

UNDERSTANDING LIFE INSURANCE TERMS

Like many industries, the world of insurance has its own unique set of vocabulary to describe its products. To help you understand the information included in a life insurance policy, we've gathered some basics.

The Basics of Life Insurance Terms

A Helpful Glossary of Common Policy Types and Terms

Beneficiary: The person or party named by the owner of a life insurance policy to receive the policy benefit.

Cash value: The savings element of a permanent life insurance policy that represents the policy owner's interest in the policy.

Contingent beneficiary: The party designated to receive proceeds of a life insurance policy following the insured's death if the primary beneficiary predeceased the insured.

Convertible term insurance policy: A term life insurance policy that gives the policy owner the right to convert the policy to a permanent plan of insurance.

Dividend: A return of part of the premium.

Face amount: The amount of the death benefit payable under a life insurance policy.

Irrevocable beneficiary: A life insurance policy beneficiary who has a vested interest in the policy proceeds even during the insured's lifetime because the policy owner has the right to change the beneficiary designation only after obtaining the beneficiary's consent.

Insurable interest: The interest an insurance policy owner has in the risk that is insured. The owner of a life insurance policy has an insurable interest in the insured when the policy owner is likely to benefit if the insured continues to live and is likely to suffer some loss or detriment if the insured dies.

Insured life: The person on whose life the policy is issued.

Original age conversion: A conversion of a term life insurance policy to a permanent plan of insurance at a premium rate, based on the insured's age when the original term policy was purchased.

Permanent life insurance: Life insurance that provides coverage throughout the insured's lifetime and also provides a savings element.

Policy anniversary: As a general rule, the date on which coverage under an insurance policy became effective.

Premiums: Amount paid to the insurance company to buy a policy and keep it in force.

Renewable term life insurance: A term life insurance policy that can be renewed at the end of the policy term.

Term life insurance: A life insurance policy which provides a stated benefit upon the holder's death, provided that the death occurs within a certain specified time period. Policy does not build up a cash value.

Universal life insurance: A type of flexible permanent life insurance offering both term life insurance as well as a savings element, which is invested to provide a cash value buildup. Elements can be reviewed and altered as a policyholder's circumstances change.

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