

# SAFE HANDS **BDA**

## **Life Insurance 101**

### Glossary of Terms

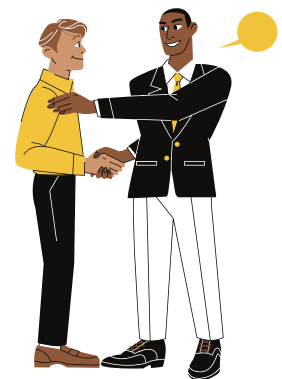


A life insurance **policy** is the written contract between the insurance carrier and the policyholder. The insurance policy details who is covered, the term length of the policy, and under what conditions the death benefit will be paid out to the policy's beneficiaries.

A policy with multiple policyholders — often a couple — is called **joint life insurance**.

A life insurance **beneficiary** is the person or organization that you choose to get your policy's death benefit when you die. A beneficiary can be a family member, a person unrelated to you, or even a business or other organization. You can also choose more than one beneficiary and designate how you want the death benefit to be split among them.

Your **primary beneficiary** is the person you designate to receive the life insurance death benefit when you die. If you have multiple beneficiaries, this person is the first to receive the life insurance payout.



Your **contingent beneficiary** is the person you designate to receive the death benefit if your primary beneficiary is unable to collect the money.

Without a contingent beneficiary in place, a court will decide what happens with the life insurance death benefit if the primary beneficiary is unable to claim the death benefit.

The **effective date** is the date from which a policy is considered to be in force, or active. This means that if the insured passes away on or after that date, the policy will pay out the death benefit to any listed beneficiaries.

The **free look period** is the first 10–30 days of your life insurance policy, when you can cancel your coverage without penalty and get a refund of premiums you've paid.



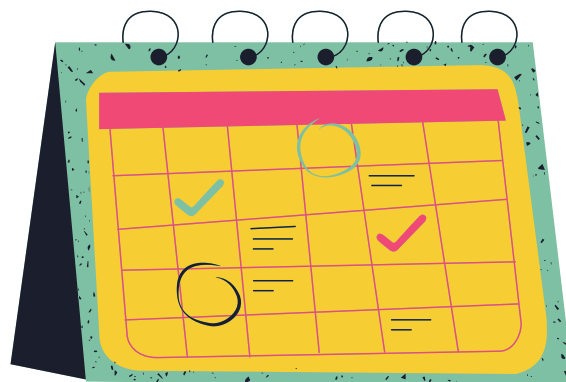
The **grace period** is a mandatory provision that gives the policyholder a period of time to pay the required premium. During the grace period, the policy remains in force even if you have not made your premium payment.

An insurance policy may be considered **lapsed** after the grace period expires. Coverage will cease and the policy terminated due to missed premium payments.



An insurance policy's **term** is the period of time for which the policy is in effect.

The insurance policy's **term date** is the date on which coverage expires. For example, a 20-year term policy would no longer be in effect 20 years and one day from the effective date.



**Exclusions** are provisions in an insurance policy that clarify coverage and explain under which circumstances the benefits will not be paid out to the listed beneficiaries.

Exclusions may be triggered by lying or omitting information during the contestability period, death by suicide, or dying while participating in illegal activity.

**Underwriting** is the process by which an insurer attempts to quantify the risk of insuring a life insurance applicant.

The underwriting process evaluates the applicant's health, medical history, family health history, paramedical exam results, occupation, hobbies and other activities.



An applicant for life insurance who has an average life expectancy is considered a **standard risk**.

An applicant for life insurance who is insurable, but presents additional risk to the insurer due to below-average life expectancy, perhaps due to health challenges or a smoking habit may be given assigned a **substandard risk** rating leading to higher than normal policy premiums.

Also called a mortality table, an **actuarial table** is used by underwriters to determine the probability that a person will die at a particular age.

The probability of death determines how risky it is to insure someone and determines the cost of life insurance premiums.



A **paramedical exam** is a health exam requested by the insurance provider to evaluate a life insurance applicant's health and what health classification he or she falls into. The health classification or **rating** influences the cost of life insurance premiums for the applicant.

The medical exam is generally performed at no charge to the applicant.



If an underwriter decides it's necessary to take a closer look at your health, either because of something you disclosed on the application or because of the results of your paramedical exam, then you will need to submit a written summary of your medical history from your doctor or hospital.

This document is called an **APS** or **attending physician statement**.

Submitting the necessary paperwork to get the life insurance payout is called filing a **claim**. It usually requires proof of the death of the deceased and proof of identity for the beneficiary.



**Settlement** is the process of paying out a claim on a life insurance policy.

The time between the filing of an insurance claim and payment is known as the **waiting period**.





**Concealment** is the deliberate hiding of or failure to disclose information that is relevant in the underwriting of an insurance policy by an applicant.

An intentional lie you told on your life insurance application is called **material misrepresentation** and is also considered fraud. Material misrepresentation on a life insurance application runs the risk that your beneficiaries will be denied the death benefit.

If you die within the first one to two years of your policy, your insurer can review claims and may deny the death benefit to your beneficiaries if they find any evidence of fraud. This one to two year period is referred to as the **contestability period**.

Life insurance companies often have policy provisions allowing them to withhold the death benefit payout if the policyholder dies by suicide within the early period of policy coverage (often the first year or two).

If the policyholder dies by suicide outside of the defined term in the policy's **suicide clause**, the insurance company will pay out the death benefit.

Some life insurance policies exclude coverage if the insured died while committing a felony. Additionally, if the policyholder was murdered by the beneficiary, the benefits are typically not paid out, which is known as **the slayer rule**.



**Permanent life insurance** is a life insurance policy that is active for the entirety of the policyholder's life.

Permanent life insurance policies offer a cash value component that makes them more expensive than term policies.

**Whole life insurance** is the most common type of permanent life insurance. Typically, premiums and death benefit stay fixed for the duration of the policy.

**Universal life insurance** is a variety of permanent life insurance, where the policyholder can adjust the premiums if their financial situation changes. Universal life insurance policies have a cash value that can accrue interest and which can be used to pay policy premiums.

**Variable life insurance** is a type of whole life insurance, with a cash value that can build savings over time.



**Variable-universal life insurance** has premiums that go up and down, and a cash-value component that gains interest.

**Guaranteed universal life insurance** provides a “no-lapse” guarantee as long as you pay the premiums. Guaranteed universal life insurance policies cover you for your entire life, but the premiums are lower than traditional whole life policies because there is no cash value.

**Term life insurance** is a type of life insurance that is in effect for a set number of years, usually anywhere between five to 30 years.

Term life insurance is a basic policy with no additional components, such as a cash value and typically has lower cost. Term life is considered a **non-participating life insurance** policy because it does not pay out dividends to the policyholder.

**Decreasing term life insurance** is a term life policy with a death benefit that decreases over time while the premium stays the same. Typically, this is sold as “mortgage insurance” because most buyers use it to cover a depreciating asset or a diminishing loan

**Mortgage protection insurance** covers mortgage payments if you die unexpectedly and can no longer make them, by paying out directly to your lender.

**Key person insurance** provides a death benefit to a business if its owner or another significant employee passes away.

**Group life insurance** coverage may be offered by an employer, union, or organization. It is often easier to qualify for than an individual life insurance policy but may provide less coverage than needed.

**Burial insurance**, also called **final expense life insurance** is a permanent life insurance policy designed to cover immediate expenses related to the policyholder’s death. This may include the cost of the funeral, medical bills and any other end-of-life expenses.

The **face value** or **death benefit** of a life insurance policy is what is paid out to beneficiaries upon the policy holder's death.

The **cash surrender value** of your policy is the amount of money you receive if you choose to cash in your permanent policy. It is typically calculated as the current cash value of your policy less any applicable fees.

The **cash value** is the portion of a permanent life insurance policy that works like an investment or savings account. It accumulates over the policy holder's lifetime and can be withdrawn at any time, used as collateral to take out a loan, or paid out upon the policy holder's death.



Using your life insurance policy as collateral for a loan is called a **collateral assignment**. If you die, your life insurance policy will be used to pay off your debt as opposed to being dispersed to your beneficiaries.

**Riders** are add-ons to a life insurance policy that create more robust coverage, sometimes at an extra cost.

A **child protection rider** is a policy add-on that provides a death benefit if a policyholder's child passes away. The child protection rider can cover the funeral of the child or time taken off work to grieve.

A **term conversion rider** is an add-on, included in many policies, that allows for the conversion of a term life policy to a permanent life policy at the end of the policy's term. A term conversion rider enables policyholders to retain life insurance coverage without going through additional underwriting.

A **return of premium rider** is a policy add-on that returns the premiums paid by the policyholder if he or she outlives the term of the policy.



A **waiver of premium rider** is a policy add-on that waives the requirement to pay premiums, for the duration of disability, if a policyholder becomes disabled and is unable to work.

A **long-term care rider** is a policy add-on that withdraws money from your death benefit to pay for long term care such as a nursing home or private nurse. It can be utilized in instances of chronic illness where you are unable to take care of yourself.

A **disability income rider** provides a monthly stipend to replace part of your income if you become disabled and are unable to work.



A **critical illness rider** is a policy add-on that pays a lump sum to the insured if he or she is diagnosed with a critical illness. Typical illnesses include heart attack, cancer, stroke, kidney failure, or a coma.

An **accelerated death benefit rider** pays out a portion of the death benefit while you are still alive if you are diagnosed with a terminal illness – typically when death is imminent.



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and how you can better  
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