Section 2 – Business Life Concepts
Glossary

Agent - A representative of one or more companies who solicit prospects, complete applications, collect initial premiums, issue binders and/or conditional receipts, deliver policies, and service insurance contracts. As a rule, the agent's earnings are dependent on premium commissions. Agents are sometimes referred to as "field underwriters." Agents are licensed and regulated by the states where they conduct business and are limited by the terms of their company appointment agreements

Beneficiary - The person(s) named to receive any policy death benefits.

Deferred Compensation - A plan that allows selected individuals to defer the receipt of income in accordance with a written agreement with their employer. The plan may be qualified or nonqualified.

Disability - In disability income the definition will vary from policy to policy. The strictest form will state that the insured is unable to do any occupation, while a more liberal policy will state that the insured is unable to perform their own occupation before qualifying for benefits.

Dividends - Returns on excess premium and favorable loss experience on participating life insurance policies. Dividends are not guaranteed. Dividend options are outlined in the contract language.

Estate Tax - A tax payable to the Federal Government and in some cases State Governments on the death on an individual. There are Federal and State rules for calculating the tax. Life insurance can go to the beneficiary, free of income tax liability, but without proper planning the amount of the death benefit may be included as part of the deceased's estate and subject to estate tax.

Executor - An individual named in a will and approved by a Probate Court to carry out the provisions of the will. If the named individual (or contingents) cannot or will not accept the appointment, then the Probate Court will name an Administrator.

Face Amount - The amount stated in the policy that is payable at the death of the named insured or at policy maturity. The actual amount paid is the face amount less any unpaid policy loans and/or interest, plus any earned dividends. In Universal Life Insurance the face amount may be changed (lowered or increased) by the policy owner, subject to contract and company guidelines.

Insurable Interest - The relationship that exists between parties that justify one owning life insurance on the other. People are said to have an unlimited insurable interest in their own life.

An insurable interest may exist in the life of another person if there is a chance of a financial or emotional loss at that person's death. The insurable interest could be between two or more individuals or an entity with one or more individuals. The insurable interest must exist at the time of policy issue.

Insured - The individual on whose life an insurance policy is underwritten and issued. The insured may or may not be the owner.

Irrevocable - Beneficiary cannot be changed without the consent of the benefiting party. Most insurance companies require written and notarized instructions from the benefiting party to change or rescind an irrevocable provision.

Owner - The individual or entity controlling all rights, benefits, and privileges of a life insurance contract. They may or may not be the insured. Ownership may be assigned or transferred by written request of the current owner.

Premium - The amount paid to the life insurance company for the policy. Depending on the structure, premiums may be paid in one payment or a series of regular payments (annually, semiannually, quarterly, or monthly).

> **Additional Premium** - Used in Universal Life Policies. Additional premiums can be paid into the policy account in an amount above the target premium. Current tax laws limit the amount of excess cash value that can be accumulated in a life insurance policy. The insurance company may not accept the additional premium if it nears this limit without increasing the limit of life insurance (subject to underwriting). See corridor.

Qualified versus Nonqualified - Deals with the income taxation of contributions to various plans. Qualified plans cannot discriminate, must comply with specific IRS codes and regulations, and contributions are deductible from income taxes in the year they are made. Nonqualified plans can discriminate, do not need to be filed with the IRS and contributions are not tax deductible. Some plans will only be Qualified (401 K and Health Savings Accounts), some only Nonqualified (deferred compensation), and some can be either depending on how they are set up (Individual Retirement Accounts and annuities).

Trust - A legal document, instrument, or agreement where ownership of property is transferred and management of property is given to a named trustee for the intent expressed in the trust agreement.