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Disability Definitions

Accident - Unintended, unforeseen and unexpected event that causes injury.

Accidental Death and Dismemberment - Insurance providing payment if the insured's death or dismemberment (including loss of use) results from an accident. The **cause** of the accident must be unforeseen, unexpected and unintended.

Admitted Insurer - An insurance company authorized and licensed to transact business in a specified State.

Adhesion - An insurance contract is a "take-it-or-leave-it" contract. The insurer makes up and forms the contract issued to an insured, and the insured must adhere to those terms. Any ambiguities in an insurance contract will be settled in favor of the insured. ***An insurance contract is a contract of adhesion.***

Adverse Selection - Tendency of less favorable insurance risks to seek or continue insurance to a greater extent than others (i.e., someone already sick applying for health insurance, or someone entering the military to go to war applying for life insurance).

Alien Insurer - An insurance company that is incorporated outside of the United States.

Assignment - Signed legal transfer of interest, rights or benefits of a policy from a policy owner to another party (the assignee).

Authorized Insurer - Often referred to as an "admitted" insurer which is licensed to transact insurance in a specific State.

Aviation Exclusion - Either attached by rider or included in standard policy language. It excludes coverage for death or disability due to aviation (other than as a fare-paying passenger).

Beneficiary - Person to whom the proceeds of a life or accident policy are payable when the insured dies.

- **Primary Beneficiary** is the first in line to receive the death proceeds when the insured dies.
- **Secondary (a.k.a. Contingent) Beneficiary** receives the proceeds if the primary beneficiary *dies before the insured or at the same time as the insured.*
- **Tertiary Beneficiary** - The third person in line to receive the death proceeds of a life insurance policy. Will receive the death proceeds only if the primary and contingent beneficiaries die before the insured dies.

- **Revocable Beneficiary** - Beneficiary whose rights in a policy are subject to the policy owner's reserved right to revoke or change that beneficiary.
- **Irrevocable Beneficiary** - Beneficiary whose interest cannot be revoked without his or her written consent, because the policy owner has made the beneficiary designation without retaining the right to revoke or change it. This is in contrast to a Revocable Beneficiary which can be changed at any time by the owner of the policy.
- The term Beneficiary is also used to refer to a person whom is on Medicare

Benefit Period - Maximum length of time that health insurance benefits will be paid for any one accident, illness or hospital stay.

Business Overhead Expense (B.O.E. Disability Income) Insurance - A type of short-term disability income contract that reimburses the insured person for specified, fixed monthly expenses in the operation of a business.

Buy-Sell Agreement - A legal contract that determines what will be done with a business in the event one of the owners dies or becomes disabled. One partner agrees to sell his share of the business if he dies or becomes disabled, and the other partner agrees to buy a partner's share of the business if that partner dies or becomes disabled.

Buyer's Guide - A booklet that describes an insurance policies concepts and suggestions. It also provides general information to help a policy owner make an intelligent decision.

Certificate of Authority - A document issued by the Office of the Insurance Commissioner giving the authority to transact insurance business in a specified state. Once an insurer is "authorized" to do business in a state, they are referred to as "admitted" in that specific state.

Certificate of Insurance - A legal document that specifies that an insurance policy has been issued. Examples of a Certificate of Insurance: includes your auto insurance card or your group insurance card.

Coinsurance (percentage participation) - Principle under which the insurance company insures only part of a loss, with the policy owner paying the other part.

Concealment - Deliberate failure to reveal material facts that would affect the validity of a policy of insurance.

Conditional Receipt - Given to policy owners when they pay a premium at the time of application. Coverage is in effect as long as the policy is issued as it is applied for. Issued by Life and Disability producers.

Consideration - A contractual term that requires that something of value be exchanged for a contract to be legal. Premium from the insured and a promise to pay from the insurer is consideration.

Contract - An agreement between two or more parties which is enforceable by law.

Convertible (Convertibility feature) - A policy provision which allows a policy owner to change one contract for another ***without having to show evidence of insurability***.

Copayment - The dollar amount which an insured must pay each time an insured goes to visit a doctor (i.e., $20).

Defamation - An unfair business and trade practice in which one person or company makes false or inaccurate statements about another party with the intent of injuring the reputation of that party.

Disability Income Insurance - Insurance that provides periodic payments to replace lost income when the insured is unable to work because of injury or illness.

Domestic Insurer- An insurance company that conducts business transactions in the state where they are incorporated. Examples of Washington State's domestic companies are Pemco and Safeco.

Effective Date - The date when an insurance policy begins (could be called the inception date).

Eligibility Period - Specified length of time, frequently 31 days following the probation period, during which an individual member of a particular group remains eligible to apply for insurance under a group life or health insurance plan without having to provide evidence of insurability.

Exclusions - A policy provision which states the terms and conditions in which benefits will NOT be paid. Most life insurance policies list three exclusions: War, Aviation, and Hazardous Occupations and Hobbies

Expiration - The date specified in the policy as the date that coverage ends or terminates.

Fair Credit Reporting Act requires that the consumer must be notified that a credit report will be sought and told how it will be used. The consumer must be told how to obtain a copy of the report.

- ✓ Information on the credit report can be disputed, and if **the reporting agency** cannot prove the disputed information is accurate, the information must be removed from the person's file **within 30 days**.

Fiduciary - A person who is held in a position of trust for another has fiduciary responsibly to that person. A producer has fiduciary responsibilities to his clients from whom he collects premiums.

Foreign Insurer - An insurance company doing business in a specific State, but is incorporated in another State.

Fraternal Benefit Society - A life or disability insurance company formed to provide insurance coverage for members of an affiliated lodge, religious organization or fraternal organization with a representative form of government.

Fraud - An intentional misrepresentation or deceit with the intent to induce another to part with something of value. For example, filing a false claim. Generally, a lie on an application is considered a misrepresentation but NOT fraud.

Free Look (a.k.a. Return of Policy) - Provision whereby a policy owner has a minimum of 10 days to examine the new policy with no obligation. ***This free look period begins when the policy owner receives the policy***. All premiums must be refunded within 30 days if the policy is rejected by the owner.

Grace Period - Period of time after the due date of a premium, during which the policy remains in force without penalty. If there is a claim during the grace period, the claim is covered, but the past-due premium will be subtracted from the claim.

Guaranteed Renewable Contract - An insurance contract that the insured has the right to continue in force by payment of premiums. The insurance company has no right to make any change in any provision unilaterally, other than a change in premium rate for classes of insureds.

Hazard - Anything that increases the chance of a loss. Example; individual's weight, hobbies, occupation, hypertension, etc.

Health Maintenance Organization (HMO) - A prepaid, preventive care medical plan. HMOs can be both the seller and provider of health care.

Insurability - The acceptance or qualifying of an application by the insurance company to issue a policy.

Insurance - Social device for minimizing the risk of uncertainty regarding loss by spreading it among a sufficiently large number of similar exposures.

Insurer (Insurance Company) - An entity that pays for the financial losses of another due to sickness or accidents.

Insured - Individual covered by the insurance.

Insuring Clause (Agreement) - Defines and describes the scope of the coverage provided and the limits of indemnification. ***It is the heart of the contract and represents the Insurance Company's promise to pay*** *(**a warranty in the policy**).*

Lapse - Termination of a policy upon the failure of the policy owner to pay the premium within the grace period.

Law of Large Numbers - A principal that states the larger the number of similar exposures considered, the more likely or closely the losses reported will equal the expected losses.

Major Medical Insurance Policy - A policy specially designed to help pay medical expenses resulting from illness or injury. It usually has a front end deductible, coinsurance (such as 80% - 20%), and a stop loss. *Covers both hospital, medical and surgical benefits for an insured due to sickness and accidents.*

Material Fact - Information about the insured that if known would change the underwriting basis of the insurance, and that would cause the insurer to refuse the application or charge a higher premium.

Medicaid - Provides medical care for the financially needy under joint federal and state participation. ***Administered by the state's Department of Social and Health Services***. **Also referred to a Welfare.**

Medical Information Bureau (MIB) - *An insurance industry organization* to which *insurers report* applications and other reports about applicants, claims paid, prescriptions, etc.. The information is then available to other member companies for underwriting purposes. The applicant has the same rights as those available under the Fair Credit Reporting Act.

Medicare - The ***Federal Government's*** national health care for seniors (age 65 and older), people of any age with the end stage of renal disease and people who have been on social security disability for 24 consecutive months. Medicare pays for hospital and medical expenses and is administered under provisions of the Social Security Act.

Misrepresentation - On the part of an insurer or its agent, falsely representing the terms, benefits, or privileges of a policy. On the part of an applicant, falsely representing the health or other condition of the proposed insured.

Mode of Premium Payment - The method of paying policy premiums. They include annual, semi-annual, quarterly or monthly.

Morbidity Table - Shows the incidence and extent of disability that may be expected from a given large group of persons; used in computing disability rates.

Mutual Insurer - An insurance company that has no capital stock, but is owned by the policy owners. Mutual companies sell participating policies because they share in the profits with the policy owners by paying dividends. "Participating" Whole Life policies pay dividends.

Nonadmitted Insurer - An insurance company who does not have a certificate of authority to transact insurance business in a specific State. Often referred to as an "unauthorized" company.

Noncancelable, a.k.a. Noncancelable and Guaranteed Renewable - A continuous disability (health) insurance policy that guarantees the insured the right to renew the policy with NO INCREASE in premium.

Nonmedical - A life or health insurance policy that is underwritten based on the insured's statement of health rather than a medical examination.

Old Age, Survivors, Disability and Health Insurance Benefits (OASDI) - The true name for Social Security.

Optionally Renewable - An insurance contract in which the insurer may nonrenew coverage, at its option, but only on the anniversary (premium-due date).

Peril - The cause of a loss. An accident or sickness causes death, a fire damages a house. Accident, sickness and fire are types of perils.

Premium - The payment a policy owner agrees to make for an insurance policy.

Principal Amount - Usually refers to the face amount or value of a policy.

Principal Sum - Lump sum payable for accidental loss of life, total and permanent dismemberment or loss of use of any two limbs, or loss of sight.

Probationary Period - Usually 30 or 31 days after a disability policy is effective, during which time coverage for sickness is not offered. Does not apply to accidents. Designed to help avoid avoids adverse selection for the insurer.

(Insurance) **Producer** means **a person** required to be licensed under the laws of this state to ***sell***, ***solicit*** or ***negotiate*** insurance. The term, insurance producer, does not include title insurance agents or surplus lines brokers.

Pure Risk - The probability (chance) of loss for an insured or prospect. Only pure risk is insurable. In general, an insured is NOT suppose to gain financially from a loss.

Rebating - Giving money back to a person or guarantying to give money back to a person as an inducement for that person to purchase insurance. Illegal in the State of Washington.

Rate-Up - Insurance issued to a person who is a substandard risk, at a premium rate higher than that charged for a standard risk. Charges a younger person the premiums of an older age group.

Recurring Disability Clause - Specifies a period of time during which the recurrence of a condition is considered a continuation of a prior period of disability or hospital confinement.

Representation - A statement made by an applicant on an application which is believed to be true.

Residual Disability Benefits - Payable in proportion to a partial loss of earnings as a result of disability. The benefit payable will be the percentage of income lost, due to the disability, times the amount of the benefit.

Risk - The probability (chance) of loss for an insured or prospect.

Speculative Risk - Gain or a loss. Value of a home or stock going up or down in value is known as a speculative risk. This type of risk is NOT insurable. Only pure risk is insurable.

Standard Provisions - Are usually approved and required by individual States, and must be included in an insurance contract.

Stock Company - A company owned by stock holders. Profits or dividends are paid to the stock holders (NOT the policy owners).

Subrogation is the legal process by which an insurance company seeks from a third party, who may be responsible for a loss, recovery of the amount paid to the insured. The company might pay their insureds medical benefits, but they have the right to sue the party at fault or his or her insurance company for reimbursement for the benefits paid. This kind of lawsuit is called subrogation.

Substandard Risk - Person who is considered an under-average or impaired-insurance risk because of physical condition, family or personal history of disease, occupation, residence in unhealthy climate or dangerous habits.

Temporary Agent - A person who is licensed to act as an agent for a brief period of time (no more than 180 days in Washington) without taking a written examination. Temporary licenses are commonly granted to allow someone to continue the business of an agent (to legally represent that agent) who has died or becomes disabled.

Underwriting - Process through which an insurer determines whether, and on what basis, an insurance application will be accepted.

Unilateral Contract - A contract characteristic that obligates only one party to a contract. The policy owner is not required to pay premiums and can cancel the policy whenever they want to. However, if the premium is paid, the insurer is required to pay death proceeds should the insured die.

Valued Contract - A contract that pays a stated amount in the event of a claim or loss.

Waiting Period (Elimination Period)- Duration of time between the beginning of an insured's disability and commencement of the period for which benefits are payable. Most insurers offer a 30, 60, 90 or 180 day *elimination period,* but it could be up to one or two years.

- **The length of the waiting period should be used to help fit the policy to the insured's financial means (budget).**
- **Disability Income Benefits are paid in arrears**. This means that the insured will receive his first check approximately 30 days after the benefit period begins. For example, if an insured selects a 30 day elimination period, he will receive his first benefit check around the 60th day. If an insured has a 90 day elimination period, the first check will be received around the 120th day.

Warranty - A statement made on an application is a representation; however**, a warranty is listed in detail in the policy for insurance and is a guarantee by an insured**. A breach of a warranty is a breach of the insurance contract and could cause the voiding of a claim.

- *The insurance company gives a warranty to the owner of the policy that the insurance company will pay for covered losses*.