2014-2015

INSURANCE 101

INSURANCE INSTITUTE
OF KENTUCKY

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ACKNOWLEDGEMENTS

The Insurance Institute of Kentucky would like to gratefully acknowledge the contributions of those who helped to make this document possible.

The cover photo of the Kentucky State Capitol, titled “Keeneland in Spring” is used with the permission of Gene Burch Photography. His photos may be found at http://geneburch.com/.

The Insurance Information Institute (III) and our national trade partners American Council of Life Insurers (ACLI), American Insurance Association (AIA), National Association of Mutual Insurance Companies (NAMIC), and Property Casualty Insurers Association of America (PCI) provided a wealth of information that was invaluable in preparing the document.

We would also like to thank the Insurance Federation of North Carolina whose 2008-09 Insurance 101 project served as the inspiration for our own Insurance 101 for Kentucky. Several pages of material including parts of the glossary have been taken directly from the IFNC’s Insurance 101 with their permission.

Finally, without the support of the officers and members of the Insurance Institute of Kentucky this document would not have been possible.

INTRODUCTION

The Insurance Institute of Kentucky (IIK) is a trade association consisting of many of the leading property and casualty and life insurers who do business in Kentucky. Established in 1996, IIK serves as a voice for the industry on legislative and regulatory matters. Our stated mission is to educate, support and assist the Kentucky insurance consumer, market, and industry.

IIK works to promote consumer awareness on important issues regarding automobile, homeowners, life, and other types of insurance. We actively lobby on behalf of our member companies to promote industry reform legislation and defend against proposals that would negatively impact the insurance buying public.

Membership in the IIK is open to any insurer doing business in Kentucky, as well as national and state insurance trade associations, individuals such as agents or lawyers, and groups, such as agencies and law firms.

Insurance 101 is intended to be an explanation of some of the basics of insurance in Kentucky and to highlight consumer tips and industry facts. Additional information can be found on our website at www.iiky.org. Contact information for IIK is:

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AUTOMOBILE INSURANCE BASICS

What are the coverages available in a typical policy?

Bodily Injury Liability – covers injuries to someone else for which an insured becomes legally responsible as a result of a motor vehicle collision.
Property Damage Liability – covers damage to the property of another for which an insured becomes legally responsible as a result of an motor vehicle collision.
Personal Injury Protection (PIP) – covers medical payments, lost wages, and funeral expenses for the insured, an occupant of the insured car, or a pedestrian.
Uninsured Motorist – covers injuries to an insured caused by another person who is not covered by bodily injury liability insurance.
Underinsured Motorist – covers injuries to an insured caused by another person who does not have sufficient bodily injury liability insurance to cover the damages.
Collision – covers damage to your automobile caused by impact with another vehicle or object.
Comprehensive (Other than collision) – covers loss of or damage to your automobile caused by theft, fire, vandalism, collision with an animal, or other causes specified in your policy.

What coverages am I legally required to carry in Kentucky?

The law in Kentucky requires the owner of each vehicle to carry bodily injury liability coverage of at least $25,000 per person and a total of $50,000 per accident and property damage liability coverage of at least $10,000 per accident. This is usually referred to as 25/50/10. In addition, Kentucky law requires that the owner of each vehicle must carry personal injury protection coverage of at least $10,000.

Proof of insurance must be shown each time you register your vehicle and you are required to carry proof of insurance in your vehicle at all times.

What is a deductible and to what coverages does it apply?

A deductible is the amount of loss that you must sustain before your insurance carrier begins paying. Deductibles do not apply to liability coverages, personal injury protection, or uninsured or underinsured motorist coverages. They do apply to collision and comprehensive coverages.

Example: Your car sustains $3,000 damage in an accident and your deductible is $500. Your insurer will pay for $2,500 of your damages.

TIPS FOR SAVING ON AUTO INSURANCE

1. **Shop Around:** Insurers usually base their rates on factors such as your age, driving record, the car you drive, and other factors. Rates will vary among companies for the same set of circumstances, so you may need to shop to find the company that offers the best rates for your situation.

2. **Consider higher deductibles:** Your premiums will go down as your deductible increases. You will want to strike a balance between the lower premiums and the affordability of a high deductible if you do have an accident.

3. **Ask about discounts:** Many companies will offer discounts for anti-theft devices, driver education courses, or other factors. Many insurers will also offer a discount if you have your homeowners or renters insurance with them.

   Kentucky requires insurers to offer a discount from 5-20% for antitheft devices. There is also a required discount that applies to auto liability and physical damage premiums for drivers over 55 who complete an accident prevention course.

4. **Limit your claims:** Your claim history may be considered in setting your premiums.

5. **Reduce your risk of loss:** Lock your car doors and never leave your car running unattended. Don't leave valuables in your car.

6. **Review your coverage annually**: As your circumstances change your coverage may need to change to fit your situation. For instance, if you have an older car in poor repair it may no longer make sense to carry collision or comprehensive coverage on it.

7. **Check out rates before you buy a car:** Some cars cost more to insure than others due to repair costs, risk of theft, and whether they are considered high-performance vehicles.

8. **Review your credit report:** Most companies consider your credit history when determining premiums.

WHAT TO DO AFTER A MOTOR VEHICLE COLLISION

1. Check on the extent of injuries of all involved. If it a minor accident there may be no injuries, but when in doubt call an ambulance.

2. Call the police right away. Be sure to inform them of any injuries. Check with them if you may move the vehicles if it is just a fender bender

3. Take pictures of the accident scene before the vehicles are moved if it can be done safely. If you do not have a camera phone it may be a good idea to keep a disposable camera in your car.

4. Move the vehicles out of traffic if it is a minor accident and if the police have given you permission to do so. Use your four-way flashers, flares, or other means of warning other drivers about the accident scene.

5. Exchange information with the other driver(s). Be sure to get their names and addresses and insurance information. Get names and addresses of witnesses if you can.

6. Just state the facts of the accident. Don’t accuse the other driver of fault or tell anyone the accident was your fault, even if you think it was. The police and the insurers will investigate the causes of the accident.

7. Call your insurance agent or your insurer’s claims office right away. See the following page for information on filing an auto insurance claim.

8. Consider keeping an emergency kit in your car consisting of road flares, warning triangles, a flashlight, pencil and paper for taking notes, and a disposable camera.

HOW TO FILE AN AUTO INSURANCE CLAIM

1. Contact your insurance agent or insurer's claims office (usually a toll free call) as soon as possible regardless of whose fault the accident is.

2. Find out whether you are covered for the loss.

3. Ask your agent or claim representative how to proceed and what forms or documents are needed.

4. Supply the information that your insurer requests.

5. Ask your insurer or insurance agent the following questions:

    - When can I expect the insurance company to contact me?
    - Do I need to get a repair estimate for the damage to my car? If so, how many estimates should I get?
    - Will my policy pay for a rental car while my car is being repaired? If so, how much?
    - Does my policy contain a time line for filing claims and submitting bills?
    - Is there a time limit for resolving claims disputes?
    - If I need to submit additional information, is there a time limit?

6. Be sure to notify your insurer or agent right away. Unreasonable delays in reporting losses could result in the loss of coverage.

(Source: Insurance 101 2008-2009, Insurance Federation of North Carolina)

KENTUCKY GRADUATED DRIVER LICENSE PROGRAM

Kentucky's Graduated Driver Licensing Program (GLP) became effective on October 1, 2006. The following summary of the program appears on the Kentucky Transportation Cabinet's (KYTC) website:

> "The goal of Graduated Driver License Law is to curb the overall number of crashes involving teenage drivers, especially the high number of deadly crashes with teen involvement.
>
> Kentucky currently has one of the highest teen crash rates in the nation. Teenage drivers account for only 6 percent of the state's driving population, yet they are involved in about 18 percent of fatal crashes in Kentucky and more than 20 percent of all highway crashes in the state.
>
> The Graduated Driver License Law creates an intermediate period of six months between the learner's permit and a full, unrestricted license. During the intermediary phase, teenagers will have a full license with two restrictions on their driving privileges. One of the restrictions stipulates no driving from midnight to 6 a.m., except in cases of emergency. Also, the teen driver will be allowed no more than one unrelated passenger under the age of twenty."

The link to this summary may be found here:
http://transportation.ky.gov/Driver-Licensing/Pages/Graduated-Driver-Licensing-Program.aspx.

Additional useful links on the KYTC website are as follows:

Steps to Obtaining a License:
http://transportation.ky.gov/Driver-Licensing/Pages/GDL-Steps-to-Obtaining-a-License.aspx

Information for Teen Drivers and Parents:
http://transportation.ky.gov/Driver-Licensing/Pages/Information-for-Teen-Drivers-and-Parents.aspx

GLP Frequently Asked Questions:
http://transportation.ky.gov/Driver-Licensing/Pages/GDL-Frequently-Asked-Questions.aspx

HOMEOWNERS INSURANCE BASICS

What are the coverages available in a typical policy?

Dwelling – covers the cost to repair or rebuild your residence. This coverage could be "all-risk" or for specified events, depending on the type of policy. Even if the policy is "all-risk" certain losses are excluded. Among those would be earthquake, flood, wear and tear, and other causes specified in the policy.

Other Structures – covers other structures on the insured property such as detached garages, fences, gazebos, and other structures. This amount of coverage is generally 10% of the amount of insurance on the dwelling.

Personal Property – covers personal property belonging to the insured for specified risks of loss. The amount of this coverage is generally 50-70% of the insurance on the dwelling and there may be limits on coverage of property not on the insured premises.

Loss of Use - covers expenses that you may incur in addition to your normal living expenses if you can not live in your home due to an insured loss. The amount of this coverage can vary widely so it would be a good idea to ask about this coverage when you are shopping for insurance.

Personal Liability – covers injuries or property damage to others for which you are legally responsible, generally including damage caused by children or pets. Most people will carry at least $100,000 of coverage, but higher limits are usually recommended.

Medical Payments to Others – covers medical payments to others if they are injured on your property. The amount of this coverage is generally $1,000 to $5,000.

Am I required to have homeowners insurance?

There is no legal requirement to carry homeowners insurance, but it would be foolish not to do so. Also, if you have a mortgage your lender will require proof of insurance.

What is a deductible and to what coverages does it apply?

A deductible is the amount of loss that you must sustain before your insurance carrier begins paying. Deductibles are assessed once per occurrence regardless of the number of coverages under which payment is made. They do not apply to liability coverages or medical payments to others.

Most deductibles are a flat dollar amount but many insurers offer a deductible as a percentage of the dwelling coverage. Be sure to ask about your options when you are shopping for insurance.

RENTERS INSURANCE BASICS

What are the coverages available in a typical policy?

Coverages under a renters insurance policy are similar to those under a homeowners policy, except there is no structure to cover. The landlord would carry insurance on the structure and his policy would not cover loss to a tenant's property.

These are the typical coverages under a renters policy:

Personal Property – covers personal property belonging to the insured for specified risks of loss. The coverage can be purchased to cover your property at its replacement cost or its actual cash value. Essentially the former pays to replace your possessions with new items and the latter would pay to replace them with used items of like kind and quality. The replacement cost coverage is therefore more expensive.

Loss of Use - covers expenses that you may incur in addition to your normal living expenses if you can not live in your home due to an insured loss. The amount of this coverage is generally about 20% of the amount of coverage for contents.

Personal Liability – covers injuries or property damage to others for which you are legally responsible, generally including damage caused by children or pets. Many people will carry $100,000 in coverage or more.

Medical Payments to Others – covers medical payments to others if they are injured at your residence. The amount of this coverage is generally $1,000 to $5,000.

Am I required to have renters insurance?

There is no legal requirement to carry renters insurance, and landlords do not usually require it. Given the low cost of coverage and the liability protection available, it is a very prudent investment.

What is a deductible and to what coverages does it apply?

A deductible is the amount of loss that you must sustain before your insurance carrier begins paying. Deductibles are assessed once per occurrence regardless of the number of coverages under which payment is made. They do not apply to liability coverages or medical payments to others.

Example: You have a small fire that causes $1,500 damage to your contents. With a deductible of $500 your insurer will pay you $1,000 for your damages.

TIPS FOR SAVING ON HOMEOWNERS INSURANCE

1. Determine how much coverage you need – you should carry a minimum of 80 percent of the full replacement cost of your home. Remember, replacement costs can fluctuate from year to year. Check your local building codes periodically. If your home is severely damaged, you may be required to rebuild and comply with the newest minimum standards, which could increase costs.

   A note about replacement cost – this is not the market value of your home. Rather, it is the construction cost to replace your home and it may exceed the market value of your home.

2. Learn what kinds of policies are available to meet your needs.

3. Comparison shop – the price of insurance can vary widely.

4. Ask about discounts: Many companies will offer discounts for security systems and other protection devices and Kentucky requires insurers to offer a discount for buildings equipped with sprinklers. Many insurers will also offer a discount if you have your auto policy with them.

5. Consider service – select a company that will answer your questions and that will handle your claims fairly, efficiently and quickly.

6. Always make sure the company and agent are licensed to do business in Kentucky.

HOME INVENTORIES

Why do I need a home inventory?

Imagine the unthinkable – you lose your home in a fire or tornado. You have insurance on the contents of your home, but how can you possibly remember everything you have? In a devastating loss, there may simply not be enough left in your home to jog your memory as to what you lost.

A home inventory is simply a list of your home's contents that you can use to settle your insurance claim. It's fairly simple to do, but it is a task that many of us have put off as too daunting to start. Whether you own your house or rent, doing a home inventory is time well spent.

How can I do a home inventory?

There a lot of ways that you can do a home inventory, and there is a lot of help available. Common financial management software packages often have resources for doing a home inventory but there are a number of resources available as well.

One excellent resource is downloadable software from Insurance Information Institute available at http://www.knowyourstuff.org/. Another program is available from the National Association of Insurance Commissioners (NAIC) at the following link: http://www.insureuonline.org/insureu_special_disaster.htm. Each of these programs also offers a phone app for iPhone and Android.

How can you go about doing an inventory? One excellent way would be to take digital pictures or to videotape your home room by room. You can do a written list or even use spreadsheet or other software on your home computer.

Where should I store my inventory?

The most important thing to remember about storing your inventory records is that you will need them most when your home suffers the most damage. Storing your records on-site will do little good if a tornado or fire destroys your home completely.

If you have an electronic record then you could consider online storage which should be available at a nominal cost. You should store physical records in a safe location outside your home, either at work or at a friend or relative's house. If you have a relative in another town or another state you could each store the other's inventory records.

HOW TO FILE A HOMEOWNERS INSURANCE CLAIM

1. Report any crime to the police.

2. Contact your insurance agent or insurer's claims office (usually a toll free call) as soon as possible.

3. Make temporary repairs that are needed to prevent further damage to your property – save receipts and submit them to your insurance company.

4. Prepare a list of lost or damaged items.

5. If you need to relocate to a new home, keep receipts associated with the move to submit to your insurance company.

6. Get claims forms, fill them out and return them as soon as possible.

7. Most insurance companies will send an adjuster to examine the damage to your home if the loss is large enough.

8. Be sure to notify your insurer or agent right away. Unreasonable delays in reporting losses could result in the loss of coverage.

(Source: Insurance 101 2008-2009, Insurance Federation of North Carolina)

TYPES OF LIFE INSURANCE

There are two basic types of life insurance: *permanent* and *term.* Permanent insurance pays your beneficiary whenever you may die; term insurance pays your beneficiary if you die during a specific period of time.

What is permanent insurance?

Permanent (cash value) insurance provides lifelong protection as long as premiums are paid. It may build up cash value over time, which grows tax deferred. With all permanent policies, the cash value is different from the face amount. The face amount is the money that will be paid to your beneficiary if you die. Cash value takes time to grow. But after you've held the policy for several years, its cash value can offer you several options:

- You can borrow from the insurer using your cash value as collateral. You can get the loan even if you don't have a good credit history. If you don't repay the loan (including interest), it will reduce the amount paid to your beneficiaries after your death.
- You can use the cash value to pay your premiums or to buy more coverage.
- You can exchange the policy by using the cash value for an annuity that will provide a steady stream of retirement income for life or a specified period.
- You can cancel (surrender) the policy and receive the cash value in a lump sum. You will pay taxes on the value that exceeds what you've paid in premiums.

Basic types of cash value insurance

- **Whole life** offers premiums that generally stay fixed over the life of the policy, a fixed death benefit, and cash value that grows at a fixed rate of return.
- **Variable life** allows you to choose among a variety of investments offering different risks and rewards—stocks, bonds, combination accounts, or options that guarantee principal and interest. Death benefits and cash value will vary depending on the performance of the investments you select. By law, you'll be given a prospectus for variable life insurance. This prospectus will include financial statements and outline investment objectives, operating expenses, and risks. The cash value of a variable life policy is not guaranteed. If the market doesn't perform well, the cash value and death benefit may decrease, although some policies guarantee that the death benefit won't fall below a certain level.
- **Universal life** gives you flexibility in setting premium payments and the death benefit. Changes must be made within certain guidelines set by the policy; to increase a death benefit, the insurer usually requires evidence of continued good health. A universal life policy can have a variable component.

What is term insurance?

Term insurance provides protection for a defined period of time—from one year to 10, 20, or even 30 years—and pays benefits only if you die during that period. Term insurance is often used to cover financial obligations that will disappear over time, such as tuition or mortgage payments. Premiums for term insurance either can be fixed for the length of the term or can increase at a point specified in the policy. They also can be less expensive than for a cash value policy.

TYPES OF LIFE INSURANCE

Term Insurance (Cont'd.)

Term policies can include a return of premium benefit that will generally return all of the premiums paid at the end of a specified term if no death benefit was paid. Term policies with this feature are more expensive than those without.

Some term policies can be renewed at the end of a term. However, premium rates will usually increase upon renewal. To qualify for renewal at the lowest rates, many policies require evidence of insurability (continued good health). At the end of a term, you also may be able to convert the policy to a permanent policy. Term policies don't usually build up a cash value.

What are the advantages and disadvantages of each type of insurance?

Permanent (Cash Value) Insurance

Advantages

- Lifelong protection as long as the premiums are paid.
- Premium costs that can be fixed or flexible to meet individual financial needs.
- Cash value, which can be: used to pay premiums or buy more coverage; borrowed against; converted to an annuity; or surrendered for cash.

Disadvantages

- Cash value insurance is designed to be kept for the long term; therefore, cancelling a cash value policy after only a few years can be expensive.

Term Insurance

Advantages

- A policy can cover financial obligations that will disappear over time, such as a mortgage or college expenses.
- Premiums are generally lower than those for cash value insurance at younger ages.

Disadvantages

- Provides protection for a specific period of time, not for life.
- Renewing coverage at the end of the term generally means premiums will increase.
- Policies don't usually build up a cash value.

(Source: American Council of Life Insurers, *What You Should Know About Buying Life Insurance* brochure, 2014)

TYPES OF LIFE INSURANCE

Other products offered by life insurers:

- **Annuities:** An individual financial product that offers a guarantee of lifetime income.
- **Disability income:** Provides money if you become disabled to help you pay ongoing bills and avoid depleting the savings you may have accumulated for your children's education or your retirement.
- **Long-term care insurance:** Covers the costs of long-term care services such as nursing home, assisted living, or at-home care, and protect lifetime savings.

(Source: American Council of Life Insurers website)

TIPS FOR BUYING LIFE INSURANCE

You can buy life insurance at an insurance agency, brokerage firm, bank, or directly from a life insurance company on the Internet, over the phone, or by mail. Most companies have websites describing their products and services and some sites will direct you to a local agent.

How do I choose a company?

- Contact your state insurance department for a list of companies licensed in your state, then:
- Ask friends and relatives for recommendations based on their own experiences.
- Talk to an insurance agent or broker.
- Conduct an Internet search.
- Research companies at a public library.

Generally speaking, life insurers are in excellent financial health. They're required by law to maintain reserves to guarantee that they can meet obligations to their policyholders. However, you should still verify a company's financial strength.

You can check any company's financial condition by looking at its rating. Rating agencies, including A.M. Best Company, Fitch Ratings, Moody's Investor Services, Standard & Poor's Insurance Rating Services, and Weiss Ratings evaluate the financial strength of companies. Rating information is available online or in publications usually found online or in the business section of your public library.

How do I choose an agent?

Collect the names of several agents through recommendations from friends, family, and other sources. Find out if an agent is licensed in your state to sell insurance by checking with your state's insurance department. Agents who sell variable products also must be registered with the Financial Industry Regulatory Authority (FINRA), and have an additional state license to sell variable contracts.

Agents often belong to professional associations that offer continuing education and grant professional credentials. The National Association of Insurance and Financial Advisors offers local educational seminars for agents. The Society of Financial Service Professionals and the Financial Planning Association offer similar training for financial professionals. Agents may earn such professional designations as Chartered Life Underwriter (CLU) and Life Underwriter Training Council Fellow (LUTCF). Agents who also are financial planners may carry such credentials as Chartered Financial Consultant (ChFC), Certified Financial Planner (CFP), or Personal Financial Specialist (CPA–PFS).

What should an agent do for me?

The agent should be able and willing to explain the different types of policies and other insurance-related matters. You should feel satisfied that the agent is listening to you and looking for ways to find the right type of insurance at an affordable price. If you're not comfortable with the agent, or you aren't convinced he or she is providing the service you want, interview another agent.

TIPS FOR BUYING LIFE INSURANCE

What should I expect during my meeting with an agent?
An agent will begin by discussing your financial needs. You should have basic personal financial information available—along with a general idea of your goals— before you meet or talk with an agent. He or she will ask questions about your family income, other financial resources you might have, and any debts. The agent will be better able to assess your needs with the information you provide.

What types of questions will I be asked?
In addition to questions about finances, be prepared to answer questions about your age, medical condition, family medical history, personal habits, occupation, and recreational activities.

Always answer questions truthfully; a company will use this information to evaluate your risk and set a premium for your coverage. For instance, you'll pay a lower premium if you don't smoke; on the other hand, if you have a chronic illness, you can expect a higher premium.

When it's time to submit a claim, the accurate and truthful answers you provided the agent will enable your beneficiary to receive prompt and full payment. When you apply for life insurance, you may be asked to take a medical exam. In many instances, a licensed health care professional hired and paid for by the life insurance company will make a personal visit to your home to conduct the exam.

How do I choose a beneficiary?

Choosing a beneficiary, and keeping that choice up-to-date, are important parts of purchasing a life insurance policy. The birth of a child or a divorce can affect your initial choice of who will receive the death benefit when you die. Review your beneficiary designation as new situations arise to make sure your choice is still appropriate.

- Consider naming a "contingent" or secondary beneficiary in case you outlive your first beneficiary.
- Think about the wording of your beneficiary designations. If you write "wife/husband of the insured" without using a specific name, an ex-spouse could receive the proceeds. On the other hand, if you have named specific children, any later-born children will be left out unless the beneficiary designation is changed.

Do I have any recourse if my policy lapses?
Some life insurance contracts let you reinstate a lapsed policy within a certain time frame. However, you must prove insurability, pay all overdue premiums (plus interest), and pay off any outstanding policy loans.

TIPS FOR BUYING LIFE INSURANCE

How do I replace a current policy?

Before you replace your current life insurance policy with a new one, consider that:

- If your health status has changed over the years, you may no longer be insurable at standard rates.
- Premium rates for your present policy usually will be lower than on a new policy of the same type.
- If you replace one cash value policy with another, the cash value of the new policy may be relatively small for several years. In fact, the new policy's cash value may never be as large as the original's.
- Before you switch from an old policy to a new one, investigate your options carefully and compare the two policies' costs and features. Talk to your life insurance agent before making a final decision.

(Source: American Council of Life Insurers, *What You Should Know About Buying Life Insurance* brochure, 2014)

FILING A LIFE INSURANCE CLAIM

When there is a death in the family, life insurance can provide cash to meet pressing needs. To receive the benefits that you are entitled to, you first must file a claim. To help guide you through that process follow these steps:

Obtain several copies of the death certificate. While a death certificate is the standard form of documentation required when filing a life insurance claim there may be acceptable alternatives in extraordinary circumstances. Your life insurance representative will know what forms and documents are needed to proceed with your claim.

Contact your insurance agent. The life insurance agent who sold the policy can help you fill out the necessary forms and act as an intermediary with the insurance company. If you do not have an insurance agent, or do not know the name of your loved one's agent, contact the life insurance company directly.

As a precaution, you shouldn't store a life insurance policy--which contains important contact and policy information--in a safety deposit box. In most states, boxes are sealed temporarily upon one's death, which could delay a settlement.

In the case of a group life insurance policy, such as one offered by an employer, first contact the group plan sponsor or the human resources department at the employer directly. If you're unable to contact the employer, you may contact the life insurance company directly.

Submit a certified copy of the death certificate (or acceptable alternative in extraordinary circumstances) from the funeral director with the policy claim. Once the claim is submitted, a settlement should be issued to you shortly.

Once a life insurance claim is submitted, you will need to determine how the proceeds will be distributed. Some settlement options that may be available to you are:

- **Lump sum:** You receive the entire death benefit in a single amount, which allows you to use what you need for immediate expenses and invest the rest.
- **Specific income provision:** The life insurance company pays you both principle and interest on a predetermined schedule.
- **Life income option:** You receive a guaranteed income for life. The amount of income depends on the death benefit specified in the life insurance policy, your gender, and your age at the time of the insured's death.
- **Interest income option:** The company holds onto the proceeds and pays you interest. The death benefit remains intact and goes to a secondary beneficiary upon your death.

(Source: American Council of Life Insurers website)

TIPS ON FINDING A MISSING LIFE INSURANCE POLICY

When a loved one dies, it may be unknown whether or not he or she had a life insurance policy. If you suspect your loved one had a policy, but cannot locate it, you may want to conduct your own search using the steps provided below. As an alternative, MIB, an insurance membership corporation, offers a policy locater service for a fee. For more information about this service, visit MIB's Web site: www.policylocator.com.

- Check your loved one's papers and address and telephone books to look for life insurance policies and the names of insurance agents. Contact every insurance company with which they may have had a policy, even if you're not sure the policy is still in force.
- Check with the employee benefits office at their latest and previous places of employment. Or, check with the union welfare office.
- Check bank books and canceled checks for the last few years to see if any checks may have been written to pay life insurance premiums.
- Check the mail for one year after death for premium notices, which usually are sent annually. If a policy has been paid up, there will not be any notice of premium payments due. However, the company may still send an annual notice regarding the status of the policy or it may pay or send notice of a dividend.
- Review your loved one's income tax returns for the past two years. Look for interest income from and interest expenses paid to life insurance companies. Life insurance companies pay interest on accumulations on permanent policies and charge interest on policy loans.
- Check with the state's unclaimed property office to see if any unclaimed money from life insurance policies may have been turned over to the state. If, after a number of years, an insurance company holding the unclaimed money cannot find the rightful owner, it turns the money over to the state. The National Association of Unclaimed Property Administrators' website (www.naupa.org) includes links to each state's unclaimed property office. For multi-state searches, www.missingmoney.com combines information from most, but not all, state unclaimed property databases.
- Of course, you may wish to contact life insurance companies directly to see if a policy exists. Each state insurance department has a listing of life insurance companies licensed to do business in its state.

Contacting the Company That Services Your Life Insurance Policy

If you are the owner or beneficiary of a life insurance policy written long ago, you may need help locating the life insurer that services and pays claims on the policy.

Over the years, a policy owner may lose touch with the life insurer due to frequent moves, or the company that issued the policy may have changed its name or merged with another company. Two sources of information can assist you in finding the life insurance company that currently services your policy:

- The state insurance department of the state in which the insured person resided at the time he or she bought the insurance policy.
- *Best's Insurance Reports*, available in the reference section of many larger libraries. This annual update lists insurance company names and addresses, as well as insurers' name changes, mergers and other changes.

(Source: American Council of Life Insurers website)

NATURAL DISASTERS

Natural disasters can strike without warning and can quickly destroy what may be your biggest assets – your cars and your home. So if you are the victim of a natural disaster what does insurance typically cover?

Homeowners and Renters Policies

As we described in the section above on homeowners and renters coverage your policy generally covers your home and its contents against loss due to specified risks, known as perils, or it could be "all-risk." Whether a policy is for specified perils or all-risk, there are certain types of losses that are specifically excluded from coverage. These exclusions include some natural disasters for which special coverage must be obtained.

Following is a summary of the coverage you probably have for different types of disasters:

Wind Loss – Tornado, Hurricane, and High Winds
Losses due to wind are considered basic coverage and are therefore covered under virtually all types of homeowners and renters policies.

Earthquake
Earthquake losses are specifically excluded from most homeowners and renters policies. Coverage may usually be purchased as an additional coverage, and Kentucky requires that insurers offer the coverage. For information on earthquake preparedness in Kentucky, see here: http://kyem.ky.gov/programs/Pages/Earthquake.aspx.

Flood
Flood losses are also specifically excluded from most homeowners and renters policies. Coverage can be obtained from the National Flood Insurance Program (see here: http://www.floodsmart.gov/floodsmart/) or from a limited number of private insurers. If you live in a flood plain, your mortgagee will likely require you to obtain flood insurance.

Mine Subsidence
The collapse of an underground coal mine can cause damage to a home which is excluded under most homeowners policies. However, residents of 37 Kentucky counties are able to purchase coverage due to the Kentucky Mine Subsidence Insurance Fund (KMSIF). More information about mine subsidence and the KMSIF may be found on the Department of Insurance website here:
http://insurance.ky.gov/static_info.aspx?static_id=23&Div_id=15

Auto Policies

Coverage for the damage to your car is generally separated into two types of coverage, collision and comprehensive or "other than collision." Natural disasters such as wind loss, flood, and earthquake generally cover your car under the "other than collision" coverage. Collision and "other than collision" coverage must be purchased separately.

KENTUCKY FAIR PLAN

The Kentucky FAIR was started in 1968 to assist those who could not obtain homeowners and other property insurance through regular markets. The following Q & A is reproduced from the Kentucky Fair Plan website at the following link: https://www.kyfairplan.com/about/faqs.

Q. What is the Kentucky FAIR Plan Reinsurance Association?

A: The Kentucky FAIR Plan Reinsurance Association offers property insurance to qualified applicants in Kentucky who are unable to buy insurance through the standard insurance market for reasons beyond their control. The **FAIR Plan** may be an answer for responsible property owners or homeowners who are having a problem obtaining property insurance in the standard market.

Q. What coverages are offered?

A: The FAIR Plan offers Dwelling Fire, Commercial Fire, Commercial Farm Fire and basic Homeowners coverage for property owners. They provide protection against loss from such hazards as fire, lightning, wind, hail, explosion, smoke, vehicles, aircraft, and vandalism and malicious mischief. The FAIR Plan Homeowners policy also protects against all these as well as limited theft and personal liability coverage.

This is not meant to provide an explanation of coverages as they vary depending on the options selected. Please consult the policy forms for coverage details.

Q. How do I apply?

A: Contact any licensed Kentucky producer. The producer will help you decide what coverages are available in the FAIR Plan.

Q. What are the Kentucky FAIR Plan underwriting standards?

A: There are reasonable standards that must be met to be insured by the FAIR Plan. Please refer to the Articles of Association, Article VI, Section 4.

Disclaimer:
The information contained here is a general summary of the programs offered by the **Kentucky FAIR Plan Reinsurance Association**. The insured's legal rights are determined by the insurance policy and Kentucky Revised Statutes, not by the contents of this website. Underwriting rules, rates and standards are subject to change.

KENTUCKY AUTO INSURANCE PLAN

The following is reproduced from the Kentucky Auto Insurance Plan website at the following link: https://www.aipso.com/PlanSites/Kentucky.aspx.

The Kentucky Automobile Insurance Plan was created to provide automobile insurance coverage to eligible risks who seek coverage and are unable to obtain such coverage through the voluntary market (For complete eligibility requirements, see the Plan Manual).

Eligible Kentucky Automobile Insurance Plan risks are shared among companies writing automobile insurance in the state of Kentucky.

This Plan became effective on August 20, 1948.

INSURANCE RELATED ORGANIZATIONS

Insurance Organizations:
Insurance Institute of Kentucky (http://www.iiky.org/)
Insurance Information Institute (http://www.iii.org/)
Insurance Institute for Business and Home Safety (http://www.disastersafety.org/)
National Association of Insurance Commissioners
(http://www.insurance.naic.org/)
(http://www.insureuonline.org/index.htm)
National Insurance Crime Bureau (https://www.nicb.org//)

National Trade Associations:
American Council of Life Insurers
(https://www.acli.com/Pages/DefaultNotLoggedIn.aspx)
American Insurance Association (http://www.aiadc.org/AIAdotNet/)
National Association of Mutual Insurance Companies (http://www.namic.org/)
Property Casualty Insurers Association of America
(http://www.pciaa.net/web/sitehome.nsf/main)
Reinsurance Association of America (http://www.reinsurance.org/)

KY Agent Organizations:
Independent Insurance Agents of Kentucky, Inc. (http://www.iiak.org/)
Professional Insurance Agents – Kentucky (http://www.piaky.org/)

Kentucky Insurance Plans:
The Kentucky FAIR Plan (https://www.kyfairplan.com/Home/Index)
Kentucky Auto Insurance Plan (https://www.aipso.com/PlanSites/Kentucky.aspx)
Kentucky Insurance Arbitration Association
(http://kyinsplans.org/kentucky-insurance-arbitration-association/)
Kentucky Assigned Claims Plan
(http://kyinsplans.org/kentucky-assigned-claims-plan/)

Kentucky State Government:
Kentucky Department of Insurance (http://insurance.ky.gov/)
Kentucky Emergency Management Earthquake Program
(http://kyem.ky.gov/programs/Pages/Earthquake.aspx)
Kentucky Department of Workers' Claims (http://www.labor.ky.gov/workersclaims/)

GLOSSARY OF INSURANCE TERMS

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*.

ACCIDENT: An event causing loss, which occurs without being expected or designed, usually specific in time and place.

ACCIDENTAL DEATH BENEFIT: A provision added to a life insurance policy for payment of an additional benefit if death is caused by an accident. Also known as *double indemnity*.

ACTUAL CASH VALUE (ACV): The cost of replacing or restoring property at prices prevailing at the time and place of the loss, less depreciation, however caused. Another definition: the sum of money required to replace property less depreciation, which includes physical wear and tear, and obsolescence.

ACTUARY: A person whose principal function is to make the technical calculations required for the pricing of insurance policies.

ADDITIONAL EXTENDED COVERAGE: A second endorsement on the fire policy (fire and lightning with extended coverage) which insures the dwelling and/or contents against water damage from plumbing, etc.; boiler explosion; glass breakage; and damage by ice and snow, freezing, fall of trees, collapse, vandalism, vehicles owned by insured or tenants and landslide.

ADDITIONAL INSURED: One who is protected by an insurance policy other than the named insured. Examples: In automobile insurance, one who drives the insured's car with his consent ordinarily is protected. In property insurance, this might be a co-owner, mortgagee, or lien holder.

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.

ADJUSTER: A person who investigates and settles losses for an insurance carrier or the insured.

ADVANCE PREMIUM: Most companies give the insured the right of making premium payments in advance.

AGENT: An agent explains various insurance policies and helps clients choose plans that suit them.

GLOSSARY OF INSURANCE TERMS (CONTINUED)

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

ANNUITY: A financial contract issued by a life insurance company that offers tax-deferred savings and a choice of payout options to meet an owner's needs in retirement: income for life, income for a certain period of time, or a lump sum.

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.

APPRAISAL: Determination of the value of property or the extent of damage by impartial experts. Many property insurance policies provide for "appraisals" where the company and the insured cannot agree on the amount or the extent of a loss.

ARSON: The willful and malicious burning of property, sometimes with the intent of defrauding an insurance company.

ASSETS: All of the property owned by a carrier.

ASSIGNEE: One to whom the legal ownership of a policy or a limited interest therein is transferred.

ASSIGNMENT: The partial or complete transfer by a person of his right or interest in a policy to another person. The ability of a person to so assign the policy may be limited by law or individual circumstances. An assignment must be written, signed by the owner-policyholder whose interest is being transferred, properly attested, and the original or a certified copy must be filed with the insuring company. A valid assignment so filed is binding on the company.

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.

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

GLOSSARY OF INSURANCE TERMS (CONTINUED)

BINDER: A written or oral contract issued temporarily to place insurance in force when it is not possible to issue a new policy or endorse the existing policy immediately. A binder is subject to the premium and all the terms of the policy to be issued.

BODILY INJURY BENEFIT COVERAGE: This automobile coverage is designed to protect the insured and any passengers in his car against loss by reason of bodily injury or death caused by the owner or operator of an uninsured automobile (or a "hit-and-run"). Also called uninsured motorist coverage.

BODILY INJURY COVERAGE: This coverage, often called "public liability insurance" protects an insured against legal liability for injury to the person of another arising from an accident.

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.

CANCELLABLE POLICY: A policy which may be cancelled by the company at any time by giving advance notice to the insured and refunding any unearned premium.

CANCELLATION: The discontinuance of an insurance policy before its normal expiration date.

CAPTIVE AGENT: A person who represents only one insurance company and is restricted by agreement from submitting business to any other company unless rejected first by the captive agent's company.

CARRIER: The insurance company or the one who agrees to pay the losses. The carrier may be organized as a company, either stock, mutual, or reciprocal, or as an association of underwriters such as Lloyds.

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

CASUALTY INSURANCE: A general class of insurance covering liability resulting from accidents and some types of property insurance. It includes among other coverages: automobile, workers compensation, employers liability, general liability, plate glass, theft and personal liability. It excludes life, fire and marine insurance, but, as ordinarily used, includes health insurance and fidelity and surety bonds.

GLOSSARY OF INSURANCE TERMS (CONTINUED)

CATASTROPHE REINSURANCE: This is a form of insurance written on an excess of loss basis in order to improve the spread of risk against unknown concentrations of liability subject to one occurrence. A deductible is chosen at the amount necessary to reduce the probable frequency of loss to an acceptable level to the reinsurer, and severity of loss to a level acceptable to the reinsured company.

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

CHARTERED PROPERTY AND CASUALTY UNDERWRITER (C.P.C.U.): A designation conferred in recognition of the attainment of certain standards of education and proficiency in property and casualty insurance underwriting.

CLAIM: A request for payment of a loss which may come under the terms of an insurance contract. There are two types of claims. First-party claim is one made by the policyholder in which the policyholder reports the claim directly to his company. A third-party claim is one in which a person makes a claim against a policyholder of another company and payment, if any, is made by that company.

CLAIMANT: One who makes a claim.

CLAIM FREQUENCY: The number of claims of a given coverage reported to an insurance company divided by the number of policies in force for a car having the given coverage. It is usually expressed as the number of claim coverages reported per 100 of such coverages in force. Example: For bodily injury (BI), the frequency of 2.50 means that bodily injury accidents were reported at the rate of 2 1/2 per year for each one hundred BI policies in force.

CLAIM SEVERITY: The average cost per claim considering all claims under a certain coverage for a specified period.

CLAIMS-MADE COVERAGE: Claims-made insurance is a type of liability protection that covers current legal obligations resulting from acts of the insured. It provides coverage to the insured for claims reported during the term of the policy.

COMMERCIAL FIRE: This coverage insures all property not occupied as a residence, excluding farming and manufacturing, against loss by fire.

COMPULSORY INSURANCE: The purpose of compulsory insurance laws is to require all residents to buy liability insurance before auto license plates are issued. The law requires proof of financial responsibility (insurance) when license plates are issued.

GLOSSARY OF INSURANCE TERMS (CONTINUED)

CONCEALMENT: The withholding of material facts from an insurer, either in applying for a policy or making a claim.

CONTENTS: A term used to refer to the personal property contained in a building. It may be household furniture, personal effects or other types of personal property, movable in nature and not firmly affixed to the real property.

CONTRIBUTORY NEGLIGENCE: Carelessness of the injured person that helped to cause the accident in which he was injured.

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.

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.

DAMAGES: In a technical sense, damages refers to the money or compensation recoverable in a lawsuit by a party who has been injured in person or property or rights by the negligence of another.

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

DEDUCTIBLE: A provision in an insurance contract stating that the insurer will pay only the amount of any loss that is in excess of a specified amount. The specified amount is the deductible.

DEDUCTIBLE COLLISION COVERAGE: A form of collision coverage which specifies that an insurance carrier will pay the damage less a specified amount. For example: For $50 deductible collision coverage, the insurance carrier would deduct $50 from the total damage and be liable for only the amount in excess of $50.

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

GLOSSARY OF INSURANCE TERMS (CONTINUED)

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.

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 whole life policy.

DEPOSIT-TYPE CONTRACTS: Contracts that do not include mortality or morbidity risks.

DEPRECIATION: A decrease in the value of property over a period of time due to wear and tear or obsolescence. Depreciation is used to determine the actual cash value of property at time of loss. (See ACTUAL CASH VALUE.)

DIRECT LOSS: A loss where an insured peril is the proximate cause. If a windstorm blows the roof off a home, the windstorm is the insured peril causing the direct loss or damage. (See PROXIMATE CAUSE.)

DIRECT WRITER: The industry term for a company which uses it own sales employees to write its policies. Sometimes refers to companies which contract with exclusive agents.

DIVIDEND: An amount of money returned to the holder of a participating life insurance policy. The money results from actual mortality, interest, and expenses that were more favorable than expected when the premiums were set. The amount of any dividend is set by the insurer based on the insurer’s standards.

DIVIDEND ADDITION: An amount of paid-up insurance purchased with a policy dividend and added to the policy’s face amount.

DOMESTIC CARRIER: An insurance company organized in a given state is referred to in that state as a domestic carrier.

GLOSSARY OF INSURANCE TERMS (CONTINUED)

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.

ENDORSEMENTS: An additional piece of paper, not a part of the original contract, which cites certain terms and which, when attached to the original contract, becomes a legal part of that contract. Additions to life insurance contracts are accomplished through the use of riders, which are similar to endorsements.

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.

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.

EXPENSE RATIO: The ratio of a company's operating expenses to premiums.

EXPIRATION DATE: The specified date and time at which the policy terminates.

EXPOSURE: This term in the insurance field may have several meanings: (1) possibility of loss; (2) a loss potential as measured by type of construction, area or values; (3) a possibility of a loss being communicated to an insurance risk from its surroundings.

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 AUTO INSURANCE: The automobile policy (most common in the industry) which provides protection for all members of the family.

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 after the policy is issued.

GLOSSARY OF INSURANCE TERMS (CONTINUED)

FIRE: Court decisions have held generally that there are three elements which constitute a fire within the meaning of an insurance policy:
(1) Rapid oxidation (combustion).
(2) Visible flame or glow.
(3) Hostile or unfriendly. (A “hostile” fire is one which escapes the area in which it was intended to burn. A “friendly” fire is one which does not exceed its intended purpose.)

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.

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.

FULL COVERAGE: Insurance which covers all losses, with no deductions, up to the amount of the insurance. (See DEDUCTIBLE COLLISION COVERAGE.)

GENERAL LIABILITY: A broad term meaning liability insurance, other than automobile written to cover personal, professional and commercial risks. As respects commercial liability, it includes the following hazards and coverages: premises and operations, elevators, independent contractors, contractual products and completed operations.

GRACE PERIOD: A period of usually a number of days following each insurance premium due date except the first, during which an overdue premium may be paid and the policy be maintained. All policy provisions remain in force during this period.

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.

GLOSSARY OF INSURANCE TERMS (CONTINUED)

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

IMPROVEMENTS AND BETTERMENTS INSURANCE: Insurance coverage that protects a tenant against loss of improvements made by him to real property in which he is a tenant as a result of fire, etc. Some property policies use the term "improvements and additions" in describing the coverage.

INDEMNITY: In general, reimbursement for loss, but also a benefit provided by a policy. In health insurance it sometimes is used to designate a specified amount paid regardless of actual loss or expense incurred.

INDIVIDUAL LIFE INSURANCE: Life insurance on a person with premiums payable annually, semiannually, quarterly, or monthly.

INSPECTION REPORT: Filed by an investigator employed by the insurance company or credit agency, giving general information on the health, habits, finances and reputation of the applicant.

INSURABLE INTEREST: This doctrine requires that a person or company be in a position to suffer monetary loss before they can purchase life insurance on another person's life, or property insurance on another's property. The interest must exist at the time the insurance contract is issued.

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 insurer to offer insurance at a reasonable rate.

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: A person covered by an insurance policy. In life insurance, the person upon whose life an insurance policy is issued.

INSURED NAMED: The person with whom an insurance contract is made, and who is named specifically for protection against loss under the terms of the policy. Any person or corporation, or any member thereof, such as the spouse of the specifically mentioned as named insured in a policy, as distinguished from others who, though unnamed, are protected under some circumstances. (The most common application of this principle is in connection with the "omnibus clause" in automobile liability policies.)

GLOSSARY OF INSURANCE TERMS (CONTINUED)

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.

JOINT TENANCY: Ownership of property by two or more in such a way that when one of the joint owners dies, his share goes to the surviving joint owners rather than the heirs.

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

LEVEL PREMIUM INSURANCE: Insurance for which the cost is distributed evenly over the period during which premiums are paid. The premium remains the same from year to year, and is more than the actual cost of protection in the earlier years of the policy and less than the actual cost in the later years. The excess paid in the early years builds up the reserve.

LIABILITIES: An insurance company's liabilities consist of its immediate or contingent policy obligations and unpaid claims.

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.

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.

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 RATIO: The percent which losses bear to premiums for a given period.

LOSS RESERVE: The amount set up as the estimated cost of an accident at the time the first notice is received.

GLOSSARY OF INSURANCE TERMS (CONTINUED)

LUMP-SUM DISTRIBUTION: The non-periodic withdrawal of money invested in an annuity.

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

MATERIAL DAMAGE: Insurance against damage to a vehicle itself. It includes automobile comprehensive, collision, fire and theft. Material damage and physical damage are terms that often are used interchangeably.

MATURITY VALUE: The proceeds are payable on maturity of a policy. An ordinary life policy matures on the death of the insured and an endowment policy on a specified date or on the prior death of the insured. The maturity value is normally the “face amount” of the policy.

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.

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.

MULTIPLE LINE: A general term referring to fire and casualty insurance in general. A multiple line company writes auto, fire, health, commercial, boat owners, homeowners, individual fire and theft insurance.

MUTUAL INSURANCE COMPANIES: Insurance companies without capital stock, owned by the policyholders for the purpose of sharing in the profits through dividends at the end of the policy year.

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.

GLOSSARY OF INSURANCE TERMS (CONTINUED)

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 lower premium, which reflects anticipated experience more favorable than the company is willing to guarantee. The current premium may change from time to time for the entire block of business to which the policy belongs. See *participating policy*.

OCCUPANCY: This refers to the use of property. A home, for example, may have a real estate office in it. This dwelling would then have a "business occupancy." Occupancy plays a very important part in computing rates and determining the acceptance or rejection of risks.

OCCUPATIONAL HAZARD: The danger of suffering a sickness or injury due to the hazards of an occupation.

OCCURRENCE: Any incident or happening. Usually used by insurance carriers in connection with accidents involving the policyholders. The word "occurrence" is used because of the precise legal meaning of the word "accident," which an "occurrence" may or may not be.

OCCURRENCE COVERAGE: Occurrence coverage is insurance for incidents of liability alleged to have occurred during the term of the policy, no matter when the claim is reported.

OMNIBUS CLAUSE: An automobile policy provision which covers persons driving the named insured's auto with the named insured's permission.

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).

PAID-UP INSURANCE: Insurance on which all required premiums have been paid; frequently refers to the reduced paid-up insurance available as a nonforfeiture option.

PARTIAL DISABILITY: An injury which prevents the insured from performing one or more, but not all, important duties of his job.

GLOSSARY OF INSURANCE TERMS (CONTINUED)

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 paid. See policy dividend and nonparticipating policy.

PERIL: The cause of possible loss, such as fire, windstorm, theft, explosion, or riot.

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.

PERSISTENCY: A term used to refer to the length of time insurance remains continuously in force.

PERSONAL PROPERTY: This type of property is usually movable and easily transportable. On the other hand, real property generally is considered to be immovable such as land and things affixed to it. A rule-of-thumb definition for personal property is “everything other than real property.”

PHYSICAL HAZARD: This refers to the material, structural or operational features of the risk itself, apart from the persons owning or managing it. Electrical wiring, building construction, and type of heating system are examples of physical hazards.

POLICIES-IN-FORCE: Policies written and recorded on the books of the carrier which are unexpired as of a given date.

POLICYHOLDER: One who owns an insurance policy. A mortgagee often is issued a copy of an insurance policy, or a certificate of insurance, at the request of the insured, but he is not a policyholder.

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 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 borrowed, plus accumulated interest, from the amount payable to beneficiaries.

GLOSSARY OF INSURANCE TERMS (CONTINUED)

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 pay all future claims.

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

PRELIMINARY CLAIM NOTICE: Notice to the company that the insured wants to make a claim.

PREMIUM: The payment, or one of the periodic payments, that a policyholder makes to own an insurance policy or annuity.

PREMIUM LOAN: A policy loan for paying premiums.

PROCEEDS: The net amount of money payable by the company at the death of an insured or at the maturity of a policy.

PROPERTY DAMAGE COVERAGE: An agreement by an insurance carrier to protect an insured against legal liability for damage by his automobile to the property of another.

PROXIMATE CAUSE: The dominating cause of loss or damage; an unbroken chain of events between the occurrence of an insured peril and damage to property. As an illustration, water damage occurring from fire fighting activities is covered under the fire policy because fire was the proximate cause of the loss.

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.

RATING TERRITORY: A geographical grouping in which like hazards tend to equalize and permit the establishment of an equitable rate for the territory.

REDUCED PAID-UP INSURANCE: A form of insurance available as a nonforfeiture option providing for continuation of the original insurance plan at a reduced amount.

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

REINSURANCE: The insurance by one insurer of liability or another insurance carrier under its insurance or reinsurance policies.

GLOSSARY OF INSURANCE TERMS (CONTINUED)

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.

REPLACEMENT COST: The cost to repair or replace property at construction costs prevailing at time of loss; the cost to repair or rebuild property without considering depreciation. (See ACTUAL CASH VALUE.)

RESERVE: The amount required to be carried as a liability on an insurer's financial statement to provide for future commitments under policies outstanding.

RIDER: Endorsement. Special provision added to an original policy contract.

RISK: Chance of loss with respect to person, liability, or the property of the insured. Also used to mean "the insured."

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 individual applications.

SALVAGE: Recovery made by an insurance company by the sale of property which has been taken over from the insured as a part of loss settlement.

SCHEDULE: A list describing the property or items insured under the policy.

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*.

SPECIAL CLASS: Policies on which an extra premium rate is charged because an extra risk is presented.

STANDARD PROVISIONS: Policy provisions required by law or supervisory regulation – such as provisions relating to grace period and incontestability.

STANDARD RISK: A person who, according to a life company's underwriting standards, is entitled to insurance protection without extra rating or special restrictions

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.

GLOSSARY OF INSURANCE TERMS (CONTINUED)

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 structured settlement payments.

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.

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 remainder after an insurer's liabilities are subtracted from its assets. The financial cushion that protects policyholders in case of unexpectedly high claims.

TERM-CERTAIN ANNUITY: An annuity which makes periodic payments over a fixed number of years. See *annuity certain*.

TERM INSURANCE: Insurance that covers the insured for a certain period of time, known as the term. The policy pays death benefits only if the insured dies during the term, which can be one, five, ten or even twenty years.

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.

TERMINATION: The recording of a cancellation of an insurance policy. In some instances, cancellations may not be recorded for many weeks, due to the pressure of other work. Many policies cancelled for non-payment are reinstated without either cancellation or being recorded. (See also CANCELLATION.)

THIRD-PARTY ADMINISTRATOR: Outside group that performs administrative functions for an insurance company.

GLOSSARY OF INSURANCE TERMS (CONTINUED)

TOTAL DISABILITY: Disability which prevents a person from performing (a) any of his occupational duties, or (b) any duties of any occupation, or (c) any duties for which he is reasonably qualified. Definitions vary within policies.

TWISTING: The practice of inducing by misrepresentation, or inaccurate or incomplete comparison, a policyholder in one company to lapse, forfeit or surrender his insurance for the purpose of taking out a policy in another company.

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 the underlying policies.

UNINSURABLE RISK: Risks for which insurance coverage may not be available.

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 the policyholder to furnish satisfactory evidence of continued good health. Also known as *adjustable life insurance*.

UNDERWRITER: Originally meant an individual who, together with other individuals, assumed a proportionate part of the risk, the signatures of all such individual insurers being written under the basic promise to pay. In effect, this is still the insurance principle under marine and certain general types of insurance. In the life insurance industry, “underwriter” has three different possible meanings:
1. An insurer.
2. An officer, medical adviser or technician who reviews applications for insurance, selects risks for acceptance, and determines the amount and the terms of such acceptance.
3. An agent or other field representative who unavoidably “selects risks” when selecting his prospects for solicitation.

UNDERWRITING PROFIT AND LOSS: The profit or loss experienced after deducting from earned premiums the incurred losses and expenses of doing business, but before provision for federal income tax. It excludes investment transactions.

UNREPORTED CLAIMS: Accidents which have occurred but which have not been reported or recorded.

GLOSSARY OF INSURANCE TERMS (CONTINUED)

VALUATION: The process of determining a company's liabilities under its policy obligations is known as policy valuation. The process of determining the value of a company's investments is known as asset valuation. Minimum valuation standards are usually prescribed by state law.

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 owner has chosen for investment.

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, combinations of both, and accounts that guarantee interest and principal.

VARIABLE-UNIVERSAL LIFE INSURANCE: A type of permanent insurance that combines the premium flexibility of universal life insurance with a death benefit that varies as in variable life insurance. Excess interest credited to the cash value depends on the investment results of separate accounts investing in equities, bonds, real estate, and others. The policyholder selects the accounts to which premium payments are made.

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 originally insured.

VOID: When an insurance policy is freed from legal obligations for reasons specified in the policy contract (i.e., a policy could be voided by an insurer if information given by a policyholder is proven untrue).

WAIVER OF PREMIUM: A provision that sets conditions under which an insurance company would keep a policy in full force without the payment of premiums. The waiver is used most frequently for policyholders who become totally and permanently disabled.

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.

(Sources: Insurance 101 2008-2009, Insurance Federation of North Carolina;
2013 Life Insurers Fact Book, American Council of Life Insurers)