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| Insured | the person who is receiving coverage. |
| Policy Owner | the person who pays for the coverage. |
| Insurer | the company providing coverage (ex. Nationwide, ING, Transamerica) |
| Premium | the amount the policy owner pays the insurer for the coverage provided. |
| Living Benefit | Cash value - money that is available while policy owner is alive. |
| Death Benefit | - Money that is received by the beneficiary if the insured passes away.- Death Benefit = Coverage = Face Amount = Life insurance proceeds |
| Permanent Life Insurance | - has cash value- (3) types: Index Universal Life (7702), Whole Life, Variable Universal Life |
| Term Insurance | - temporary coverage with NO cash value- (2) types: Decreasing Term, Annual Renewable Term, - Must prominently disclose any change in premium to individuals 55 years orolder. |
|  Index Universal Life | - (Permanent), aka 7702.- Premium paid – General/Mortality Expenses + Current Interest = Cash Value |
| Whole Life Insurance | - (Permanent), aka Continuous Premium (Level premium concept).- Whole life premiums are higher than term insurance premiums, for the same amount of premium, less coverage could be purchased. |
| Variable Universal Life | - (Permanent); considered to be a securities product and they’re regulated by the SEC (Securities Exchange Commission).- Allows policy owner to “self-direct” cash value into different sub-accounts.- Has no fixed, guaranteed rate of return. |
| Decreasing Term | - (Term) used to pay off an outstanding mortgage upon death of theborrower. |
| Annual Renewable Term | - (Term) has a level face amount, but an increasing premium. |
| Group Life Insurance - General | - Coverage provided by the employer; contract between insurer and employer.- Usually less expensive than individual coverage.- Contributory vs. Non-Contributory Groups |
| Group Life Insurance - California | - CA Insurance Code requires a 75% minimum participation percentage for large group Life insurance.- California requires a minimum of 2 employees to be covered under a group contract. |
| Group Life Insurance - Dependents | - Dependent child incapable of self-support (mental retardation) is covered without any age limitation.- Dependent child attending an educational institution may be covered until age 24. |
| Group Life Insurance - Excludes | Excludes aviation, suicide, and military but not accidental death. |
| Group Life Insurance - Premium >$50,000 | Premium cost for insurance above $50,000 in coverage is taxable as income to the insured. |
| Group Life Insurance - Employer/Employee  | Employer gets one master policy, Employee gets certificate for proof ofinsurance. |
| Group Life Insurance - Experience rating | Experience rating is generally used in group life, where the insurer bases past loss experience on future rates. |
| Group Life Insurance - Contributory | - Employee pays all or part of the premium- Coverage is convertible to whole life after termination of employment |
| Group Life Insurance - Non-Contributory  | Employer pays 100% of premium |
| Key Person Life Insurance | - used by a business to protect themselves in case a valuedemployee dies. The death benefit would be paid to the company to hire and train are placement.- Premiums paid are not tax deductible but benefits are not taxable. |
| Types of Life Insurance | (9) Permanent Life Insurance, Term Insurance, Group Life Insurance, Key Person Life Insurance, Industrial Life Insurance, Family Life Policy, Survivorship Life, Joint Life, Credit Life |
| Industrial Life Insurance | generally written with a death benefit of $2,000 or less. |
| Family Life Policy | - cheapest way to provide coverage for your family.- Owner = Whole Life, Spouse = Term, Children = Term- Covers all children for one flat premium charge; newborn and adopted children are covered automatically without any additional premium charge.- Convertible to Whole life without a physical exam based upon their current or‘Attained’ age. |
| Survivorship Life | pays when the last (surviving) spouse dies. |
| Joint Life | pays when the first spouse dies. |
| Credit Life | the bank (creditor) enrolls the insured (debtor) in a Group Credit Life planwith policy limits that are sufficient to pay off the debtor's loan upon death. |
| Riders  | - upgrades on a policy; 6 types: Accidental Death Benefit, Waiver of Premium, Disability Income, Payor Benefit, Cost of Living, Automatic Premium Loan- If a rider is added to a cash value life insurance the extra premium paid for the rider will NOT apply toward cash value. |
| Accidental death benefit rider (double indemnity) | if insured dies in an accident, the rider will pay double the face amount. |
| Waiver of Premium rider | will waive the insured’s premium if the insured becomes disabled. |
| Disability Income rider | will pay a replacement of the insured’s lost income if theybecome disabled. |
| Payor Benefit rider | added to a juvenile life policy it will waive the premium for thepolicy until the juvenile reaches 21 if parent dies. |
| Cost of Living rider | increases the policy limits tied to the consumer price index andpremium increases as well. |
| Automatic Premium Loan | rider added to insurance in case insured forgets to pay premium. It takes effect at the end of grace period. |
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| Keogh plan | Retirement plan for self-employed. |
| 403B (Tax Sheltered Annuity) | Retirement plan for public school employees and non-profits. |
| Roth IRA | Retirement plan – non-deductible contributions and tax free distributions. |
| IRA & 401k | deductible contributions and taxable distributions. |
| Employee Stock Ownership Program (ESOP) | employee benefit plan designed to invest in the stock of the employer. |
| Annuities | lump sum payment in order to receive future periodic payments. Death benefit is taxable (Big chunk of money that is deposited into an account, grows with interest, and then is paid in the future to the annuitant.) |
| Exclusion Allowance/Ratio | formula used to determine the amount of annuity distribution which is taxable. |
| Variable Annuities | money invested is held in the insurance company separate account. (Stock=Variable=Securities=Separate account=Sub-Account)- If a person returns a variable annuity invested in mutual funds during the free look they will receive a return of what: The value of the account on the date of cancellation. |
| Equity Indexed Annuities | has a fixed minimum interest rate and the chance to get a higher rate of return like the stock market. |
| Immediate vs. Deferred Annuity | Immediate: NO accumulation periodBoth: Tax advantages, lifetime payouts, multiple payout optionsDeferred: Has accumulation period |
| Profit Sharing Plan | Retirement plan that gives employees a share in the profits of the company,invested directly in the stock of employer. |
| Defined Benefit Plan | - Retirement plan in which employers make specific contributions to anemployee’s retirement account.- Benefits are linked to the employee’s years of service and amount of compensation. |
| Qualified Plan | employer contributes a specified amount is known as defined contribution plan (Ex: 401(k), IRA, 403(b), but NOT a deferred compensation). |
| TAX NOW | Bank Accounts, Bank CDs, Stocks, Mutual Funds |
| TAX LATER | 401(k), 403(b), IRA/SEP IRA, Annuities, Pension Plans\*Deductible contributions – you won’t pay taxes on it right now\*Taxable distributions–pay taxes when you take the money out of the account |
| TAX NEVER | Roth IRA, Index Universal Life (7702)\*Non-Deductible – you pay taxes on it today\*Nontaxable distributions – you don’t pay taxes when youwithdraw your money |
| Social Security - Fully insured | - Fully insured individuals are eligible for retirement benefits from social security.- Fully insured = person paid in 40 quarters of coverage (10 years). |
| Social Security - Currently insured | Currently insured = contributed 6 out of the last 13 quarters. |
| Social Security - Disabled | Disabled = must have a total disability. |
| SS Full/Reduced retirement benefits  | - Full retirement benefits available at 65-67 depending on DOB- Reduced benefits are available at 62- Retirement benefits under Social Security are based primarily upon average monthlywages. |
| SS Contributions | Most workers contribute to Social Security through taxes levied on their earnings.Benefits are based on contributions, but are NOT equal to contributions. |
| Social Security Blackout period | - period of time when surviving family members are NOT eligible for Social Security survivor benefits.a. Begins when the youngest child reaches 16.b. Ends when surviving spouse reaches age 60. |
| Settlement Option | different ways the beneficiary may receive the death benefit. (4) ways: Cash, Fixed Period, Fixed Amount, Interest option |
| Cash | if policyholder does not select an option prior to death, the beneficiary can select the option, if none selected cash will be the automatic settlement option. |
| Fixed Period | Payment of a death benefit in equal installments over a specified time period. |
| Fixed Amount | A life insurance option allowing the beneficiary to take the proceeds inthe form of a fixed payment. |
| Interest option | - allows only the death benefit earnings (interest) to be paid to the beneficiary- If a beneficiary wants to leave the life insurance proceeds with the insurer and receive investment income they would select this option. |
| Hazards | situation that increases the likelihood of a loss.1. Morale hazard – presented by a careless or reckless person.2. Moral hazard – a dishonest person.3. Physical hazard – harms the body.4. Negligence – careless person that does physical damage. |
| Non-Forfeiture Option | allows insured to receive benefits (cash value) in case the policy lapses(expires).1. Cash Surrender – cash out the policy.2. Reduced Paid-Up –buys a new whole life policy with a reduce face amount.3. Extended Term (Automatic Non-Forfeiture) –provides a new term life insurance policywith the same face amount as the original policy. |
| Buy-Sell Agreement | a corporation enters into an agreement with their shareholders to buy their shares back in the event of their death. |
| Illustration | a presentation of NON-guaranteed elements of a policy of a life illustration. |
| Underwriter | primary function is to match risk presented with the insurer’s rate filing; Underwriting Risk Classifications (from best to worst): 1. Preferred 2. Standard 3. Nonstandard/Substandard |
| Fiduciary Capacity | the trust that is placed in an agent when handling customers’ funds. |
| Non-medical Applications | applicants for non-medical life insurance need not take a physical exam, they must still answer the medical questions on the application. Applicants are usually young and are buying low amounts of coverage. |
| Conditional Receipt | - Provides coverage once the applicant has satisfied all the requirements (such as passing medical exam)- Provides full amount of coverage- Mostly used by Life & Health agents- Must pay premium |
| Binding Receipt | - Provides immediate coverage- Small amount of coverage while the results of the physical exam and underwriting process are pending- Must pay premium- Mostly used for Auto, Marine, and Fire Insurance |
| Free Look Period | period in which applicant has the right to return their life insurance or annuity.a) The free look notice for seniors must be printed in no less than 10-pt uppercase type, on the cover page of the policy.b) If policyholder is age 60+ (senior citizen), they must receive a minimum 30 day free lookc) If policyholder is age 60 or under, they must receive a minimum 10 day free look |
| Incontestability clause | states that after a life insurance policy has been in effect for 2 years the insurer cannot contest a claim for any reason (the only thing they can contest is the misstatement of age). |
| Speculative risk | chance of a gain or loss. NOT insurable (ex: stock market). |
| Pure risk | chance of loss only (ex: car depreciation). |
| Peril | a specific risk or cause of loss covered by an insurance policy. (EX: If a house burns down, then fire is the peril.) |
| Types of ordinary life insurance | W-E-T = Whole Life, Endowment, Term |
| Insurers and variable life insurance & variable annuities | Insurers must maintain a “separate” account for premiums related to variable annuities and variable life insurance. |
| Attending Physician Statement | the insurer require when an applicant reveals conditions that require more information. |
| Ideally Insurable Risk | characteristics is that loss must be definable, loss must not be catastrophic, and loss must create economic hardship. |
| Life agent license renewal procedures | Applications for license renewal, accompanied by the applicable renewal fee, must be filed with the Commissioner on or before the last day of the period for which the license was issued, which would allow the licensee to continue to sell for up to 60 days while the state processes the renewal. If the renewal application and fees are not received by the Commissioner on or before the last day of the current license period, then the current license will expire. |
| Stock/Mutual Insurers | Stock Insurers = Stockholders/Dividends vs Mutual Insurers = Policy holders |
| Exposure (Condition, Peril, Risk, Hazard) | A condition that could result in a loss. A peril is a cause of a loss. Risk is the chance of loss and hazard is something that increases risk. |
| Types of Doctrines | (4) Utmost Good Faith, Adhesion, Reasonable Expectations, Waiver and Estoppel |
| Utmost Good Faith | Doctrine; presumes that all parties, including the insurer, the agent and the insured, are honest and acting in good faith. |
| Adhesion | Doctrine; states that since the insurer wrote the contract, any vague language will be construed in favor of the insured, since they had no choice when the bought it. |
| Reasonable Expectations | Doctrine; reinforces the Doctrine of Adhesion. |
| Waiver and Estoppel | Doctrine; are legal doctrines that state that once an insurer gives up to the right to deny a claim (a waiver), they can no longer deny it (estoppel). |