. The premium is much higher than standard auto due to the additional risks.

Net Premiums Written to Policyholder Surplus (IRIS) – This ratio measures a company's net retained premiums written after reinsurance assumed and ceded, in relation to its surplus. This ratio measures the company's exposure to pricing errors in its current book of business.

Non-Recourse Mortgage – A home loan in which the borrower can never owe more than the home's value at the time the loan is repaid.

Non-cancellable – Contract terms, including costs that can never be changed.

O

Occurrence – An event that results in an insured loss. In some lines of business, such as liability, an occurrence is distinguished from accident in that the loss doesn't have to be sudden and fortuitous and can result from continuous or repeated exposure which results in bodily injury or property damage neither expected not intended by the insured.

Operating Cash Flow – Measures the funds generated from insurance operations, which includes the change in cash and invested assets attributed to underwriting activities, net investment income and federal income taxes. This measure excludes stockholder dividends, capital contributions, unrealized capital gains/losses and various noninsurance related transactions with affiliates. This test measures a

company's ability to meet current obligations through the internal generation of funds from insurance operations. Negative balances might indicate unprofitable underwriting results or low yielding assets.

Operating Ratio (IRIS) – Combined ratio less the net investment income ratio (net investment income to net premiums earned). The operating ratio measures a company's overall operational profitability from underwriting and investment activities. This ratio doesn't reflect other operating income/expenses, capital gains or income taxes. An operating ratio of more than 100 indicates a company is unable to generate profits from its underwriting and investment activities.

Other Income/Expenses – This item represents miscellaneous sources of operating income or expenses that principally relate to premium finance income or charges for uncollectible premium and reinsurance business.

Out-of-Pocket Limit – A predetermined amount of money that an individual must pay before insurance will pay 100% for an individual's health-care expenses.

Overall Liquidity Ratio – Total admitted assets divided by total liabilities less conditional reserves. This ratio indicates a company's ability to cover net liabilities with total assets. This ratio doesn't address the quality and marketability of premium balances, affiliated investments and other uninvested assets.

Own Occupation – Insurance contract provision that allows policyholders to collect benefits if they can no longer work in their own occupation.

P

Paid-Up Additional Insurance – An option that allows the policyholder to use policy dividends and/or additional premiums to buy additional insurance on the same plan as the basic policy and at a face amount determined by the insured's attained age.

Participation Rate – In equity-indexed annuities, a participation rate determines how much of the gain in the index will be credited to the annuity. For example, the insurance company may set the participation rate at 80%, which means the annuity would only be credited with 80% of the gain experienced by the index.

Peril – The cause of a possible loss.

Personal Injury Protection – Pays basic expenses for an insured and his or her family in states with no-fault auto insurance. No-fault laws generally require drivers to carry both liability insurance and personal injury protection coverage to pay for basic needs of the insured, such as medical expenses, in the event of an accident.

Personal Lines – Insurance for individuals and families, such as private-passenger auto and homeowners insurance.

Point-of-Service Plan – Health insurance policy that allows the employee to choose between in-network and out-of-network care each time medical treatment is needed.

Policy – The written contract effecting insurance, or the certificate thereof, by whatever name called, and including all clause, riders, endorsements, and papers attached thereto and made a part thereof.

Policyholder Dividend Ratio – The ratio of dividends to policyholders related to net premiums earned.

Policyholder Surplus – The sum of paid in capital, paid in and contributed surplus, and net earned surplus, including voluntary contingency reserves. It also is the difference between total admitted assets and total liabilities.

Policy or Sales Illustration – Material used by an agent and insurer to show how a policy may perform under a variety of conditions and over a number of years.

Pre-Existing Condition –A coverage limitation included in many health policies which states that certain physical or mental conditions, either previously diagnosed or which would normally be expected to require treatment prior to issue, will not be covered under the new policy for a specified period of time.

Preferred Auto – Auto coverage for drivers who have never had an accident and operates vehicles according to law. Drivers are not a risk for any insurance company that writes auto insurance, and no insurance company would be afraid to take them on as risk.

Preferred Provider Organization – Network of medical providers who charge on a fee-for-service basis, but are paid on a negotiated, discounted fee schedule.

Premium – The price of insurance protection for a specified risk for a specified period of time.

Premium Balances – Premiums and agents' balances in course of collection; premiums, agents' balances and installments booked but deferred and not yet due; bills receivable, taken for premiums and accrued retrospective premiums.

Premium Earned – The amount of the premium that as been paid for in advance that has been "earned" by virtue of the fact that time has passed without claim. A three-year policy that has been paid in advance and is one year old would have only partly earned the premium.

Premium to Surplus Ratio – This ratio is designed to measure the ability of the insurer to absorb above-average losses and the insurer's financial strength. The ratio is computed by dividing net premiums written by surplus. An insurance company's surplus is the amount by which assets exceed liabilities. The ratio is computed by dividing net premiums written by surplus. For example, a company with $2 in net premiums written for every $1 of surplus has a 2-to-1 premium to surplus ratio. The lower the ratio, the greater the company's financial strength. State regulators have established a premium-to-surplus ratio of no higher than 3-to-1 as a guideline.

Premium Unearned – That part of the premium applicable to the unexpired part of the policy period.

Pretax Operating Income – Pretax operating earnings before any capital gains generated from underwriting, investment and other miscellaneous operating sources.

Pretax Return on Revenue – A measure of a company's operating profitability and is calculated by dividing pretax operating earnings by net premiums earned.

Private-Passenger Auto Insurance Policyholder Risk Profile – This refers to the risk profile of auto insurance policyholders and can be divided into three categories: standard, nonstandard and preferred.

In the eyes of an insurance company, it is the type of business (or the quality of driver) that the company has chosen to taken on.

Profit – A measure of the competence and ability of management to provide viable insurance products at competitive prices and maintain a financially strong company for both policyholders and stockholders.

Protected Cell Company (PCC) – A PCC is a single legal entity that operates segregated accounts, or cells, each of which is legally protected from the liabilities of the company's other accounts. An individual client's account is insulated from the gains and losses of other accounts, such that the PCC sponsor and each client are protected against liquidation activities by creditors in the event of insolvency of another client.

Q

Qualified High-Deductible Health Plan – A health plan with lower premiums that covers health-care expenses only after the insured has paid each year a large amount out of pocket or from another source. To qualify as a health plan coupled with a Health Savings Account, the Internal Revenue Code requires the deductible to be at least $1,000 for an individual and $2,000 for a family. High-deductible plans are also known as catastrophic plans.

Qualified Versus Non-Qualified Policies– Qualified plans are those employee benefit plans that meet Internal Revenue Service requirements as stated in IRS Code Section 401a. When a plan is approved, contributions made by the employer are tax deductible expenses.

Qualifying Event – An occurrence that triggers an insured's protection.

Quick Assets – Assets that are quickly convertible into cash.

Quick Liquidity Ratio – Quick assets divided by net liabilities plus ceded reinsurance balances payable. Quick assets are defined as the sum of cash, unaffiliated short-term investments, unaffiliated bonds maturing within one year, government bonds maturing within five years, and 80% of unaffiliated common stocks. These assets can be quickly converted into cash in the case of an emergency.

R

Reciprocal Insurance Exchange – An unincorporated groups of individuals, firms or corporations, commonly termed subscribers, who mutually insure one another, each separately assuming his or her share of each risk. Its chief administrator is an attorney-in-fact.

Re-Entry – Re-entry, which is the allowance for level-premium term policyowners to qualify for another level-premium period, generally with new evidence of insurability.

Reinsurance – In effect, insurance that an insurance company buys for its own protection. The risk of loss is spread so a disproportionately large loss under a single policy doesn't fall on one company.

Reinsurance enables an insurance company to expand its capacity; stabilize its underwriting results; finance its expanding volume; secure catastrophe protection against shock losses; withdraw from a line of business or a geographical area within a specified time period.

Reinsurance Ceded – The unit of insurance transferred to a reinsurer by a ceding company.

Reinsurance Recoverables to Policyholder Surplus – Measures a company's dependence upon its reinsurers and the potential exposure to adjustments on such reinsurance. Its determined from the total ceded reinsurance recoverables due from non-U.S. affiliates for paid losses, unpaid losses, losses incurred but not reported (IBNR), unearned premiums and commissions less funds held from reinsurers expressed as a percent of policyholder surplus.

Renewal – The automatic re-establishment of in-force status effected by the payment of another premium.

Replacement Cost – The dollar amount needed to replace damaged personal property or dwelling property without deducting for depreciation but limited by the maximum dollar amount shown on the declarations page of the policy.

Reserve – An amount representing actual or potential liabilities kept by an insurer to cover debts to policyholders. A reserve is usually treated as a liability.

Residual Benefit – In disability insurance, a benefit paid when you suffer a loss of income due to a covered disability or if loss of income persists. This benefit is based on a formula specified in your policy and it is generally a percentage of the full benefit. It may be paid up to the maximum benefit period.

Return on Policyholder Surplus (Return on Equity) – The sum of after-tax net income and unrealized capital gains, to the mean of prior and current year-end policyholder surplus, expressed as a percent. This ratio measures a company's overall after-tax profitability from underwriting and investment activity.

Risk Class – Risk class, in insurance underwriting, is a grouping of insureds with a similar level of risk. Typical underwriting classifications are preferred, standard and substandard, smoking and nonsmoking, male and female.

Risk Management – Management of the pure risks to which a company might be subject. It involves analyzing all exposures to the possibility of loss and determining how to handle these exposures through practices such as avoiding the risk, retaining the risk, reducing the risk, or transferring the risk, usually by insurance.

Risk Retention Groups – Liability insurance companies owned by their policyholders. Membership is limited to people in the same business or activity, which exposes them to similar liability risks. The purpose is to assume and spread liability exposure to group members and to provide an alternative risk financing mechanism for liability. These entities are formed under the Liability Risk Retention Act of 1986. Under law, risk retention groups are precluded from writing certain coverages, most notably property lines and workers' compensation. They predominately write medical malpractice, general liability, professional liability, products liability and excess liability coverages. They can be formed as a mutual or stock company, or a reciprocal.

S

Secondary Market – The secondary market is populated by buyers willing to pay what they determine to be fair market value.

Section 1035 Exchange – This refers to a part of the Internal Revenue Code that allows owners to replace a life insurance or annuity policy without creating a taxable event.

Section 7702 – Part of the Internal Revenue Code that defines the conditions a life policy must satisfy to qualify as a life insurance contract, which has tax advantages.

Separate Account – A separate account is an investment option that is maintained separately from an insurer's general account. Investment risk associated with separate-account investments is born by the contract owner.

Solvency – Having sufficient assets–capital, surplus, reserves–and being able to satisfy financial requirements–investments, annual reports, examinations–to be eligible to transact insurance business and meet liabilities.

Standard Auto – Auto insurance for average drivers with relatively few accidents during lifetime.

State of Domicile – The state in which the company is incorporated or chartered. The company also is licensed (admitted) under the state's insurance statutes for those lines of business for which it qualifies.

Statutory Reserve – A reserve, either specific or general, required by law.

Stock Insurance Company – An incorporated insurer with capital contributed by stockholders, to whom earnings are distributed as dividends on their shares.

Stop Loss – Any provision in a policy designed to cut off an insurer's losses at a given point.

Subaccount Charge – The fee to manage a subaccount, which is an investment option in variable products that is separate from the general account.

Subrogation – The right of an insurer who has taken over another's loss also to take over the other person's right to pursue remedies against a third party.

Successive Periods – In hospital income protection, when confinements in a hospital are due to the same or related causes and are separated by less than a contractually stipulated period of time, they are considered part of the same period of confinement.

Surplus – The amount by which assets exceed liabilities.

Surrender Charge – Fee charged to a policyholder when a life insurance policy or annuity is surrendered for its cash value. This fee reflects expenses the insurance company incurs by placing the policy on its books, and subsequent administrative expenses.

Surrender Period – A set amount of time during which you have to keep the majority of your money in an annuity contract. Most surrender periods last from five to 10 years. Most contracts will allow you to take out at least 10% a year of the accumulated value of the account, even during the surrender period. If you take out more than that 10%, you will have to pay a surrender charge on the amount that you have withdrawn above that 10%.

T

Term Life Insurance – Life insurance that provides protection for a specified period of time. Common policy periods are one year, five years, 10 years or until the insured reaches age 65 or 70. The policy doesn't build up any of the nonforfeiture values associated with whole life policies.

Tort – A private wrong, independent of contract and committed against an individual, which gives rise to a legal liability and is adjudicated in a civil court. A tort can be either intentional or unintentional, and liability insurance is mainly purchased to cover unintentional torts.

Total Admitted Assets – This item is the sum of all admitted assets, and are valued in accordance with state laws and regulations, as reported by the company in its financial statements filed with state insurance regulatory authorities. This item is reported net as to encumbrances on real estate (the amount of any encumbrances on real estate is deducted from the value of the real estate) and net as to amounts recoverable from reinsurers (which are deducted from the corresponding liabilities for unpaid losses and unearned premiums).

Total Annual Loan Cost – The projected annual average cost of a reverse mortgage including all itemized costs.

Total Loss – A loss of sufficient size that it can be said no value is left. The complete destruction of the property. The term also is used to mean a loss requiring the maximum amount a policy will pay.

U

Umbrella Policy – Coverage for losses above the limit of an underlying policy or policies such as homeowners and auto insurance. While it applies to losses over the dollar amount in the underlying policies, terms of coverage are sometimes broader than those of underlying policies.

Unaffiliated Investments – These investments represent total unaffiliated investments as reported in the exhibit of admitted assets. It is cash, bonds, stocks, mortgages, real estate and accrued interest, excluding investment in affiliates and real estate properties occupied by the company.

Underwriter – The individual trained in evaluating risks and determining rates and coverages for them. Also, an insurer.

Underwriting – The process of selecting risks for insurance and classifying them according to their degrees of insurability so that the appropriate rates may be assigned. The process also includes rejection of those risks that do not qualify.

Underwriting Expenses Incurred – Expenses, including net commissions, salaries and advertising costs, which are attributable to the production of net premiums written.

Underwriting Expense Ratio – This represents the percentage of a company's net premiums written that went toward underwriting expenses, such as commissions to agents and brokers, state and municipal taxes, salaries, employee benefits and other operating costs. The ratio is computed by dividing underwriting expenses by net premiums written. The ratio is computed by dividing underwriting expenses by net premiums written. A company with an underwriting expense ratio of 31.3% is spending more than 31 cents of every dollar of net premiums written to pay underwriting costs. It should be noted that different lines of business have intrinsically differing expense ratios. For example, boiler and machinery insurance, which requires a corps of skilled inspectors, is a high expense ratio line. On the other hand, expense ratios are usually low on group health insurance.

Underwriting Guide – Details the underwriting practices of an insurance company and provides specific guidance as to how underwriters should analyze all the various types of applicants they might encounter. Also called an underwriting manual, underwriting guidelines, or manual of underwriting policy.

Unearned Premiums – That part of the premium applicable to the unexpired part of the policy period.

Uninsured Motorist Coverage – Endorsement to a personal automobile policy that covers an insured collision with a driver who does not have liability insurance.

Universal Life Insurance – A combination flexible premium, adjustable life insurance policy.

Usual, Customary and Reasonable Fees – An amount customarily charged for or covered for similar services and supplies which are medically necessary, recommended by a doctor or required for treatment.

Utilization – How much a covered group uses a particular health plan or program.

V

Valuation – A calculation of the policy reserve in life insurance. Also, a mathematical analysis of the financial condition of a pension plan.

Valuation Reserve – A reserve against the contingency that the valuation of assets, particularly investments, might be higher than what can be actually realized or that a liability may turn out to be greater than the valuation placed on it.

Variable Annuitization – The act of converting a variable annuity from the accumulation phase to the payout phase.

Variable Life Insurance – A form of life insurance whose face value fluctuates depending upon the value of the dollar, securities or other equity products supporting the policy at the time payment is due.

Variable Universal Life Insurance – A combination of the features of variable life insurance and universal life insurance under the same contract. Benefits are variable based on the value of underlying equity investments, and premiums and benefits are adjustable at the option of the policyholder.

Viatical Settlement Provider – Someone who serves as a sales agent, but does not actually purchase policies.

Viator – The terminally ill person who sells his or her life insurance policy.

Voluntary Reserve – An allocation of surplus not required by law. Insurers often accumulate such reserves to strengthen their financial structure.

W

Waiting Period – See "elimination period."

Waiver of Premium – A provision in some insurance contracts which enables an insurance company to waive the collection of premiums while keeping the policy in force if the policyholder becomes unable to work because of an accident or injury. The waiver of premium for disability remains in effect as long as the ensured is disabled.

Whole Life Insurance – Life insurance which might be kept in force for a person's whole life and which pays a benefit upon the person's death, whenever that might be.