Tax Glossary

401(k) plan: An employment-based retirement savings plan that allows employees to make tax-deferred contributions from current earnings.

403(b) plan: A retirement savings plan, similar to a 401(k), for employees of charitable and educational organizations.

457 plan: A retirement savings plan, similar to a 401(k), for employees of state and municipal governments.

Accelerated death benefit: Benefit paid, under clearly defined health-related circumstances, to a policyholder prior to his or her death. Accelerated death benefits are also known as living benefits.

Acceleration Clause: The part of a contract that says when a loan may be declared due and payable.

Accidental Death Benefit: In a life insurance policy, A provision added in addition to the death benefit paid to the beneficiary, should death occur due to an accident. There can be certain exclusions as well as time and age limits. Also known as Double indemnity.

Accumulation period: The time prior to a deferred annuity's payout period when money builds up in the annuity contract.

Active Participant: Person whose absence from a planned event would trigger a benefit if the event needs to be canceled or postponed.

Activities of Daily Living: The basic activities of daily living, such as bathing, eating, getting dressed, using the toilet, moving from room to room, and transferring from bed to chair.

Actual Cash Value: Cost of replacing damaged or destroyed property with comparable new property, minus depreciation and obsolescence. For example, a 10-year-old sofa will not be replaced at current full value because of a decade of depreciation.

Actuary: A specialist professionally trained in the technical aspects of insurance and related fields, particularly in the mathematics of insurance such as the calculation of premiums, rates, dividends, reserves, and other statistics. (Americanism - In most other

Adjustable life insurance: A type of life insurance that allows the policyholder to change the plan of insurance, raise or lower the policy's face amount, increase or decrease the premium, and lengthen or shorten the protection period.

Adjustable Life Insurance: A type of permanent life insurance that allows the insured, after the initial payment, to pay premiums at various times and in varying amounts, subject to certain minimums and maximums. To increase the death benefit, the insurance company usually requires

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

Adjuster: A person, usually employed by a property/casualty insurer, who evaluates losses and seeks to determine the extent of the insurer's liability for loss when a claim is submitted and settles the claim. Independent adjusters are independent contractors who ad

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

Agent: A representative of an insurance company who is authorized to sell and service insurance contracts. Life insurance agents are also known as life underwriters, producers, or insurers.

Aggregate Limit: Usually refers to liability insurance and indicates the amount of coverage that the insured has under the contract for a specific period of time, usually the contract period, no matter how many separate accidents might occur.

Tax Glossary

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.

Annuitant: The person whose life expectancy is used to determine the payout of an annuity.

Annuitization Options: Choices in the way to annuitize. For example, life with a 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 su

Annuitization: Process by which you convert part or all of 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 a

Annuitize: To convert the value of an annuity contract into a steady stream of income for life.

Annuity certain: A contract that provides an income for a specified number of years, regardless of life or death.

Annuity consideration: The payment, or one of regular periodic payments, that a policyholder makes to an annuity.

Annuity: A financial contract issued by a life insurance company that offers tax-deferred savings and a choice of periodic payout options that continue during the survival of the annuitant(s) or for a specified period to meet an owner's needs in retirement - incom

Application: A statement of information made by a prospective purchaser that helps the insurer assess the acceptability of risk.

Approved or Not Disapproved for Surplus Lines (Reinsurance): Indicates the company is approved (or authorized) to write reinsurance (or surplus lines) on risks in this state. A license to write reinsurance might not be required in these states.

Asset risk: Property owned by an insurance company?including stocks, bonds, and real estate. Assets refer to "all the available properties of every kind or possession of an insurance company that might be used to pay its debts." There are three classifications of ass

Asset valuation reserve (AVR): A reserve that makes provisions for credit-related losses on fixed-income assets (default component) as well as all types of equity investments (equity component).

Assets: Property owned by an insurance company-including stocks, bonds, and real estate. Assets refer to "all the available properties of every kind or possession of an insurance company that might be used to pay its debts." There are three classifications of ass

Assignment: The legal transfer of one person's interest in an insurance policy to another person.

Assume: To accept the risk of potential loss from another insurer.

Assumption reinsurance: A reinsurance agreement in which one company permanently transfers full responsibility for a block of policies to another company. After the transfer, the ceding company is no longer a party to the insurance agreement.

Attained Age: Insured's age at a particular time. For example, many term life insurance policies allow an insured to convert to permanent insurance without a physical examination at the insured's then attained age. Upon conversion, the premium usually rises substantial

Tax Glossary

Authorized Under Federal Products Liability Risk Retention Act (Risk Retention Groups): Indicates companies operating under the Federal Products Liability Risk Retention Act of 1981 and the Liability Risk Retention Act of 1986.

Automatic premium loan: A loan provision in a life insurance policy allowing any premium not paid by the end of the grace period (usually 30 or 31 days) to be paid automatically through a policy loan if cash value is sufficient.

Automobile Liability Insurance: Coverage if an insured is legally liable for bodily injury or property damage caused by an automobile.

Balance Sheet: Information on a company's financial condition as of a specific date showing assets, investments, and liabilities. The balance sheet also reveals a company's equity, known as policyholder surplus. Changes in the surplus are one indicator of a company's fi

Bank holding company: A company that owns or controls one or more banks. The Federal Reserve regulates and supervises bank holding company activities such as approving mergers and acquisitions. The authority of the Reserve applies even though a bank owned by a holding company

Beneficiary: The person or financial entity (for instance, a trust fund) named in a life insurance policy or annuity contract as the recipient of policy proceeds in the event of the policyholder's death.

Benefit Period: In health insurance, the number of days for which benefits are paid to the named insured and his or her dependents. For example, the number of days that benefits are calculated for a calendar year consists of the days beginning on Jan. 1 and ending on Dec

Benefit: The amount payable by the insurance company to a claimant, assignee, or beneficiary when the insured suffers a loss covered by the policy.

Best's Capital Adequacy Relativity (BCAR): This percentage measures a company's relative capital strength compared to its industry peer composite. A company's BCAR, which is an important component in determining the appropriateness of its rating, is calculated by dividing a company's capital adequ

Bond rating: An evaluation of a bond's financial strength by an established rating agency such as Standard & Poor's or Moody's Investor Services.

Bond: A security obligating the issuer to pay interest at specified intervals and to repay the principal at maturity. Bonds are a form of suretyship - Various types guarantee a payment or reimbursement for financial losses resulting from dishonesty, failure to

Broker: A sales and service representative who handles insurance for clients and generally sells insurance of various kinds from one company or several. A Broker searches the marketplace in the interest of clients, not insurance companies.

Broker-Agent: Independent insurance salesperson that represents particular 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 age

Business disability insurance: Disability insurance purchased by a business on a member of a firm. This insurance is often used to protect business partners against loss caused by a partner's disability and to reimburse corporations for loss caused by the disability of a key employee.

Business life insurance: Insurance purchased by a business on the life of a member of the firm. This insurance protects surviving business partners against loss caused by the death of a partner and reimburses corporations for loss caused by the death of a key employee.

Tax Glossary

Business Net Retention: This item represents the percentage of a company's gross writings that are retained for its own account. Gross writings are the sum of direct writings and assumed writings. This measure excludes affiliated writings.

Capacity: The amount of insurance available to meet demand. Availability depends on the industry's capacity for risk. For an individual insurer, it is the maximum amount of risk it can underwrite based on its financial condition. An insurer's capital relative to it

Capital stock: The initial book value of stock sold by a company to start its operations.

Capital: Equity of shareholders of a stock insurance company. The company's capital and surplus are measured by the difference between its assets minus its liabilities. This value protects the interests of the company's policy owners in the event it develops finan

Capitalization or Leverage: Measures the exposure of a company's surplus to various operating and financial practices. A highly leveraged, or poorly capitalized, company can show a high return on surplus, but might be exposed to a high risk of instability.

Captive Agent: Representative of a single insurer or fleet of insurers who is restricted by agreement to submit business only to that company, or at the very minimum, give that company first refusal rights on a sale. In exchange, that insurer usually provides its captiv

Career Agent: An agent representing only one company and sells only its policies. This agent is paid on a commission basis in much the same manner as the independent agent.

Case Management: A system of coordinating medical services to treat a patient, improve care and reduce cost. A case manager coordinates health care delivery for patients.

Cash balance plan: A defined benefit plan that strongly resembles a defined contribution plan. Benefits accrue through employer contributions to employee accounts and interest credits to balances in those accounts. The accounts serve as bookkeeping devices to track benefit

Cash value: The amount available in cash upon surrender of a permanent life insurance policy. Also known as cash surrender value.

Casualty Insurance: That type of insurance that is primarily concerned with losses caused by injuries to persons and legal liability imposed upon the insured for such injury or for damage to property of others. It also includes such diverse forms as plate glass, insurance ag

Casualty: Liability or loss resulting from an accident.

Cede: To transfer the risk of potential loss to another insurer.

Ceded Reinsurance Leverage: The ratio of the reinsurance premiums ceded, plus net ceded reinsurance balances from non-US affiliates for paid losses, unpaid losses, incurred but not reported (IBNR), unearned premiums and commissions, less funds held from reinsurers, plus ceded reinsu

Certificate: A statement issued to persons insured under a group policy that defines the essential provisions of their coverage.

Change in Net Premiums Written (IRIS): The annual percentage change in Net Premiums Written. A company should demonstrate its ability to support controlled business growth with quality surplus growth from strong internal capital generation.

Change in Policyholder Surplus (IRIS): The percentage change in policyholder surplus from the prior year-end derived from operating earnings, investment gains, net contributed capital and other miscellaneous sources. This ratio measures a company's ability to increase policyholders' security.

Tax Glossary

Chartered Property and Casualty Underwriter (CPCU): Professional designation earned after the successful completion of 10 national examinations given by the American Institute for Property and Liability Underwriters. Covers such areas of expertise as insurance, risk management, economics, finance, manageme

Claim: Notification to an insurance company made by the insured or the insured's beneficiary that payment of an amount is due under the terms of a policy.

Class 3-6 Bonds (% of PHS): This test measures exposure to noninvestment grade bonds as a percentage of surplus. Generally, noninvestment grade bonds carry higher default and illiquidity risks. The designation of quality classifications that coincide with different bond ratings assi

COBRA: (Consolidated Omnibus Budget Reconciliation Act) A federal law under which group health plans sponsored by employers with twenty or more employees must offer continuation of insurance coverage to employees and their dependents after they leave their emplo

Codification: A process undertaken by NAIC to redefine life company statutory accounting to ensure consistency in how companies present their accounts in their annual statements. This process culminated in the 2001 annual statements, the structure of which was noticeab

Coinsurance: In property insurance, requires the policyholder to carry insurance equal to a specified percentage of the value of property to receive full payment on a loss. For health insurance, it is a percentage of each claim above the deductible paid by the policyh

Collision Insurance: Covers physical damage to the insured's automobile (other than that covered under comprehensive insurance) resulting from contact with another inanimate object.

Combined Ratio After Policyholder Dividends: The sum of the loss, expense and policyholder dividend ratios not reflecting investment income or income taxes. This ratio measures the company's overall underwriting profitability, and a combined ratio of less than 100 indicates an underwriting profit.

Commercial Lines: Refers to insurance for businesses, professionals and commercial establishments.

Commission: Fee paid to an agent or insurance salesperson as a percentage of the policy premium. The percentage varies widely depending on coverage, the insurer and the marketing methods.

Common Carrier: A business or agency that is available to the public for transportation of persons, goods or messages. Common carriers include trucking companies, bus lines and airlines.

Comprehensive Insurance: Auto insurance coverage providing protection in the event of physical damage (other than collision) or theft of the insured car. For example, fire damage or a cracked windshield would be covered under the comprehensive section.

Concurrent Periods: In hospital income protection, when a patient is confined to a hospital due to more than one injury and/or illness at the same time, benefits are paid as if the total disability resulted from only one cause.

Conditional Reserves: This item represents the aggregate of various reserves which, for technical reasons, are treated by companies as liabilities. Such reserves, which are similar to free resources or surplus, include unauthorized reinsurance, excess of statutory loss reserve

Convertible term insurance: Term insurance that can be exchanged, at the option of the policyholder and without evidence of insurability, for another plan of insurance.

Tax Glossary

Convertible: Term life insurance coverage that can be converted into permanent insurance regardless of an insured's physical condition and without a medical examination. The individual cannot be denied coverage or charged an additional premium for any health problems.

Copayment: A predetermined, flat fee an individual pays for health-care services, in addition to what insurance covers. For example, some HMOs require a $10 copayment for each office visit, regardless of the type or level of services provided during the visit. Copay

Cost-of-Living Adjustment (COLA): Automatic adjustment applied to Social Security retirement payments when the consumer price index increases at a rate of at least 3%, the first quarter of one year to the first quarter of the next year.

Coverage Area: The geographic region covered by travel insurance.

Coverage: The scope of protection provided under an insurance policy. In property insurance, coverage lists perils insured against, properties covered, locations covered, individuals insured, and the limits of indemnification. In life insurance, living and death be

Credit disability insurance: Disability insurance issued through a lender or lending agency to cover payment of a loan, an installment purchase, or other obligation in case of disability.

Credit life insurance: Term life insurance issued through a lender or lending agency to cover payment of a loan, an installment purchase, or other obligation in case of death.

Credit risk: Measures the default risk on amounts due from policyholders, reinsurers, or creditors.

Creditable Coverage: Term means that benefits provided by other drug plans are at least as good as those provided by the new Medicare Part D program. This may be important to people eligible for Medicare Part D but who do not sign up at their first opportunity because if the

Current Liquidity (IRIS): The sum of cash, unaffiliated invested assets and encumbrances on other properties to net liabilities plus ceded reinsurance balances payable, expressed as a percent. This ratio measures the proportion of liabilities covered by unencumbered cash and unaff

Death Benefit: The limit of insurance or the amount of benefit that will be paid in the event of the death of a covered person.

Declination: Rejection of an application for insurance coverage by an insurance company, usually due to the applicant's health or occupation.

Deductible: The amount of loss that the insured pays before the insurance kicks in. Either a specified dollar amount, a percentage of the claim amount, or a specified amount of time that must elapse before benefits are paid. The larger the deductible, the lower the p

Deferred annuity: A contract in which annuity payouts begin at a future date.

Deferred group annuity: A type of group annuity providing for the purchase each year of a paid-up deferred annuity for each group member. The total amount received by a member at retirement is the sum of these deferred annuities.

Defined benefit plan: A pension plan that specifies the benefits an employee will receive after retirement. Benefits typically are based on length of service and salary, and are usually funded by the employer on behalf of each plan participant.

Tax Glossary

Defined contribution plan: A pension plan that specifies the contributions made by employees, and in many cases the employer, on behalf of each plan participant. These funds accumulate for each participant until retirement, when they are distributed as a lump sum or monthly annuity

Deposit administration group annuity: A type of group annuity that allows contributions to accumulate in an undivided fund, out of which annuities are purchased as each member of the group retires.

Deposit term insurance: A form of term insurance in which the first-year premium is larger than subsequent premiums. A partial endowment typically is paid at the end of the term period. In many cases, the partial endowment can be applied toward the purchase of a new term or whol

Deposit-type contracts: Contracts that do not include mortality or morbidity risks.

Developed to Net Premiums Earned: The ratio of developed premiums through the year to net premiums earned. If premium growth was relatively steady, and the mix of business by line didn't materially change, this ratio measures whether or not a company's loss reserves are keeping pace with

Development to Policyholder Surplus (IRIS): The ratio measures reserve deficiency or redundancy in relation to policyholder surplus. This ratio reflects the degree to which year-end surplus was either overstated (+) or understated (-) in each of the past several years, if original reserves had been

Direct Agent: An agent representing only one company and sells only its policies. This agent is paid on a commission basis in much the same manner as the independent agent.

Direct Premiums Written: The aggregate amount of recorded originated premiums, other than reinsurance, written during the year, whether collected or not, at the close of the year, plus retrospective audit premium collections, after deducting all return premiums.

Direct Writer: An insurer whose distribution mechanism is either the direct selling system or the exclusive agency system.

Disability benefit: The benefit paid under a disability income insurance policy; also a feature added to some life insurance policies providing for waiver of premium, and sometimes payment of monthly income, if the policyholder becomes totally and permanently disabled.

Disability income insurance: Insurance that provides periodic payments, or in some cases a lump-sum payment, based on the insured's income replacement needs, when the insured is unable to work due to illness or injury.

Disability: A physical or mental condition that makes an insured person incapable of working.

Disease Management: A system of coordinated health-care interventions and communications for patients with certain illnesses.

Dividend addition: An amount of paid-up insurance purchased with a policy dividend and added to the policy's face amount.

Dividend: The return of part of the policy's premium for a policy issued on a participating basis by either a mutual or stock insurer. The money results from actual mortality, interest, and expenses that were more favorable than expected when the premiums were set.

Tax Glossary

Double indemnity: In a life insurance policy, A provision added in addition to the death benefit paid to the beneficiary, should death occur due to an accident. There can be certain exclusions as well as time and age limits. Also known as Accidental Death Benefit.

Earned Premium: The portion of premium that applies to the expired part of the policy period. Insurance premiums are payable in advance but the insurance company does not fully earn them until the policy period expires. A three-year policy that has been paid in advance a

Elimination Period: The time which must pass after filing a claim before policyholder can collect insurance benefits. Also known as "waiting period."

Employers Liability Insurance: Coverage against common law liability of an employer for accidents to employees, as distinguished from liability imposed by a workers' compensation law.

Encumbrance: A claim on property, such as a mortgage, a lien for work and materials, or a right of dower. The interest of the property owner is reduced by the amount of the encumbrance.

Endowment: Life insurance payable to the policyholder on the policy's maturity date, or to a beneficiary if the insured dies prior to that date.

Equity in investments: The ownership interest of shareholders. In a corporation, stocks as opposed to bonds.

Evidence of insurability: The common requirement by life insurance companies that potential policyholders undergo a physical examination or medical tests, such as blood pressure or cholesterol screening, before the applicant can purchase an individual life insurance policy.

Exclusions: Items or conditions that are not covered by the general insurance contract.

Expense Ratio: The ratio of underwriting expenses (including commissions) to net premiums written. This ratio measures the company's operational efficiency in underwriting its book of business.

Exposure: Measure of vulnerability to loss, usually expressed in dollars or units.

Extended Replacement Cost: This option extends replacement cost loss settlement to personal property and to outdoor antennas, carpeting, domestic appliances, cloth awnings, and outdoor equipment, subject to limitations on certain kinds of personal property; includes inflation prote

Extended term insurance: A form of insurance available as a non-forfeiture option providing the original amount of insurance for a limited time.

Extra risk: A person possessing a greater-than-average likelihood of loss.

Face amount: The amount stated on the face of a life insurance policy that will be paid upon death or policy maturity. The amount excludes dividend additions or additional amounts payable under accidental death or other special provisions.

Family policy: A life insurance policy providing insurance on all or several family members in one contract. It generally provides whole life insurance on the principal breadwinner and small amounts of term insurance on the spouse and children, including those born afte

Fiduciary: A person or organization authorized to control or manage pension assets to administer a pension plan. Fiduciaries are legally obligated to discharge their duties solely in the interest of plan participants and beneficiaries, and are accountable for any ac

File-and-Use Rating Laws: State-based laws which permit insurers to adopt new rates without the prior approval of the insurance department. Usually insurers submit their new rates with supporting statistical data.

Tax Glossary

Financing Entity: Provides money for purchases.

Fixed annuity: A deferred annuity contract in which the life insurance company credits a fixed rate of return on premiums paid or an immediate annuity in which the periodic amount is fixed.

Flexible premium policy or annuity: A life insurance policy or annuity contract that allows the amount and frequency of premium payments to be varied.

Floater: A separate policy available to cover the value of goods beyond the coverage of a standard renter's insurance policy including movable property such as jewelry or sports equipment.

Fraternal life insurance: Life insurance provided by fraternal orders or societies to their members.

Fraud: Intentional lying or concealment by policyholders to obtain payment of an insurance claim that would otherwise not be paid, or lying or misrepresentation by the insurance company managers, employees, agents, and brokers for financial gain.

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."

General Account: An undivided account in which life insurers record all incoming funds. A general account is usually an insurer's largest, although separate accounts can also be used to fund specific liabilities as well.

General Liability Insurance: Insurance designed to protect business owners and operators from a wide variety of liability exposures. Exposures could include liability arising from accidents resulting from the insured's premises or operations, products sold by the insured, operations

Glossary of Insurance Terms No insurance resource would be complete without a comprehensive glossary of terms. We've compiled a list of terms and their definitions to better help you navigate the sometimes confusing world of insurance.

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 po

Gross Leverage: The sum of net leverage and ceded reinsurance leverage. This ratio measures a company's gross exposure to pricing errors in its current book of business, to errors of estimating its liabilities, and exposure to its reinsurers.

Group annuity: A pension plan providing annuities at retirement to a group of people under a master contract, usually issued to an employer for the benefit of employees. Each group member holds a certificate as evidence of his or her annuity.

Group life insurance: Life insurance on a group of people, usually issued to an employer for the benefit of employees. Each group member holds a certificate as evidence of his or her insurance.

Guaranteed Insurability Option: See "future purchase option."

Guaranteed interest contract (GIC): A contract offered by an insurance company guaranteeing a rate of return on assets for a fixed period, and payment of principal and accumulated interest at the end of the period. GICs sometimes are used to fund the fixed-income option in defined contribut

Guaranteed Issue Right: The right to purchase insurance without physical examination; the present and past physical condition of the applicant are not considered.

Guaranteed Renewable: A policy provision in many products which guarantees the policy owner the right to renew coverage at every policy anniversary date. The company does not have the right to cancel coverage except for nonpayment of premiums by the policy owner; however, the

Guaranty Association: An organization of life insurance companies within a state responsible for covering the financial obligations of a member company that becomes insolvent.

Hazard: A circumstance that increases 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: Bungee jumping, scuba diving, horse riding and other activities not generally covered by standard insurance policies. For insurers that do provide cover for such activities, it is unlikely they will cover liability and personal accident, which should be p

Health Maintenance Organization (HMO): Prepaid group health insurance plan that entitles members to services of participating physicians, hospitals and clinics. Emphasis is on preventative medicine, and members must use contracted health-care providers.

Health Reimbursement Arrangement: Owners of high-deductible health plans who are not qualified for a health savings account can use an HRA.

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.

Hurricane Deductible: Amount you must pay out-of-pocket before hurricane insurance will kick in. Many insurers in hurricane-prone states are selling homeowners insurance policies with percentage deductibles for storm damage, instead of the traditional dollar deductibles used f

Immediate annuity: An annuity contract in which periodic payments begin immediately or within one year of the policy's issue.

Impaired Insurer: An insurer which is in financial difficulty to the point where its ability to meet financial obligations or regulatory requirements is in question.

Income Taxes: Incurred income taxes (including income taxes on capital gains) reported in each annual statement for that year.

Indemnity reinsurance: A form of reinsurance in which the risk is passed to a reinsurer, which reimburses the ceding company for covered losses. The ceding company retains its liability to and contractual relationship with the insured.

Indemnity: Restoration to the victim of a loss by payment, repair or replacement.

Independent Agent: An agent representing at least two insurance companies and (at least in theory) services clients by searching the market for the most advantageous price for the most coverage. The agent's commission is a percentage of each premium paid and includes a fee

Independent Insurance Agents & Brokers of America (IIABA): Formerly the Independent Insurance Agents of America (IIAA), this is a member organization of independent agents and brokers monitoring and affecting industry issues. Numerous state associations are affiliated with the IIABA.

Tax Glossary

Indexed annuity: A type of fixed annuity in which earnings accumulate at a rate based on a formula linked in part to a published equity index, such as the Standard & Poor's 500 composite Stock Price Index, which tracks the performance of the 500 largest publicly traded se

Individual life insurance: Life insurance on a person with premiums payable annually, semiannually, quarterly, or monthly.

Individual policy pension trust: A type of pension plan frequently used for small groups and administered by trustees authorized to purchase individual level-premium policies or annuity contracts for each plan member. The policies usually provide both life insurance and retirement benefi

Individual retirement account (IRA): An account to which a person can make annual contributions of earnings up to a specified dollar limit. These contributions are tax-deductible for workers who are not covered by an employment-based retirement plan, regardless of income, or whose income doe

Inflation 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.

Insolvency: Insurer's legal inability to pay its future policyholder obligations. Insurance insolvency standards and the regulatory actions taken vary from state to state. Typically, the first indications of an insurer's financial stress is its inability to pass the

Institutional investor: An organization such as a bank or insurance company that buys and sells large quantities of securities.

Insurable Interest: Interest in property such that loss or destruction of the property could cause a financial loss.

Insurable risk: Risks for which it is relatively easy to get insurance. Such risks meet certain criteria including being definable, accidental in nature, and part of a group of similar risks large enough to make losses predictable. Such conditions make it possible for an

Insurance Adjuster: A representative of 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

Insurance Attorneys: An attorney who practices the law as it relates to insurance matters. Attorneys might be solo practitioners or work as part of a law firm. Insurance companies who retain attorneys to defend them against law suits might hire staff attorneys to work for the

Insurance examiner: The state insurance department representative assigned to conduct the official audit and examination of an insurance company's operations.

Insurance Institute of America (IIA): An organization which develops programs and conducts national examinations in general insurance, risk management, management, adjusting, underwriting, auditing and loss control management.

Insurance Regulatory Information System (IRIS): Introduced by the National Association of Insurance Commissioners in 1974 to identify insurance companies that might require further regulatory review.

Insurance: A system to make coverage of large financial losses affordable by pooling the risks of many individuals or business entities and transferring them to an insurance company in return for a premium.

Insured: The person on whose life an insurance policy is issued. Also known as insured life.

Tax Glossary

Insurer: A representative of an insurance company who is authorized to sell and service insurance contracts. Life insurance agents are also known as life underwriters or producers.

Interest maintenance reserve (IMR): A reserve that captures all realized, interest-related capital gains and losses on fixed-income assets. These gains and losses are amortized into income over the remaining life of the investment sold.

Interest-Crediting Methods: There are at least 35 interest-crediting methods that insurers use. They usually involve some combination of point-to-point, annual reset, yield spread, averaging, or high water mark.

Investment Income: The return received by insurers from their investment portfolios including interest, dividends and realized capital gains on stocks. It doesn't include the value of any stocks or bonds that the company currently owns.

Investments in Affiliates: Bonds, stocks, collateral loans, short-term investments in affiliated and real estate properties occupied by the company.

Joint and survivor annuity: An annuity in which payments are made to the owner for life and, after the owner's death, to the designated beneficiary for life.

Keogh (H.R. 10) account: A retirement savings account to which a self-employed person can make annual tax-deductible contributions, subject to limitations.

Laddering: Purchasing bond investments that mature at different time intervals.

Lapse Ratio: The ratio of the number of life insurance policies that lapsed within a given period to the number in force at the beginning of that period.

Lapsed policy: An insurance policy terminated at the end of the grace period because of nonpayment of premiums. See non-forfeiture value.

Least Expensive Alternative Treatment: The amount an insurance company will pay based on its determination of cost for a particular procedure.

Legal reserve life insurance company: A life insurer operating under state insurance laws that specify the minimum basis for reserves that the company must maintain on its policies.

Level premium life insurance: Life insurance for which the premium remains the same from year to year. The premium is more than the actual cost of protection during earlier years of the policy and less than the actual cost in later years. The initial overpayments build a reserve which

Leverage or Capitalization: Measures the exposure of a company's surplus to various operating and financial practices. A highly leveraged, or poorly capitalized, company can show a high return on surplus, but might be exposed to a high risk of instability.

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.

Liability: Broadly, any legally enforceable obligation. The term is most commonly used in a pecuniary sense.

Licensed for Reinsurance Only: Indicates the company is a licensed (admitted) insurer to write reinsurance on risks in this state.

Licensed: Indicates the company is incorporated (or chartered) in another state but is a licensed (admitted) insurer for this state to write specific lines of business for which it qualifies.

Tax Glossary

Life annuity: An annuity contract that provides periodic income payments for life.

Life expectancy: The average years of life remaining for a group of persons of a given age, according to a mortality table.

Life insurance in force: The sum of face amounts and dividend additions of life insurance policies outstanding at a given time. Additional amounts payable under accidental death or other special provisions are excluded.

Lifetime Reserve Days: Sixty additional days Medicare pays for when you are hospitalized for more than 90 days in a benefit period. These days can only be used once during your lifetime. For each lifetime reserve day, Medicare pays all covered costs except for a daily coinsuran

Limited payment life insurance: Whole life insurance on which premiums are payable for a specified number of years, or until death if it occurs before the end of the specified period.

Liquidity: Liquidity is the ability of an individual or business to quickly convert assets into cash without incurring a considerable loss. There are two kinds of liquidity - quick and current. Quick liquidity refers to funds--cash, short-term investments, and gover

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 kn

Lloyds Organizations: These organizations are voluntary unincorporated associations of individuals. Each individual assumes a specified portion of the liability under each policy issued. The underwriters operate through a common attorney-in-fact appointed for this purpose by t

Load: Any sales fees or charges you pay in purchasing an annuity contract.

Long-term care insurance: Insurance that provides financial protection for persons who become unable to care for themselves because of chronic illness, disability, or cognitive impairment such as Alzheimer's disease.

Loss Adjustment Expenses: Expenses incurred to investigate and settle losses.

Loss and Loss-Adjustment Reserves to Policyholder Surplus Ratio: The higher the multiple of loss reserves to surplus, the more a company's solvency is dependent upon having and maintaining reserve adequacy.

Loss Control: All methods taken to reduce the frequency and/or severity of losses including exposure avoidance, loss prevention, loss reduction, segregation of exposure units and noninsurance transfer of risk. A combination of risk control techniques with risk financin

Loss Ratio: The ratio of incurred losses and loss-adjustment expenses to net premiums earned. This ratio measures the company's underlying profitability, or loss experience, on its total book of business.

Loss Reserve: The estimated liability, as it would appear in an insurer's financial statement, for unpaid insurance claims or losses that have occurred as of a given evaluation date. Usually includes losses incurred but not reported (IBNR), losses due but not yet paid,

Losses and Loss-Adjustment Expenses: This represents the total reserves for unpaid losses and loss-adjustment expenses, including reserves for any incurred but not reported losses, and supplemental reserves established by the company. It is the total for all lines of business and all acciden

Losses Incurred (Pure Losses): Net paid losses during the current year plus the change in loss reserves since the prior year end.

Tax Glossary

Lump-sum distribution: The non-periodic withdrawal of money invested in an annuity.

Malpractice insurance: Professional liability coverage for physicians, lawyers, and other specialists against lawsuits alleging negligence or errors and omissions that have harmed their clients.

Managed care: An arrangement between an employer or insurer and selected providers to provide comprehensive health care at a discount to members of the insured group and coordinate the financing and delivery of health care. Managed care uses medical protocols and proce

Master policy: A policy issued to an employer or trustee establishing a group insurance plan for designated members of an eligible group.

Mediation: Legal procedure in which a third party or parties attempts to resolve a conflict between two other parties. Mediation can be binding or non-binding.

Medicaid: A federal and state public assistance program created in 1965 and administered by the states for people whose income and resources are insufficient to pay for health care.

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

Medicare: Federal program for people sixty-five years of age or older that pays part of the costs associated with their health care such as hospital stays, surgery, home care and nursing care.

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

Mortality and expense charge: The fee for a guarantee that annuity payments will continue for life.

Mortality table: A statistical table showing the death rate at each age, usually expressed per thousand.

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.

Mutual life insurance company: A life insurance company without stockholders whose management is directed by a board elected by the policyholders. Mutual companies generally issue participating insurance.

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.

Tax Glossary

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 i

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

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 writt

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.

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.

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

Non-forfeiture value: The value of an insurance policy if it is cancelled or required premium payments are not paid. The value is available to the policyholder either as cash or reduced paid-up insurance.

Non-medical limit: The maximum face value of a policy that a given company will issue without a medical examination of the applicant.

Nonparticipating policy: A life insurance policy under which the company does not distribute to policyholders any part of its surplus. Premiums usually are lower than for comparable participating policies. Some nonparticipating policies have both a maximum premium and a current l

Nonproportional reinsurance: A form of reinsurance in which the reinsurer's liability depends on the number or amount of claims incurred in a given period.

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.

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.

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 result

Off-balance-sheet risk: Measures the risk from excessive growth rates, contingent liabilities, or other items not reflected on the balance sheet.

Tax Glossary

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 contr

Operating expenses: The cost of maintaining a business, including property, insurance, taxes, utilities and rent, but excludes income tax, depreciation, and other financing expenses.

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 op

Options: Contracts that allow, but do not oblige, the buying or selling of assets at a certain date at a set price.

Ordinary life insurance: A life insurance policy that remains in force for the insured's lifetime, usually for a level premium. Also referred to as whole life insurance. In contrast, term life insurance only lasts for a specified number of years (but may be renewable).

Ordinary Life Insurance: The most common type of permanent life insurance, in which premiums generally remain constant over the life of the policy and must be paid periodically in the amount specified in the policy. Also known as Whole Life Insurance.

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 inv

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

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.

Partial disability benefit: A benefit sometimes found in disability income policies providing payment of reduced monthly income if the insured cannot work full time or is unable to earn a specified percentage of predisability earnings due to a disability.

Participating policy: A life insurance policy under which the company distributes to policyholders the part of its surplus that its board of directors determines is not needed at the end of the business year. Such a distribution reduces the premium that the policyholder had pa

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 8

Pensions: Programs to provide employees with retirement income after they meet minimum age and service requirements. Life insurers hold some of these funds. Over the last 25 years, the responsibility of funding these retirement accounts has shifted from the employe

Peril: The cause of a possible loss.

Tax Glossary

Permanent life insurance: Generally, insurance that can stay in force for the life of the insured and accrues cash value, such as whole life or endowment. May also be referred to as ordinary life insurance.

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

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 dividend: A refund of part of the premium on a participating life insurance policy, reflecting the difference between the premium charged and actual experience.

Policy illustration: A depiction of how a life insurance policy will work, showing premiums, death benefits, cash values, and information about other factors that may affect policy costs.

Policy loan: The amount a policyholder can borrow at a specified rate of interest from the issuing company, using the insurance policy's value as collateral. If the policyholder dies with the debt partially or fully unpaid, the insurance company deducts the amount bor

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.

Policy reserves: The funds that a life insurance company holds specifically for fulfilling its policy obligations. Reserves are required by law to be calculated so that, together with future premium payments and anticipated interest earnings, they enable the company to pa

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.

Policyholder/Policy owner: The owner of an insurance policy, who may be the insured, a relative of the insured such as a spouse, or a nonnatural person such as a partnership or corporation.

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 f

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.

Preferred risk: A person considered less of a risk than the standard risk.

Tax Glossary

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 loan: A policy loan for paying premiums.

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 asse

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

Premium: The price of insurance protection for a specified risk for a specified period of time. Or the payment, or one of the periodic payments, that a policyholder makes to own an insurance policy or annuity.

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.

Principal: The amount paid into an annuity contract, separate from the earnings that are credited to it; may also be referred to as purchase payments or contributions.

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

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.

Proportional reinsurance: A form of reinsurance in which the amount ceded is defined at the point the risk is transferred, not at the point of claim. The amount of risk may vary with time by formula.

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, s

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

Qualified plan: An employee benefit plan that meets Internal Revenue Code requirements. Employer contributions to such plans are immediately deductible. Contributions to and earnings in such plans are not included in the employee's income until distributed to the employe

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.

Tax Glossary

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, an

Rated policy: An insurance policy issued at a higher-than-standard premium rate to cover extra risk, as when the insured has impaired health or a hazardous occupation. Also known as extra-risk policy.

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.

Reduced paid-up insurance: A form of insurance available as a non-forfeiture option providing for continuation of the original insurance plan at a reduced amount.

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

Reinstatement: The restoration of a lapsed insurance policy. The company requires evidence of insurability and payment of past-due premiums plus interest.

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 bu

Reinsurance: The transfer of some or all of an insurance risk to another insurer. The company transferring the risk is called the ceding company; the company receiving the risk is called the life assuming company or reinsurer. In effect, insurance that an insurance co

Reinsure: To transfer the risk of potential loss from one insurer to another insurer.

Renewable term insurance: Term insurance that can be renewed at the end of the term, at the policyholder's option and without evidence of insurability, for a limited number of successive terms. Rates increase at each renewal as the insured ages.

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: The amount required to be carried as a liability on an insurer's financial statement representing actual or potential liabilities kept by an insurer to cover debts to policyholders.

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

Tax Glossary

Retrocede: To cede insurance risk from one reinsurer to another reinsurer.

Retrocessionaire: A reinsurer that contractually accepts from another reinsurer a portion of the ceding company's underlying risk. The transfer is known as a retrocession.

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

Return-to-work program: A program that helps persons with activity limitations return to work. Assistance may involve maximizing medical improvement to diminish the effect of limitations, or facilitating job or job-site accommodations, retraining, or other means of taking activi

Rider: An amendment to an insurance policy that expands or restricts the policy's benefits or excludes certain conditions from coverage. See accelerated death benefit and accidental death benefit.

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

Risk classification: The process by which a company decides how its premium rates for life insurance should differ according to the risk characteristics of persons insured—their age, occupation, gender, and health status, for example—and how the resulting rules are applied to

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 ri

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 pro

Risk-based capital (RBC): Method developed by the National Association of Insurance Commissioners to measure the minimum amount of capital that an insurance company needs to support its overall business operations. RBC sets capital requirements that consider the size and degree of

Roth IRA: An individual retirement account (IRA) in which earnings on contributions are not taxed at distribution, as long as the contributions have been in the account for five years and the account holder is at least age 59 1/2, disabled, or deceased. Contributio

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.

Self-insured plan: A retirement plan funded through a fiduciary—generally a bank but sometimes a group of people—which directly invests the accumulated funds. Retirement payments are made from these funds as they fall due. Also known as trusteed plan or directly invested pl

Tax Glossary

Separate Account: An asset account maintained independently from the insurer's general investment account and used primarily for retirement plans and variable life products. This arrangement permits wider latitude in the choice of investments, particularly in equities. Inv

Settlement options: The several ways, other than immediate payment in cash, that a policyholder or beneficiary may choose to have policy benefits paid. See supplementary contract.

Solvency: Having sufficient assets--capital, surplus, and 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.

Standard risk: A person possessing an average likelihood of loss.

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.

Stock life insurance company: A life insurance company owned by stockholders who elect a board to direct the company's management. Stock companies generally issue nonparticipating insurance.

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

Straight life annuity: An annuity whose periodic payouts stop when the annuitant dies.

Straight life insurance: Whole life insurance on which premiums are payable for life.

Structured settlement: An agreement allowing a person who is responsible for making payments to a claimant to assign to a third party the obligation of making those payments. An annuity contract is often used to make structural settlement payments.

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.

Substandard risk: A person who cannot meet the normal health requirements of a standard insurance policy. Protection is provided under a waiver, special policy form, or higher premium charge. Also known as impaired risk.

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.

Supplementary contract: An agreement between a life insurance company and a policyholder or beneficiary in which the company retains the cash sum payable under an insurance policy and makes payments according to the settlement option chosen.

Surplus: The amount by which assets exceed liabilities. The financial cushion that protects policyholders in case of unexpectedly high claims.

Tax Glossary

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,

Term Life Insurance: Life insurance that provides protection for a specified period of time. Common policy periods are one year, five years, 10 years, even twenty years, or until the insured reaches age 65 or 70. The policy doesn't build up any of the non-forfeiture values as

Term-certain annuity: An annuity which makes periodic payments over a fixed number of years. See annuity certain.

Terminal funded group plans: The reserves under an annuity contract for benefits accumulated outside of the contract, such as under a defined benefit retirement plan that has been terminated.

Third-party administrator: Outside group that performs administrative functions for an insurance company.

Title insurance: Insurance that indemnifies real estate owners in case clear ownership of the property is challenged by the discovery of faults in the title.

Tort: A private wrong resulting in injury or damage on which a civil court action or legal proceeding may be based 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

Total Admitted Assets: This item is the sum of all admitted assets, and is 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 encumbrance

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

Total disability: The inability of a person to perform all essential functions of his or her occupation, or in some cases any occupation, due to a physical or mental impairment.

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.

Umbrella Policy: Coverage for losses beyond the limits of underlying property-casualty, homeowners, or auto insurance policies. While the umbrella applies to losses over the dollar amount in underlying policies, coverage terms are sometimes broader than those specified in

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

Unallocated contract: A contract under which premiums and contributions are deposited to a fund, rather than used immediately, to purchase annuities for benefit plan participants.

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

Underwriter: The individual trained in evaluating risks and determining rates and coverages for them.

Tax Glossary

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 b

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

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

Underwriting risk: Calculates the risk from underestimating liabilities from business already written, or inadequately pricing current or prospective business.

Underwriting: The process of classifying applicants for insurance by identifying such characteristics as age, gender, health, occupation, and hobbies. People with similar characteristics are grouped together and charged a premium based on the group's level of risk and

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

Uninsurable risk: Risks for which insurance coverage may not be available.

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 type of permanent life insurance that allows the insured, after the initial payment, to pay premiums at various times and in varying amounts, subject to certain minimums and maximums. To increase the death benefit, the insurance company usually requires

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.

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.

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

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

Variable annuity: A contract in which the premiums paid are invested in separate accounts which holds funds, including bond and stock funds. The selection of funds is guided by the level of risk assumed. The account value reflects the performance of the funds that the owne

Variable Life Insurance: A type of permanent insurance providing death benefits and cash values that vary with the performance of a portfolio of investments. The policyholder may allocate premiums among investments offering varying degrees of risk, including stocks, bonds, combin

Tax Glossary

Variable Universal Life Insurance: A combination of the features of Variable Life Insurance and Universal Life Insurance under the same contract. It combines the premium flexibility of universal life insurance with a death benefit that varies as in variable life insurance. Excess interest

Vesting: The right of an employee to all or a portion of the benefits he or she has accrued, even if employment terminates. Employee contributions, as in a 401(k) plan, always are fully vested. Employer contributions vest according to a schedule defined by the pla

Viatical settlement companies: Life insurance companies that purchase life insurance policies at a discounted value from a policyholder who is elderly or terminally ill. The companies then assume the premium payments and collect the face value of the policy upon the death of the person

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.

Void: Denotes when an insurance policy is freed from legal obligations for reasons specified in the policy contract (ie., a policy could be voided by an insurer if information given by a policyholder is proven untrue).

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

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 disabil

Whole Life Insurance: The most common type of permanent life insurance, in which premiums generally remain constant over the life of the policy and must be paid periodically in the amount specified in the policy. Also known as Ordinary Life Insurance.

Workers compensation: Insurance that pays for medical care related to on-the-job injuries and physical rehabilitation. Workers compensation helps cover lost wages while an injured worker is unable to work. State laws vary widely on benefit amounts paid and other compensation p

Yield on Invested Assets (IRIS): Annual net investment income after expenses, divided by the mean of cash and net invested assets. This ratio measures the average return on a company's invested assets. This ratio is before capital gains/losses and income taxes.