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Term Life Insurance Glossary

Knowing the definitions of common terms can help you understand exactly what you're paying for when you buy term life insurance. Below are definitions of some common terminology that will enable you to make an informed decision.

Accelerated Death Benefit

An optional provision in a life insurance policy that allows a specified percentage of the death benefit to be paid prior to the insured's death, if a doctor certifies that the insured's life expectancy is limited (usually 12 months or less).

Annual Renewable Term Life

Term life insurance that is renewable each year for a fixed period of time, usually 5, 10, 15, 20 or 30 years. The annual premium increases each year, based on the chances of the benefit being paid. In the earliest years, the premium is usually very affordable, but by the end of the term, it may become financially unviable.

Annuity

Payment of a fixed sum of money to a specified person at regular intervals.

Age at Issue

The insured's age at the time coverage takes effect. Insurance plans typically define issue age as either the age at the insured's last birthday or nearest birthday.

Agent

An authorized representative of an insurance company who solicits and services insurance contracts. Also known as an Associate.

Allocation Date

The first business day after the Free-Look period in a variable contract expires.

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Beneficiary

The person or persons who will be paid if the person insured by the life insurance policy dies.

Cash Value

The amount of money that is available on the life insurance policy for loans or withdrawals. Term life insurance has no cash value, since it only pays if the insured dies (or under other conditions named in the insurance policy).

Cash Surrender Value

The amount payable to an insured who surrenders cash value life insurance, which terminates all insurance benefits.

Conditional Receipt

This allows you to bind your life insurance coverage by submitting your first two months premiums with your life insurance application and medical exam.

Contestability Period

In most cases the life insurance company has two years to find any material misrepresentations in a contract.

Convertible Term Life Insurance

Term insurance that can be converted to whole life insurance by the owner of the policy without providing evidence of insurability.

Date of Issue

The effective date of the policy as issued by the insurer.

Death Benefit

The amount paid to the beneficiary upon the death of the insured regardless of cause.

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Dividend

A cash payment that is a return on part of the premiums paid by the owner of the policy based on a number of variables. Term life insurance does not pay dividends.

Evidence of Insurability

Proof of a person's physical condition, occupation, or other factors, utilized by an insurance company to determine the acceptability of the applicant for insurance.

Face Amount

The amount of the death benefit that will be paid, not including additional amounts that will be payable in the case of accidental death, or under special provisions.

Free-Look Provision

A provision in a life insurance policy or annuity that gives the policy owner a stated amount of time to review a new policy after issuance and receipt. The policy can be returned and voided within this time frame for a refund of all premiums paid; for life insurance policies, cancellation of coverage is effective from date of issue.

Insurability

Acceptability of the insured person to the insurance company. In term life insurance, insurability is often not an issue, and proving insurability may not be necessary when converting term life insurance to whole life insurance.

Insured

The person in whose name the policy is issued. The insured may or may not be the owner of the policy. If the insured dies, term life insurance pays a benefit to the beneficiary/beneficiaries.

Insurer

The insurance company.

Level Term Life Insurance

A version of term life insurance where the premium is guaranteed to remain the same for a certain period of time – often 10, 15, 20 or 30 years. The longer the level term, the more expensive the premiums are, since the older years are averaged into the overall premium.

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Policy Owner

The person who pays the premiums on the insurance policy.

Premium

A premium is the payment you make to the life insurance company for your life insurance coverage.

Premium Mode

Premium payments can typically be made monthly, quarterly, semi-annually or annually. The time period you choose is known as your "premium mode."

Proposed Insured

The proposed insured is the person who will be covered by a life insurance policy that is currently going through underwriting. In other words, this person's life insurance policy is not yet in force. (see also: Insured).

Rate Class

A "rate class" is the classification assigned to you during the underwriting process that indicates what you will pay for your term life insurance coverage.

Rider

A written agreement attached to a life insurance policy or annuity contract that limits or expands the policy's or contract's terms or coverage. Riders may increase the premium you pay to the insurance company.

Renewable Term Life

Insurance that is in force for a stated period, and can be renewed by the policyholder (or owner) at the end of each term for a limited number of terms without proving insurability of the insured.

Surrender

The policy owner's right to terminate policy coverage in exchange for the policy's cash surrender value or other equivalent non-forfeiture values.