Insurance definitions

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As outlined in September's column, the United States Letter Carriers Mutual Benefit Association (MBA) offers annuities, life and hospital confinement products designed exclusively for letter carriers and their families. When considering a life insurance policy, it is essential to read the policy carefully and familiarize yourself with its terms and conditions. A policy is a legal contract between an insurance company and an individual (the policy owner). A policy owner may read the contract but may not be familiar with the definitions of certain terms. Listed below are insurance definitions that a policy owner should know:

- **Contract of insurance**—The contract whereby an insurer agrees to indemnify an insured for losses, provide other benefits, or render services to, or on behalf of, the insured. The contract of insurance is often called an insurance policy, but the policy is merely the evidence of the agreement.
- **Term insurance**—The type of life insurance that provides protection only for a specified period of time. The policy does not build up any of the nonforfeiture values associated with whole life policies.
- **Whole life insurance**—The type of life insurance that provides protection for the insured's entire lifetime or until the policy's maturity date, provided that the required premiums are paid.
- **Policy owner**—The person who has ownership rights to an insurance policy.
- **Beneficiary**—The person, or persons, designated by the policy owner to receive the benefits of an insurance policy upon the death of the insured. Also known as the primary beneficiary.
- **Contingent beneficiary**—An alternate beneficiary designated to receive the benefits of an insurance policy in the event that the primary beneficiary has died before the insured. Also known as the secondary beneficiary.
- **Payor**—The person who is responsible for paying the premiums on a policy.
- **Face amount**—The amount of insurance protection provided under a given policy. The actual amount payable by the company may be decreased by loans or increased by additional benefits payable under specific conditions or as stated in a rider. Also known as the death benefit.
- **Grace period**—A determined period, usually 30 or 31 days after the premium due date, during which an insurance contract remains in force and the premium may be paid.
- **Participating**—Insurance that pays policy dividends to policy owners.
- **Dividend**—A dividend on participating contracts is the refund of that part of the premium that remains at the end of a year after the company has set aside the necessary reserve and made deductions for claims and expenses. The dividend also may include a share in the company's investment, mortality and operating profits.
- **Dividend option**—Alternative ways in which insureds, under participating life insurance policies, may elect to receive their dividends (example: cash, dividends on deposit or paid-up additional life insurance).
- **Loan**—An amount borrowed from the insurance company secured by the value of the borrower's policy.
- **Lapse**—Termination of a policy due to failure to pay the premium.
- **Cash surrender value**—The amount available to the policy owner when a policy is surrendered to the insurance company. During the early policy years, the cash value normally is the reserve less a "surrender charge." In the later policy years, the cash surrender value usually equals or closely approximates the reserve value at time of surrender.
- **Nonforfeiture values or provisions**—Those values in a life insurance policy that the policy owner cannot, by law, forfeit, even if he or she ceases to pay the premiums. Nonforfeiture options include reduced paid-up insurance or extended term life insurance.
- **Reduced paid-up insurance**—A form of insurance available as a nonforfeiture option. It provides that the cash value of the policy be used as a single premium to purchase paid-up insurance in whatever amount the cash value will provide.
- **Extended term insurance**—A provision in most whole life insurance policies that provides the option of continuing the existing amount of insurance as term insurance for as long a time period as the contract's cash value will purchase.
- **Termination**—The time the coverage under an insurance policy ends, either because its term has expired or because it has been canceled by either party. Whole life policies are terminated if the holder ceases to pay premiums. The insured would then receive one of the nonforfeiture values.
- **Reinstatement**—Restoration of a lapsed policy.

When reading the life insurance policy, if any of the terms, language or provisions of the contract are unclear, the policy owner should contact the insurance company for clarification.

Life insurance policies provide a right to cancel (or free look) provision. This allows the policy owner to cancel the policy within a specified time period, usually within 30 days of receiving the policy, if it does not meet expectations.

Most insurance policies are in force for many decades, therefore the policy owner should be aware of the contract they have with the insurance company, along with its provisions and benefits.