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**A GLOSSARY OF TERMS
THAT INSURANCE PROFESSIONALS
SHOULD KNOW AND UNDERSTAND**

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CONTINUING EDUCATION ON THE WEB
(09/2006)

The duties and responsibilities of a representative conducting the business of Life and Accident and Sickness Insurance in Canada have never been greater.

The focus by regulators in the last number of years can be stated in the following manner:

**“DO THE RIGHT THING FOR THE CLIENT
BECAUSE IT IS THE ONLY THING TO DO!”**

The purpose of this Module is to assure that representatives are familiar with terms that are necessary to service clients and prospects in a professional and business like manner.

The following terms that every insurance representative should know are reprinted with the permission of the Financial Advisors Association of Canada (ADVOCIS)

Absolute assignment

A policy assignment under which the assignee (the person to whom a policy is assigned) receives full control over the policy and full rights to its benefits. Generally, when a policy is assigned to secure a debt, the insured retains all rights in the policy in excess of such debt, even though the assignment is absolute in form. (See also Assignment and Collateral assignment.)

Accident

An unforeseen happening not voluntarily undertaken.

Accident insurance

Insurance providing benefits (monthly and/or lump sum) in the event the person insured is accidentally injured or killed.

Accidental bodily injury

Injury to the body of the person insured as the result of an accident. This may include infections arising from an accidental injury to the exterior of the body.

Accidental death and dismemberment benefit

A form of accident and sickness insurance that provides payment in the event of death or loss of one or more bodily members (such as hands or feet), or the sight of one or both eyes, as the result of an accident.

Accidental death benefit (ADB)

An optional provision that doubles (or sometimes triples) the face amount of a life insurance policy (subject to specified conditions and exclusions) if the life insured dies as the result of an accident. In general, death must occur prior to a specified age and result from bodily injury effected solely through external, violent, and accidental means independently and exclusively of all other causes, and within 365 days after such injury. Also called double (triple) indemnity.

Accidental dismemberment

Often defined as “the severance of limbs at or above the wrists or ankle joints or the entire irrevocable loss of sight” as a result of an accident. In the past, loss of use, in itself, was not usually considered to be dismemberment. However, loss of use is now covered by many companies.

Accident and sickness insurance

Insurance providing for the payment of benefits as the result of sickness or injury. Includes various types of insurance such as: accident insurance, disability income replacement insurance, medical expense insurance, accidental death and dismemberment insurance.

Accidental means

An unforeseen, unexpected, unintended cause of an accident. Both the cause and the result of what happened must be accidental.

Account value

In a universal life contract, the accumulating (reserve) fund that is invested on behalf of the policyowner. The account value represents the gross policy reserve, before allowing for back-end surrender charges (where applicable). (See also Cash surrender value and Surrender charge.)

Accrual rules

Tax rules applying to non-exempt policies last acquired after Dec. 1, 1982, requiring any unrealized (i.e., not actually triggered) gain to be reported as income. (See also Non-exempt life insurance policy)

Actual authority

Authority (either express or implied) that is specifically vested in an agent by a principal. (See also Apparent authority, Express authority and Implied authority).

Actuary

A technical expert in life insurance, particularly in mathematics. A person in this job applies the theory of probability to the business of insurance and is responsible for the calculations of premiums, policy reserves and other values.

Adjustable premium whole life (APWL)

A life insurance policy having a level sum insured (face amount) with premiums guaranteed for only a limited period, such as three or five years. After that time, premiums are recalculated based on actual and projected mortality experience, operating expenses and investment performance. Changes in premiums influence the level of cash value (and reserve), which is adjusted to maintain the sum insured.

Additional provisions

Provisions in addition to the insuring and benefit provisions, and to the uniform provisions, which define and limit the coverage. Also called “general provisions.”

Adjusted cost base (ACB)

For depreciable property, the ACB is the capital cost of the property when it is acquired or purchased. For non-depreciable capital property, the original cost is subject to frequent adjustment reflecting transactions and other changes between the dates of acquisition and disposition.

Adjusted cost basis (ACB)

The base value from which accrued income and policy gains for life insurance and annuity contracts are measured. The ACB changes with each transaction with respect to the policy; some transactions increase it and others decrease it.

Adjustment income

One of the basic uses for life insurance. Also called readjustment income. An added “step down” income, over and beyond that required to cover the family’s minimum needs, to help adjust to the shock of lower income following the life insured’s death.

Administrative services only (ASO)

A self-insurance arrangement in which an organization (usually an employer) hires an outside firm to administer the employer’s health insurance program, but the employer retains responsibilities for providing funds to pay claims.

Advocis

Advocis is a voluntary association of professional insurance and financial advisors, committed to helping its members more effectively serve their clients. Advocis members show a commitment to being informed, influencing legislation, learning and interacting with other professionals and adhering to standards and a code of professional conduct.

Adverse selection

Selection “against the company.” The tendency of less favourable insurance risks to seek or continue insurance to a greater extent than others. Also, the tendency of policyowners to take advantage of favorable options in insurance contracts. (See also Anti-selection)

“Age admitted”

Noted on a life insurance policy where the applicant has provided proof of age (e.g., a birth certificate) during the application process. Having “age admitted” will speed up the claims process in the event of the death of the life insured.

Age adjustment

Increase or decrease of the face amount payable under a life insurance contract, to compensate for a misstatement of age of the life insured at the time of policy application. The face amount is adjusted to the amount of coverage that the premium paid would have purchased had the life insured’s correct age been used. (See also Misstatement of age)

Age at issue

The age of an insurance applicant or an insured as used for insurance purposes. In some companies, the issue age is the age at last birthday; in others, it is the age at the nearest birthday.

Age limits

Minimum and maximum age limits for the insuring of new applicants or for the renewal of policies.

Agent (life insurance)

A person, other than a duly licensed broker, licensed to solicit insurance or to aid in placing risks, delivering policies or collecting premiums on behalf of an insurance company (insurer). The acts of an agent are binding upon the company only to the extent specified in the agent's contract or otherwise authorized. The agent cannot bind the company by any statement contrary to provisions of the application or policy nor delegate his or her rights or powers unless expressly authorized. Often called a life underwriter.

Aggregate limit clause

Refers to the maximum amount of benefits payable under an "overhead expense" reimbursement contract. Where benefits are expressed as a monthly maximum for a benefit period of a stated number of months and a provision is made for continued access to benefits when all available dollars have not been paid during the specified benefit period.

Allocated benefits

Payments (in some policies) for specified services, which are limited to maximum specified amounts.

Amount at risk

The difference between the sum insured and the reserve or policy value at a given date. In other words, the amount over and above what the policyowner has contributed in the way of policy value toward the payment of a claim against the policy. Because the policy value increases each year, the net amount at risk normally decreases and finally reaches zero when the policy value or reserve becomes equal to the sum insured.

Annuitant

A person during whose life an annuity income is payable, usually the person receiving the income.

Annuitization

The conversion of the accumulating fund under a life insurance policy or deferred annuity contract into a series of periodic income payments, either for a fixed term of years or for the life of the annuitant.

Annuity

A contract that provides income payments at regular (typically monthly) intervals, usually for a specified period or for the lifetime of the annuitant.

Anti-selection

The tendency for the poorest health risks to be those individuals who are most likely to want to acquire, maintain or convert a life insurance policy.

Apparent authority

Authority that, to the public at large, appears to have been vested in an agent but that, in fact, has never actually been given to that agent by his or her principal. (See also Actual authority, Express authority and Implied authority)

Arm's length

Generally, parties are dealing at arm's length (objectively) in a transaction if they are not related to each other by blood (e.g., brother and sister, father and daughter) or marriage (e.g., husband and wife).

Application

A statement of information made by a person applying for insurance. The application identifies the plan and amount applied for, the life insured and the beneficiary, and provides other data useful in evaluating the risk.

Assignee

A person (including a corporation, partnership or other organization) to whom a right or rights under a life insurance policy are transferred by means of an assignment.

Assignment

The signed transfer by a policyowner of the benefits of a policy to another party. If the insurer is given due notice of the assignment, the policy benefits will accrue to the person named as assignee. The insurer does not guarantee the validity of an assignment. (See also Absolute assignment and Collateral assignment).

Assignor

A person (including corporation, partnership or other organization) who transfers rights under an insurance policy to another by means of an assignment.

Association group insurance

Insurance issued under a group plan to members of a professional or trade association formed for purposes other than securing insurance.

Assurance/insurance

These terms are synonymous. Assurance is more commonly used in Britain and some other Commonwealth countries than in Canada. (See Life insurance)

Assuris

A Canadian life and health insurance industry-sponsored consumer protection plan that insures specified invested amounts or policy benefits in the event of the insolvency of the issuing insurance company.

Attained age

With reference to an insured, usually the age at which a policy is issued plus the number of years completed since issue.

Attribution rules

Under the Income Tax Act, income (interest or dividends) or capital gain from property earned subsequent to transfer of the property by a taxpayer to his or her spouse or minor children may be deemed to be income or gain of the taxpayer and taxable in his or her hands.

Authority

(See Actual authority, Express authority, Implied authority and Apparent authority).

Authorized stock

Shares of capital stock of a corporation that are authorized to be issued, whether or not the shares have actually been issued to a shareholder.

Automatic premium loan (APL)

An option that will automatically pay any premium in default at the end of the grace period and charge the amount so paid against the policy as a policy loan, provided such premium is not in excess of the policy's cash surrender value on the due date of the premium (the CSV having been computed on the assumption that such premium had been paid).

Average tax rate

Calculated by dividing the amount of tax payable by a taxpayer in a given tax year, by the taxpayer's total income for that year. (See also Marginal tax rate).

Baby boom

A period of significant increase in the number of births per annum in Canada, between 1945 and 1959.

Back-end charges

Expense charges associated with life insurance policies, deferred annuities and pooled funds, which are charged only in the event that the contract is actually surrendered (in whole or in part).

Balanced financial planning

A review of a client's financial program in four key areas: cash on hand, protection dollars, guaranteed investments and equity investments.

Bearer bonds

Corporate or government debt securities that are not registered in the name of an individual investor, but are in street form – payable to whoever might present them for payment.

Beneficiary

A person or organization (e.g., a corporation) to whom or for whose benefit insurance proceeds are made payable in a contract or by declaration. (Under a pension plan, any person who may become eligible to receive, or who is receiving, benefits under the plan other than as a participant.) (See also Irrevocable beneficiary and Revocable beneficiary).

Benefit

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

Benefit period

The length of time benefits will be paid under a disability income policy. Common benefit periods are: one year, two years, five years, to age 65 and for life.

Blue Cross

An independent membership association providing protection for medical costs not covered by government hospital and medical plans. Benefits available vary among the various provincial blue cross associations.

Bond

Evidence of a debt on which the issuer promises to pay the holder a specified amount of interest for a specified period, and to repay the loan on maturity or expiration date. Strictly speaking, assets must be pledged as security for a bond. However, the term is often used loosely to describe any debt security.

Broad form

Policies that offer broad protection with few limitations (as compared with limited form plans).

Bundled

An insurance policy where the various components of face amount, premium and guaranteed cash surrender value are interdependent in fixed amounts, established at the time of issue of the policy.

Business insurance

Insurance coverage concerned primarily with the protection of an insured's business or vocation. Business insurance protects a business against the loss of its valuable lives or key personnel; stabilizes the business through the establishment of better credit relations; and provides a practical plan for the retirement of business interests in the event of the death of one of the owners.

Business buy-out

Disability policies designed to provide the funds for partners or shareholders to buy the interest of other partner(s) or shareholder(s) in event of a prolonged disability. Such plans will have an elimination period of one or two years with benefits payable in a lump sum or monthly over two to five years or a combination of the two.

Buy-sell agreement

A contract between two or more persons, generally with a business relationship, setting out the conditions under which one may buy out the other's interest. It is usually funded by life insurance, in full or in part.

Callable bond

A bond that can be called (redeemed) by the issuing corporation or government at the issuer's discretion, usually after (or within) a specific time period.

Canada Pension Plan (CPP)

An earnings-related pension plan, administered by the Government of Canada, that provides a retirement pension up to the level of 25 per cent of the current average industrial wage. Financed principally by compulsory contributions from income-earners on their annual "pensionable earnings," as determined each year, and from employers. Several supplementary pensions and benefits are available to family members. The province of Quebec administers its own plan: the Quebec Pension Plan.

CPP/QPP sharing

The sharing (in equal portions) of retirement benefits received by a married couple, under either the Canada Pension Plan or the Quebec Pension Plan.

Canada Savings Bonds

Highly secure and liquid debt securities, issued annually by the Government of Canada.

Canadian Council of Insurance Regulators, The

A council of provincial superintendents of insurance active in the discussion of insurance regulatory problems and in the formation and recommendation of model legislation and regulations.

Canadian Institute of Chartered Life Underwriters and Chartered Financial Consultants (The)

An organization of life insurance representatives awarded the Chartered Life Underwriter (CLU) designation. Members may also qualify for the Chartered Financial Consultant (C.F.C.) designation. Its objective is to promote the highest possible standard of service to the public.

Canadian Life and Health Insurance Association Inc. (CLHIA)

The oldest organization of its kind in North America (1894). Membership includes Canadian, American, British and European companies representing about 90 per cent of the life and health insurance in force in Canada. Among its roles, CLHIA seeks to promote a legislative and regulatory environment in Canada favourable to its members and to provide information and educational resources to the public. Its information centre provides information and responds to consumer concerns.

Canadian Deposit Insurance Corporation (CDIC)

Backed by the federal government, the CDIC guarantees the principal investment of Canadians (to a maximum of \$60,000 per client in each institution) in deposit investments with banks and trust companies, in the event of the insolvency of the issuing company.

Capital cost allowance (CCA)

The degree of depreciation that may be claimed under the Income Tax Act. An owner of depreciable property may claim, as a CCA deduction, a percentage of the property's original or previously undepreciated cost. Basically, a tax deduction based on the assumed decline in value (due to use) of business assets.

Capital gain or loss

Profit or loss resulting from the sale of a capital asset. A percentage (currently 50 per cent) of the taxable portion of the gain or the allowable portion of the loss is reportable for tax purposes.

Capital property

Investment property identified under the Income Tax Act as having been acquired for its capital growth potential (e.g., shares, mutual funds, real estate).

Capital stock

(See Authorized stock)

Capitalized value

The amount of capital, invested at a specified interest rate that would be required to replace the earning or income power of an investment or individual.

“Career average earnings” registered pension plan

A pension plan that pays out a benefit to plan members based on a percentage of their average salary over the course of their tenure with the employer.

Cash refund annuity

An annuity that pays out the difference (if any) between its purchase price and the total of annuity payments made to date, upon the death of the annuitant.

Cash surrender value (CSV)

The amount available in cash upon surrender of a policy (other than a term insurance policy) before it matures. During the early policy years, the CSV is the reserve less a “surrender charge”; in the later policy years, the CSV usually equals or closely approximates the reserve value at time of surrender. A schedule of the CSV per \$1,000 (or unit) at the end of various representative policy years generally is included in the policy.

Catastrophic loss

A loss that is so significant that it cannot be compensated for out of the income or assets of the insured. An all-encompassing fire destroying a house or the death of an income earner are examples of catastrophic loss.

Certificate of insurance

A document delivered to an individual summarizing the benefits and principal provisions of the group contract under which the individual is insured. Also, a written contract between a fraternal benefit society and the member purchasing the insurance, stating the terms and full details of the agreement.

Chartered Financial Consultant (C.H.F.C.)

In Canada, a designation conferred jointly by The American College and The Canadian Institute of Chartered Life Underwriters and Chartered Financial Consultants in recognition of the attainment of certain standards and proficiency in the practice of financial planning. The right to the designation is open to all Chartered Life Underwriters who meet the preliminary requirements and pass the requisite examinations. In the U.S.A., the short form is CHFC.

Chartered Life Underwriter (CLU)

A designation conferred by The Canadian Institute of Chartered Life Underwriters and Chartered Financial Consultants in recognition of the attainment of certain standards of education and proficiency in life underwriting. The right to the designation is open to agents and certain other members of a life insurance company or fraternal organization who meet the preliminary requirements and pass the requisite examinations.

Churning

Said to occur when an agent directly, or indirectly, replaces an in-force policy with an existing insurance company with a new policy from the same insurance company, primarily for the purpose of generating new commissions.

Claim

A demand by a person for payment or fulfillment of benefits provided by a policy.

Claimant

A person entitled to claim under the policy - which includes a beneficiary or trustee.

Classification

The occupational category of a risk.

Clean-up fund

One of the basic uses for life insurance. A reserve to cover costs of last illness, burial, legal and administrative expenses, miscellaneous outstanding bills, etc. Also called final expense fund.

Closed-end fund

A pooled investment fund that issues a finite number of shares to the public. Investment in the fund (after issue) is affected by the purchase of shares from an existing shareholder rather than from the fund itself. (See also Investment company, fund or trust).

Collateral assignment (insurance)

The assignment of a policy to a creditor as security for a debt. The creditor is entitled to reimbursement from policy proceeds for any amount owed to the creditor at the life insured's death; the beneficiary is entitled to any excess of policy proceeds over the amount due to the creditor. (See also Absolute assignment and Assignment).

Coinsurance

In respect to benefits of a group health insurance plan, the portion of the expenses claimed that must be borne by the plan member (e.g., 20%).

Commercial policies

Contracts of accident and sickness insurance that may be terminated by the insured or insurer at any time. The fact that the contract is cancellable must be stated in the contract and usually provides that the insurer must give the insured 10 days notice by registered mail and the insured give the insurer notice by registered mail.

Common disaster clause

An optional policy clause designed to provide an alternative beneficiary in the event that the life insured and the beneficiary die as the result of a common accident (or each dies in a different location and the order of the deaths cannot be determined). Unless the clause provides otherwise, if the life insured and the beneficiary die at the same time or in circumstances making it uncertain which of them survived the other, the beneficiary is presumed to have predeceased the life insured. Also sometimes called simultaneous death clause.

Common stock (shares)

Securities that represent ownership in a corporation and carry voting privileges.

Commuted value

The single sum that represents the present worth, or equivalent value, or a stipulated number of annuity installments payable at fixed future dates. Also called discounted value.

Concealment

Failure of the insured to disclose to the company a fact material to the acceptance of the risk at the time the application is made.

Conditional insurance agreement

Document given by a life insurance agent to a person who, at the time of making application for life insurance, pays the required amount of premium. Consists of two parts: receipt for the premium payment and a certificate evidencing an agreement that provides interim, or “conditional,” insurance while the application is being processed by the insurer.

Consideration

Under contract law, an asset of discernable value (e.g., cash, cheque, negotiable securities, etc.) that must pass from one party to another in return for goods or services provided. Absent the payment of consideration, a contract is not enforceable in law.

Consideration clause

That part of an insurance contract that sets forth the amount of initial and renewal premiums and the frequency of future payments.

Consumer Price Index (CPI)

An index compiled and published by Statistics Canada of the costs of a selected cross-section of goods and services, which are allocated a value of 100 in the “base (initial) year.” Costs of the selected goods and services in all other years are proportionate to the base year.

Consumer Protection Plan

(See Assuris)

Contingent beneficiary

A person designated to receive policy proceeds if the primary beneficiary is deceased at the time the proceeds become payable. Policyowners are generally advised to appoint a contingent beneficiary; otherwise, the policy proceeds would become payable to the estate of the insured.

Contingent owner

An individual designated to become the successor owner of a life insurance or annuity contract, in the event of the death of the current owner.

Continuous disability

Some contracts require that the insured’s disability be continuous. However, a trial effort to return to work, or work done as medical therapy, is not usually construed as breaking the continuity of the disability.

Contract

The application, the policy, any document attached to the policy when issued, and any amendment to the contract agreed upon in writing after the policy is issued, constitute the entire contract, and no agent has authority to change the contract.

Contract of life insurance

In legal terms, includes not only the group policy but the certificate of group insurance, interim receipt, renewal receipt, or writing evidencing the contract and binding oral agreement.

Contributions

Under a universal life policy, amounts deposited to the policy in excess of premium deposits designated for payment of insurance and related expenses under the contract.

Contributory group plan

A group pension, RRSP or health insurance policy under which the employee plan members are required to pay a portion of the annual premiums or contributions.

Convertible bond

A debt security issued by a corporation, under which the holder of the investment has the option to convert the security into a prescribed number of shares of stock of this issuer.

Convertible preferred share

Shares of a given preferred class of a corporation, under which the shareholder has the option to convert the investment into a prescribed number of common shares of the issuer.

Convertible term insurance

Term insurance that may be exchanged, in part or in whole, at the option of the insured (without evidence of insurability), for permanent insurance (e.g., whole life) within the period specified in the policy.

Conversion privilege

The contractual right of the owner of one type of life insurance policy to convert the contract (usually term), without evidence of insurability, to another type of contract (usually permanent) with the same insurer.

Conversion ratio (rate)

Generally, the number of common shares that can be obtained in exchange for one convertible preferred share of this same corporation, under a conversion right.

Corporate bond

Debt security, usually long term, issued by a corporation in order to raise capital.

Corporate dividends

Amounts paid to preferred and common shareholders, out of net profits, in cash or stock at the discretion of a corporation's board of directors.

Corporation insurance

(See Business insurance)

Cost base

(See Adjusted cost base)

Cost of living rider

An addition to a disability income policy that will increase the benefit payable, by a fixed amount or based on the consumer price index, annually or semi-annually while on claim. Rider may or may not have annual and/or overall maximum increases.

Coupon bond

A debt security (issued by a corporation or a government) that pays periodic interest to investors by way of a coupon physically attached to the bond certificate. Bondholders collect the interest due on the bond by detaching the coupon and cashing it at a financial institution.

Creditor protection

The issue of whether or not an investor's assets are exempt from claims of their creditors in the event that the investor becomes bankrupt.

Creditor's group insurance

A class of group insurance (usually decreasing term) effected by a creditor insuring the lives and/or well-being of a number of his or her debtors. If a debtor dies or becomes disabled, the balance of the loan outstanding is paid from the insurance money.

Creditors

Third parties to whom the insured is indebted.

Crystallization

With respect to the capital gains exemption, action taken to trigger a disposition of qualifying assets, so as to trigger the realization of capital gains qualifying for the exemption. Crystallization ensures that the exemption will be used to the benefit of the taxpayer.

Cumulative preferred shares

Participating preferred stock of a corporation for which unpaid annual dividends accrue. Such accrued, unpaid dividends must be paid out to the preferred shareholder in the future, before any dividends can be paid to the corporation's common shareholders.

Cut-off provision

Regulates the period during which benefits are payable under major medical and comprehensive medical expense insurance.

Days of grace

The number of days (usually 30 or 31) that a life insurance policy will remain in force after a scheduled premium has not been paid.

Death benefit

The amount payable from a life insurance or annuity contract, to a named beneficiary, as the result of the death of the life insured or annuitant.

Debenture

A bond secured by the general credit of the issuer rather than by specific assets. (See also Bond).

Declaration

An instrument signed by the insured with respect to which an endorsement is made on the policy, or which identifies the policy or which describes the insurance, and in which the insured designates, alters or revokes the designation of the insured's personal representative or beneficiary.

Decreasing term insurance

A term insurance policy with a level premium for the life of the contract, but under which the death benefit payable decreases annually. Usually used as protection against declining liabilities, like mortgages.

Deductible

A fixed dollar amount (either annually or by claim) that an insured must assume before group benefits are payable under a group health insurance policy.

Deemed disposition

A change in regard to capital property that, under the Income Tax Act, causes the property to be deemed to have been disposed of, just as though the property had actually been sold. The ruling may apply to life insurance policies under such typical situations as an absolute assignment of a policy or a succession to a contingent owner.

Deferred annuity

An annuity providing for periodic payments to begin at some future date, such as after a specified number of years or at a specified age. May be purchased either on a single premium or a regular (e.g., monthly) premium basis.

Defined benefit pension plan

One of two types of registered pension plans (RPPs), under which benefits are determined by a benefit formula. The required contributions depend on the benefits to be provided and the number of years in the accumulation period. (The opposite to the defined contribution pension plan.)

Defined contribution pension plan

One of two types of registered pension plans (RPPs), under which annual contributions are determined by contribution formula set forth in the plan. The benefits paid to a participant vary with the size of the contributions on his or her behalf and length of service under the plan. Also known as a money purchase plan.

Dental benefits

Reimbursement for all or part of the cost of specified dental services.

Dependency period income

One of the basic uses for life insurance, to generate income for the family until the youngest child attains maturity.

Deposit administration contracts

A method of pension funding in which contributions (as necessary) are deposited with a life insurance company and used to purchase annuities when employees retire. (In contrast to conventional group annuities, under which the funds are immediately used to purchase units of deferred annuities for all participants.) The company acts as the trustee until the annuities are actually purchased.

Disability

A physical or mental inability to work.

Disability (income) insurance

A form of A&S insurance that provides periodic payments when the insured is unable to work as a result of illness or injury. Also called: income protection; income replacement; long-term disability insurance; weekly indemnity; loss of income (or time) insurance.

Disclosure

The concept of full and adequate revelation to a prospect of all pertinent information regarding a contract (especially a variable contract) as a prerequisite to its sale.

Dismemberment clause

A clause in the policy referring to the accidental loss of limbs or sight.

Disposition

The act of divesting oneself of an interest in a life insurance policy by way of surrender, absolute assignment or maturation.

Dividend

(See Policy dividend)

Dividend additions

An amount of insurance added to participating policies – provided that the policy permits that dividends may be used as single premiums at the insured's attained age to purchase paid-up insurance as additions to the sum insured. (See also Policy dividend).

Dividend gross-up

Increase in the amount of actual dividends received from Canadian corporations (by 25 per cent), to compute the taxable amount of dividends. (See also Dividend tax credit).

Dividend options

A variety of choices offered to owners of participating life insurance policies, for the pay-out, investment or reinvestment of dividends payable on their policies. Standard dividend options include dividends paid out in cash, used to reduce premiums, invested at interest with the insurer and used to purchase paid-up additional insurance.

Dividend tax credit

An amount equal to 16.67 per cent of the actual cash amount of taxable dividends from Canadian corporations. The dividend tax credit offsets federal income tax payable on the dividends and/or other income.

Dollar cost averaging

The periodical investment of a fixed amount in specific shares at regular set intervals, regardless of the price of the stock purchased, usually resulting in the average cost of the shares being lower than the average of their prices.

Double indemnity clause

A clause in or added to some life insurance contracts that will double the death benefit if death is due to an accident. Now more commonly known as accidental death benefit. See Accidental death benefit.

Duplicate coverage

A term used where an insured is covered by several policies with one or more companies providing the same type of benefits, often resulting in over-insurance.

Earned income

For RRSP contribution purposes, those amounts of income that qualify to be taken into consideration for calculating the allowable amount of deductible RRSP contributions. "Earned income" includes such items as salaries, commissions, royalties, net income from self-employment and net rental income. A percentage (currently 18 per cent) of earned income is used to compute a portion of the RRSP contribution room formula.

Effective date

The date upon which a life insurance contract is deemed to go into force.

Eligible expenses

Expenses that are insured under the broad terms of major medical or comprehensive medical expense insurance.

Elimination period

A specified period of time, beginning at the onset of a disability that must pass before any policy benefit will be paid. See also Waiting period.

Emergency fund

One of the basic uses for life insurance. A reserve death benefit fund provided by policyowners to protect their families against unexpected large, non-budgetable expenses. The increasing loan values of life insurance policies also constitute (and often are referred to as) emergency funds for policyowners while living.

Employee booklet

A publication given to members of a group plan of life or health insurance, explaining the benefits and terms and conditions of the group plan.

Endorsement

An alteration, addition, limitation or extra provision attached to a policy or sometimes on the printed policy page. An endorsement may also be in the form of a rider. No endorsement is valid unless signed by an executive officer of the company.

Endow

A provision that allows that the cash surrender value of a life insurance policy shall equal the sum insured at a specified future date (the endowment date).

Endowment insurance

Life insurance payable to the policyowner, if living at the end of a specified period, called the maturity date, or to a beneficiary if the life insured dies prior to that date.

Equities

Investment in non-guaranteed assets involving varying degrees of risk, ranging from such relatively conservative assets as real estate, variable contracts, blue chip stocks and other securities, to high risk shares in a junior mining or oil or gas company.

Estate planning

The total process of planning an estate, including: (a) creating and conserving an estate; (b) minimizing estate shrinkage at death; (c) creating adequate liquidity for settling the estate; and (d) a proper plan for distributing the estate to the owner's heirs.

Evidence of insurability

A statement, declaration or proof of a person's health, occupation, income, etc. affecting the acceptance for insurance.

Exceptions -exclusions

Specified risks for which a policy will not provide benefit payments.

Excess interest

The difference between the rate of interest the insurer guarantees to pay on proceeds left under settlement options and the interest the insurer actually allows.

Excess RRSP contributions

Amounts contributed to an RRSP plan in excess of the deductible amount as calculated under the annual contribution formula. Lifetime, a taxpayer may carry forward up to \$2,000 of excess RRSP contributions without being subject to penalty.

Executor

A person or a corporation (e.g., trust company) nominated in a will to effect the settlement of the testator's estate in accordance with the terms of the will.

Exempt policy

A life insurance policy that meets the requirements under the exemption test policy and is therefore exempt from current taxation on the buildup of investment income within the policy.

Exemption test policy

A theoretical life insurance policy (based on a 20-pay, endow at age 85 contract) that is used as a benchmark to determine whether or not a given life insurance policy is exempt from current taxation.

Expense loading

Agent's commissions, medical costs and other expenses taken into consideration in determining the amount of front-end charges to be applied to a given class of life insurance contracts. Also used in the computation of premiums to be charged on the contract.

Experience rating

A factor taken into consideration at the time of renewal of premium for a group insurance contract (usually annually), allowing for the past claims experience of the group.

Expiry date

A predetermined date upon which the benefits of a given contract of life or disability insurance will terminate.

Express authority

Authority vested in an agent, by a principal, through specific written (or oral) instruction.

Extended health care insurance

A form of health insurance (usually group) that provides reimbursement for certain expenses not covered by provincial medical insurance plans and (usually) some other health care expenses. Examples include prescribed drugs, ambulance service, private duty nursing, medical appliances, etc. The policy may contain a deductible amount per annum and/or a co-insurance feature under which claims are shared by the claimant and the insurer on a formula basis, e.g., 20/80 per cent. Also called Supplementary major medical expense.

Extended term insurance

The non-forfeiture option that provides that the cash surrender value of a policy, less indebtedness, may be used as a net single premium at the life insured's attained age to purchase term insurance for the sum insured of the policy for as long a period as possible, but not longer than the term of the original policy.

Extra premium

The amount charged in addition to the regular premium rate to cover an extra hazard, special risk or substandard risk.

Face amount

(See Sum insured)

Fact finding

The process of collecting information from a prospect, for the express purpose of determining the individual's need for insurance and the quantity and type of insurance most suitable for that prospect.

Fair market value (FMV)

The highest price available in an open and unrestricted market between a willing buyer and a willing seller dealing at "arm's length" both of whom are fully informed as to the qualities of the property concerned and neither of whom is under any compulsion or haste to transact business.

Family deductible

A major medical policy that covers all the members of a family can include a family deductible in addition to an individual deductible.

Fiduciary

One who holds property or an interest in trust for the benefit of a third party.

Financial planning

The process of (1) collecting and analyzing information concerning a person's or a family's personal and financial situation in order to identify needs and problems; (2) establishing specific financial objectives; and (3) formulating, implementing and continuously monitoring a financial plan to achieve those objectives.

First mortgage bond

A debt security issued by a corporation that is secured by a lien against specific corporate assets.

Fixed annuity

An annuity that guarantees the periodic payment of a specified (fixed) amount of income per installment for life or other periods. (See also Annuity and Variable annuity)

Flat deductible

Amount of covered expenses payable by the insured before major medical benefits are payable.

Flexible premium contract

A life insurance policy or an annuity under which its owner may vary the amounts and/or timing of premium deposits.

Fraternal insurance

Insurance provided by fraternal benefit societies, organized without capital stock and not for profit and maintaining a lodge system. Almost all fraternal societies operate on a level rate and reserve basis in accordance with special fraternal regulations and under the supervision of provincial authorities.

Fraternal Insurance Counselor (FIC)

A designation awarded to fraternal life underwriters who complete the prescribed course of study, pass the examinations and meet other requirements.

Fraternal society

A social organization that provides insurance for its members.

Free look

A provision in law allowing the purchaser of a life insurance contract a period of 10 days after policy delivery to decide whether to keep the contract or return it to the issuing insurance company. If the policy is returned, the former policyowner is entitled to a full refund of all premiums paid up until that time.

Front-end load

An expense load in a life insurance or annuity contract (or other investment) that is levied (usually on a percentage basis) against funds as they are deposited to the contract.

Fundamental group principles

A series of five basic principles required for the underwriting and administration of group life and health insurance plans, to ensure the integrity, stability and profitability of the plans.

Future insurance option

A rider added to disability income policies that allows the insured to purchase additional coverage at standard rates, for his or her current occupational classification, at stated future times, regardless of health or occupation at that time. It is not guaranteed insurability as, usually, the applicant is subject to financial underwriting, i.e., must have the income to justify the increased coverage.

Government of Canada bond

A bond issued by the government of Canada, which has a value that can fluctuate in the open marketplace.

Grace period

The length of time (usually 30 days) after a premium is due and unpaid, during which the policy, including all riders, remains in force. If a premium is paid during this time, the premium is considered to have been paid “on time.”

Group annuity contract

A type of registered pension plan designed by insurers for a group of persons (usually employees of a single employer), covering all qualifying persons under one contract. Employer contributions (or employer and employee contributions, as the case may be) are determined by the insurer’s actuaries in accordance with the benefits to be offered. Contributions are turned over to the insurer as specific premiums; the insurer then guarantees payment of the benefits as they accrue to the members of the group who meet the eligibility requirements.

Group conversion privilege

A provision under a group insurance contract (usually for life insurance) that permits a group plan member who leaves the group the option to convert the coverage to personal insurance (without evidence of insurability), usually within 30 days of leaving the group.

Group insurance

Provides coverage for a group of people under one master contract. The contract is between the insurer and an employer; a professional or occupational group; a trade union; a credit union; a credit card issuer; a group of students; an organization of persons that i } is formed for a specific purpose other than the purchase of insurance; ii } requires its members to pay a membership fee at least once annually; iii } has had a reasonably stable membership over the previous three years; and iv } holds regular meetings of members at which its officers are elected. It includes “blanket insurance,” “creditor’s group insurance,” and “savings group insurance.”

Group life insured

A person whose life is insured under a contract of group insurance, excluding a contract of accident and sickness insurance, and upon whom a right is conferred by the contract, but not including a person who is insured there under as a person dependent upon or related to the group life insured.

Guaranteed cash surrender value

That portion of the cash surrender value of a life insurance contract that is guaranteed and is usually set out in the terms of the contract, based on a certain dollar amount per \$1,000 of sum insured, as at the end of any given policy year. The guaranteed cash surrender value does not include such variables as reinvested dividends.

Guaranteed Income Supplement (GIS)

An income-tested, monthly benefit for Old Age Security pensioners with limited income apart from the Old Age Security pension. (See also Old Age Security Pension).

Guaranteed insurability benefit (GIB)

A low cost policy rider under which the insured has the right to buy additional life insurance at specified future ages without having to provide evidence of insurability. Also called a Guaranteed insurability option (GIO).

Guaranteed investment certificate (GIC)

A security, usually issued by a bank or trust company, offered to the public in denominations of \$500 or more, usually for durations of one to seven or eight years, at an interest rate higher than the rate paid on savings accounts. If the depositor dies before the maturity date, the full amount of principal and accrued interest usually is paid to the deceased's estate (or to the designated beneficiary, if the certificate is held as a registered retirement savings plan).

Guaranteed renewable

A type of disability income policy in which the insured has the right to continue the policy in force by the timely payment of premiums at least to age 55, or in the case of a policy issued after age 44, for at least five years from its date of issue, during which period the insured has no right to make, unilaterally, any change in any provision of the policy while the policy is in force except that the insurer may make changes in premium rates by classes.

Health insurance

(See Accident and sickness insurance)

Hospital expense insurance

Insurance protection against the costs of hospital care, in excess of amounts covered by provincial plans, resulting from the illness or injury of an insured person.

Immediate annuity

An annuity contract that provides for the first payment of the annuity at the end of the first interval of payment (monthly, quarterly, semi-annually, annually) after purchase.

Impaired annuity

A life annuity issued with a higher income payment than would usually be the case, in recognition of the fact that the annuitant (measuring life for the annuity) is in ill health and has a shorter life expectancy than other individuals of the same age, sex and smoker status.

Impaired risk

An insured who has a health condition or is exposed to an occupational hazard, which makes him or her substandard for insurance purposes. (See Substandard (impaired) risk).

Implied authority

Authority that is vested in an agent by a principal by implication, rather than by express, written direction.

Income attribution

A process whereby a taxpayer who transfers property to a spouse or minor child is required for taxation purposes to include in his or her own income the income from such property or, in the case of sale of such property by the spouse or child, the taxable portion of any capital gain. (See also Attribution rules)

Income splitting

The technique of shifting investment income from a high marginal tax rate family member to a lower marginal tax rate family member, so as to reduce the overall amount of income taxes paid by the family.

Incontestability

A provision in the law that a life insurance contract, which has been in effect for two years during the life insured's lifetime is incontestable, except for fraud or misstatement of age, with respect to a failure to disclose or a misrepresentation of a fact relevant to the insurance.

Indemnity

Compensation for loss. An indemnity policy promises, in the event of loss, that the insured will be restored to the financial position that existed prior to loss.

Indexation of pre-disability earnings

An arrangement used in "residual" or "proportional" type disability income policies whereby pre-disability earnings of the insured are increased (indexed) annually or semi-annually while the insured is receiving benefits. As benefits are based on the relationship between income earned before disability (pre-disability earned income) and income earned while disabled, if income increases because of inflation, then benefits could drop. By indexing the pre-disability income according to the CPI or a fixed amount, it tends to prevent disability income from going down because earned income goes up through inflation. It will never increase the benefits beyond the amount purchased - that is done through the cost of living rider.

Indexed annuity

A life, or term certain, annuity under which the income payments increase by a prescribed percentage rate (e.g., 4%) each year.

Information statement

A statement that must appear on any policy or promotional material for a policy that includes a cost or premium. The statement gives the estimated amount of the premium that will be used for claims.

Individual insurance

Insurance purchased on an individual basis, which covers only one person or, in some cases, members of the person's family as well.

Insurable interest

An insurable interest must exist at the time when a life insurance contract is to take effect, otherwise the contract is void. A person has an insurable interest in his or her own life and in his or her "child or grandchild; spouse; any person upon whom he is wholly or in part dependent for, or from whom he is receiving support or education; employee; and any person in the duration of whose life he has a pecuniary interest." ("Person" includes an organization, such as a company or association.) Where no family relationship or pecuniary interest exists, the insurable interest requirement is satisfied if the intended life insured consents in writing to the insurance.

Insured

The person or organization who makes a contract with an insurer. (See also Life insured and Policyowner).

Insurer

(See Life insurance company).

Integration clause

A clause found in some disability income policies that states that if the coverage in effect, together with all government sponsored plans — EI, CPP/QPP, WCB, etc.

Intentional injury

Sometimes called “self-inflicted injury” is an injury resulting from an intentional act or one that could be expected to result from an intentional act. Most policies exclude payment for such injuries.

Interest-rate-sensitive policy

A life insurance policy in which premiums are revised periodically to reflect current and expected interest rates. Also known as new money policy. (See also Universal life insurance policy).

Intestate

One who dies leaving no valid will. The deceased’s assets, if any, are distributed in accordance with the laws of intestacy of the jurisdiction in which the deceased was legally domiciled at death. Intestacy frequently causes hardship and rarely reflects the deceased’s wishes.

Issue and participation limits

Tables set up by insurance companies indicating the maximum disability insurance they will issue based on the applicant’s earned income. The maximum includes other insurance in force.

Investment company, fund or trust

A company which uses its capital to invest in other companies. There are two principal types: closed-end and the open-end, or mutual fund. Shares in closed-end investment companies are readily transferable in the open market and are bought and sold like other shares. Capitalization of these companies is fixed. Open-end funds sell their own new shares to investors, are ready to buy back their old shares, and are not listed. Open-end funds are so called because their capitalization is not fixed; they issue more shares, without limit, as investors want them.

Irrevocable beneficiary

An unalterable designation of any person, the insured having relinquished the right to change the beneficiary designation and placing the life insurance contract beyond the insured’s sole control. The beneficiary, however, is empowered to consent to a change in the designation. (See also Revocable beneficiary).

Issued stock

Authorized stock of a corporation that has actually been purchased by another corporation or by a member of the public.

Joint life and (last) survivor annuity

An annuity payable jointly to two (or more) persons for life, ceasing at the death of the last surviving annuitant.

Joint life annuity

An annuity payable to two or more persons for life, but terminating at the death of the first to die.

Joint life policy

A contract that covers two or more lives and provides for the payment of the proceeds at the first death among those insured; the policy then terminates.

Key person insurance

Insurance on the life of a key employee in a business, designed to provide cash to hire and train a replacement and replace lost revenues and profits in the event of the death of the employee.

Lapse

Termination of a policy due to non-payment of a premium within the allowed time including “days of grace”).

Lapsed policy

A policy terminated because of non-payment of premiums and/or exhaustion of policy reserves in the case of permanent insurance. This phrase sometimes is limited to a termination occurring before the policy has a cash value or other non-forfeiture value.

Last acquired

A life insurance policy is normally deemed to have been “last acquired” by the current owner either at its date of issue or the last date of disposition.

Last expenses

Expenses and bills either owing at the time of a person’s death or triggered as a result of the death (e.g., medical bills, funeral expenses, probate fees, etc.).

Ledger cost

A method of expressing the cost of a life insurance policy over a specified period, such as 20 years. First, the policy dividends, if any, are subtracted from the gross premiums paid; then, from this figure is subtracted the cash surrender value. The balance is the ledger cost for the given period. (See also Net cost)

Level premium plan

The plan of insurance (used by all regular life insurers) under which, instead of charging an annually increasing premium that reflects the increasing risk of death, an equivalent level premium is payable. The plan involves the accumulation of reserves arising out of the excess premiums paid in the earlier years and the depletion of those reserves to supplement inadequate premiums in the later years.

Leverage

Borrowing money for investment, with the expectation that the return on the investment will exceed the interest payable on the loan. (Also, the earnings of a company are said to be leveraged if the capital structure contains debt (bonds) and/or preferred shares ahead of the common share capital.)

Licence

Certification, issued by the provincial department of insurance, that an individual is qualified to solicit insurance applications for the period covered by the licence. In most provinces, the licence usually is issued for a period of two years and renewable on application. Each agent should be familiar with the laws and regulations in his or her province.

Life annuity

An annuity payable throughout the annuitant's remaining lifetime.

Life expectancy

The average duration of the life remaining to a number of persons of a given age, according to a given mortality table. (Not to be confused with probable lifetime, which refers to the difference between a person's present age and the age that death is most probable, e.g., the age when most deaths occur).

Life insurance

Insurance in which the risk insured against is the death of a particular person, called the life insured, upon whose death within a stated term, or whenever death occurs if the contract so provides, the insurer agrees to pay a stated sum or income to the beneficiary.

Life insurance company

An organization chartered by the Government of Canada or by a provincial government for the purpose of carrying on the business of issuing life insurance and annuity contracts. (Some life insurance companies are also chartered to issue accident and sickness insurance). Often the term insurer is used, particularly in the various acts (laws) and other legal documents.

Life insured

The person whose life is insured. A person insuring his or her own life is both the insured (policyowner) and the life insured. (See also Insured and Policyowner).

Lifetime disability benefit

May be part of disability income policy or added as a rider; allows for full or reduced benefits to continue beyond age 65 if the insured is still disabled.

Limited payment life insurance

Permanent life insurance that pays a benefit on the death of the life insured whenever that occurs, and for which premiums are payable for a specified period of years or until the death of the life insured, if this occurs before the end of the specified period.

Liquidity

The availability of cash to meet the immediate needs of a family or a business, in contrast to fixed assets such as land, buildings or machinery. Life insurance has a high degree of liquidity.

Loan value

(See Policy loan)

Locked-in

Funds transferred to an RRSP from a pension plan may be "locked-in" (inaccessible to the annuitant) subject to the restrictions of provincial pension legislation (e.g., no funds may be paid out until the annuitant reaches age 55).

Long-term disability (LTD)

In group insurance, it refers to coverage that pays an income usually starting after any weekly indemnity or unemployment insurance disability benefits have run out and continuing to normal retirement age. For personal coverage, LTD means the same as disability income insurance.

Lump sum

Payment of the entire proceeds of a life insurance policy in one sum. The method of settlement provided by most policies unless an alternative settlement is elected by the policyowner prior to the life insured's death, or thereafter by the beneficiary before receiving payment.

Major medical expense benefit

Policies designed to help offset the heavy medical expenses resulting from catastrophic or prolonged illnesses or injuries. Generally, they provide benefit payments of 75% to 80% of all types of medical expenses above a certain amount first paid by the insured, and up to the maximum limit of liability and within the time period provided by the policy and payable only for benefits that are not covered by compulsory or government plans.

Malingering

Feigning a disability in order to collect insurance benefits.

Gama International Canada

A national association of field managers and their associates whose duties include recruiting, training and developing career representatives to sell life insurance and related products. GAMA Canada is dedicated to enhancing the effectiveness of its members and advocates ethical principles in the conduct of their business.

Marginal tax rate

The top rate at which a given taxpayer is required to pay income tax. Generally, if the taxpayer were to earn one additional dollar (for example) of income, that dollar would be taxed at the taxpayer's marginal tax rate.

Master policy

Sometimes called master contract, the master policy is issued to the employer (or other organization) under a group insurance plan. Contains all the insuring clauses that define participants' benefits. Participants in the group plan receive individual certificates, which seldom repeat all the insuring clauses contained in the master policy. (See also Certificate of insurance).

Material facts

A fact in an application for life (or disability) insurance may be considered to be "material" if it is so important to the underwriting process as to be relied upon strongly in the insurer's ultimate decision as to whether or not to issue an insurance contract on the life of the applicant. Put another way, a material fact is one that, if revealed to the insurer (rather than concealed or misrepresented), would have caused the insurer to decline or rate the policy.

Maturity date

The date on which policy proceeds become payable, either upon death or, with an endowment or annuity contract, upon attainment of a predetermined age or date.

Maximum tax actuarial reserve (MTAR)

The theoretical line, within an exempt life insurance contract, that marks the maximum amount of cash value that may accrue within the policy (at any given time) on a tax exempt basis.

Medical attendance

Treatment or care by a legally qualified licensed physician.

Medical examination

Usually conducted by a physician, the medical examination is part of the application. Thus it becomes part of the policy contract, and is attached thereto. The so-called non-medical in reality is a short-form medical report and is completed by the agent. Various company rules, such as amount of insurance applied for or already in force, age at time of proposed life insurance, sex, medical history, etc., determine whether the examination shall be “medical” or “non-medical.”

Miscellaneous expenses

Hospital charges other than room and board., i.e., X-rays, drugs, laboratory fees, etc.

Misrepresentation

A false statement of a past or present material fact, made in an application for insurance, which induces an insurer to issue a policy it would not have otherwise issued. Also, an agent who misrepresents a policy’s terms, dividends, etc., may be guilty of misrepresenting facts, and is subject to such penalty as may be prescribed by law.

Misstatement of age

In addition to fraud, misstatement of age of the life insured could render a policy voidable by the insurer. However, if an insurer was willing to insure a person at an erroneously stated age, only in rare circumstances would it refuse to do so at the true age. The law therefore provides that in the case of misstatement of age the amount of insurance shall be adjusted to the amount that the premium would have purchased at the true age.

Money purchase plan

(See Defined contribution pension plan).

Morbidity tables

Show the incidence and duration of disability that may be expected in large groups of persons. These tables incorporate age, sex and occupation and are used in the computation of rates for A&S insurance. They perform the same function in A&S insurance as mortality tables perform for life insurance.

Mortality deductions

Within a universal life insurance policy, the amount deducted from the account value each month to pay for the pure cost of mortality (risk of death) under the contract.

Mortality table (and experience)

A listing of mortality experience of individuals by age. A mortality table permits the actuary to calculate how long a person of a given age may, on average, be expected to live. There are different types of mortality tables, such as tables for male and female lives (both “smoker” and “non-smoker”), ordinary life insurance, group life insurance, ordinary annuities, group annuities, and others. Large insurers construct mortality tables from their own experience.

Mortgage insurance

One of the basic uses for life insurance. So called because many family heads leave insurance for the specific purpose of paying any mortgage balance outstanding at their deaths.

MTAR

(See Maximum tax actuarial reserve).

Mutual fund

(See Investment company).

Mutual insurance company

An insurance company without shareholders in which management is directed by a board elected, in most cases, by owners of participating policies.

Net cost

This term ordinarily refers to the actual cost of participating insurance after policy dividends are deducted from the premiums paid. (Because no dividends are payable on non-participating policies, the net cost of such policies is equal to the total premiums paid.) In determining the net cost over a specified period, allowance should be made for the cash surrender value at the end of the period. (See also Ledger cost).

Net cost of pure insurance (NCPI)

An annual computation (prescribed by the Income Tax Act) within a life insurance contract, to calculate the term cost of the mortality (risk of death) factor under the contract. NCPI is used to calculate the adjusted cost basis of a life insurance policy, as well as taxable benefits arising from life insurance and the amount that may be deducted annually in respect of collaterally assigned life insurance.

Net income

Gross earned income, less expenses, but before income taxes. See also Earned income.

Net premium

The actuarial calculation of premiums for a life insurance policy, prior to making allowances for expense loads.

New money policies

(See Interest-rate-sensitive policy)

No-load funds

An investment (mutual) fund that is not subject to either front-end or back-end expense charges.

Non-cancellable policies

More properly known as non-cancellable and guaranteed renewable policies, are those in which the insurer must continue to renew the policy with no unilateral changes, until the policy's expiry date. The expiry date must be no earlier than age 55 unless the policy was issued after age 44, in which case it can be five years.

Non-contributory group plan

A group life or health insurance plan under which all of the plan premiums are paid by the employer.

Non-confining sickness

Illness that prevents the insured person from working but that does not confine him/her to a hospital or his/her home.

Non-contributory pension plan

A pension plan for which the entire cost of the plan is borne by the employer and no employee contributions are required.

Non-cumulative preferred shares

Preferred stock of a corporation for which annual dividends which are not paid are lost, rather than being accrued and carried forward to be paid out in some subsequent year.

Non-economic loss (NEL)

A workers' compensation board benefit. It is paid to permanently impaired workers for what is termed "loss of enjoyment of life."

Non-disabling injury

One that requires medical care but does not result in a loss of time from work.

Non-exempt annuity contract

Generally, a deferred annuity contract last acquired after Dec. 1, 1982, in which the gain (i.e., value of the contract in excess of its adjusted cost basis) accruing during the accumulation period is reportable annually on the accrual basis for income tax purposes.

Non-exempt life insurance policy

A policy last acquired after Dec. 1, 1982, in which the gain (i.e., the value of the policy in excess of its adjusted cost basis) is reportable annually on the accrual basis for income tax purposes.

Non-forfeiture options

The choices available in a life insurance policy to a policyowner if he or she discontinues premium payments on a policy that has accumulated a cash value. Usually, the policyowner may choose one of the following: (a) cash settlement, (b) reduced paid-up amount of insurance, (c) automatic premium loan to continue the full sum insured, (d) extended term insurance for the full sum insured over a specified period (not made available by all insurers).

Non-forfeiture values

Policy values that allow insurance coverage to be continued, in some form, for a period of time, in the event of non-payment of the policy premium. Some examples of typical non-forfeiture values include paid-up values and extended term insurance.

Non-occupational policy

A plan of insurance that insures a person against off-the-job accidents or sickness. Does not insure on-the-job disabilities. See also Occupational policy.

Non-participating insurance

Insurance on which policyowners do not share in any surplus earnings distributed by the company. No policy dividends are payable. The premium is based on an estimate of future costs and investment earnings very close to what the company expects them most likely to be, with a slight margin for contingencies and profit.

Non-smoker

In life insurance terminology, generally considered to be an individual who has not smoked cigarettes or used other tobacco products within the preceding 12 months.

Non-smoker policies

Life insurance policies issued with a reduced premium rate on lives of non-smokers, i.e., those who have not smoked a cigarette or other tobacco products stipulated by the insurer during the 12 months preceding the date of application.

Nursing expense provision

Provides per diem benefits to the insured if nursing care is required. The nurse must be a private-duty registered nurse (RN).

Nursing home provision

Provides benefits if the insured is confined to a nursing home when he or she no longer needs care in a hospital.

Occupational classifications

The grouping together of occupations into classes having approximately the same degree of hazard (morbidity). Each insurance company issues a manual of such classes.

Occupational hazard

A hazard inherent in the insured's line of work. Degree of danger of incurring an accidental injury or sickness in the line of work.

Occupational injury

An injury arising out of, or in the course of, employment.

Old Age Security Pension (OAS)

In Canada, a pension payable to all persons, age 65 or older, who meet the residency requirements. Partial pensions may be available to those who do not meet all the requirements. (See also Guaranteed income supplement).

Open-ended fund

A pooled fund (mutual fund) that can issue and sell an unlimited number of shares (units) to its investors.

Optional benefit

Sometimes known as a "rider," it is an additional benefit in a policy, requested by the applicant and usually requiring an additional premium.

Optional settlements

(See Settlement options).

Ordinary life — straight life

(See Whole life insurance).

Outpatient

One who receives care at a clinic or hospital without being confined to that institution as a resident.

Out-of-province coverage

Coverage, group or individual, that pays specified expenses, in excess of provincial plan coverages, for sickness and accidents away from the home province.

Over-funding

In the case of a universal life insurance contract, the practice of paying more than the required premium, so as to build up tax-deferred cash values in the policy.

Overhead insurance

Provides reimbursement of specified expenses to a business or individuals during disability or, in some instances, in the event of the death of the person insured. Also known as “office overhead expense,” “business overhead” and “professional overhead” insurance.

Over-insured

An excessive amount of insurance carried by an insured that might tempt him/her to prolong the period of disability, remain in hospital longer than necessary, etc. (malingering). The total amount of insurance should not exceed a predetermined percentage of the insured’s earnings.

Paid-up

A policy on which no further premiums are required. The insurer is held liable for the benefits provided under the terms of the contract.

Paid-up additions (PUAs)

Additional insurance purchased by policy dividends on a net single premium basis at the life insured’s attained insurance age at the time the additions are purchased.

Parent waiver of premium

The benefit available under certain policies written on the lives of minor children, upon payment of an extra premium. Provides for future premiums to be waived in the event the person responsible for paying the premiums dies or is disabled before the policy becomes fully paid or matures as a death claim or as an endowment, or before the child attains a specified age.

Partial disability

An illness or injury that prevents an insured from performing one or more, but not all, of his or her important occupational duties; or, one that allows the insured to perform all of his or her duties but for a reduced time. Some policies pay partial or proportional benefits in such instances.

Participating insurance

Insurance on which policyowners share in the surplus earnings distributed by the insurer. Policy dividends are payable. The premium is based on an estimate of future earnings at a somewhat lower level and costs at a somewhat higher level than the insurer expects them most likely to be.

Participating shares

Stock in a corporation that is entitled to share in the net profits of business operations through the periodic payment of dividends to the shareholder.

Partnership insurance

(See Business insurance).

Past service

In defined benefit pension plans, a calculation of premium contributions allowable in respect of past years for which a current employee was employed by the sponsor of the pension plan, but was not a member of the pension plan.

Pension adjustment

A reduction in the amount of contributions that a taxpayer may make to his or her RRSP, allowing for employer or employee contributions made on behalf of the taxpayer in respect of the same taxation year to a pension plan or DPSP of which the taxpayer is a member.

Pension adjustment reversal

A credit to a taxpayer's carried-forward RRSP room, generated at the time that the taxpayer leaves a defined benefit pension plan.

Permanent insurance

Life insurance designed to provide protection until the life insured's death or, in the case of an endowment or pension-type policy, until a specified date. As with a life annuity, its benefits cannot be outlived.

Permanent disability

A disability that will last for life or for an indefinite and undetermined period of time.

Personal insurance

The same as "individual insurance" as opposed to "group insurance."

Person insured

A person who is insured under a contract of A&S insurance, excluding a contract of group insurance. A person who insures his/her own well-being is both the person insured and the insured. Under a third-party or group contract, the person insured is not the person who makes the contract with the insurer. See also Group person insured.

Physical hazard

That type of hazard that arises from the physical characteristics of an individual, e.g., impediments of hearing or sight. It may exist because of a current condition, past medical history, or physical condition present at birth.

Physical impairment

A physical defect that makes an applicant a below-average risk, e.g, slipped disk.

Planned giving

Future gifts to a charity funded by the purchase of a life insurance policy that is subsequently transferred to and made payable to the charity. Premiums paid on such contracts may be treated as charitable contributions for computing the taxpayer's charitable tax credit.

Policy

The legal document, as evidence of a contract, issued by the insurer to the policyowner (insured) specifying the conditions and terms of the insurance. Also called the Contract.

Policy term

That period for which the policy is written.

Policy dividend

A yearly refund to the policyowner of a portion of the premium based on the company's experienced and anticipated costs. Policy dividends are not guaranteed but depend on mortality experience, morbidity experience, investment earnings, expenses and other factors and may be decreased or increased at the discretion of the company. Dividends may be received in cash, applied to reduce policy premiums, or used to buy paid-up insurance additions, equity units or one-year term insurance equal to the cash surrender value, or accumulate at compound interest, or any combination of the foregoing.

Policy fee

With some insurers, the base premium rate per \$1,000 is multiplied by the amount of insurance (in thousands). Then a policy fee, independent of the amount of insurance, is added. Use of this method results in a final premium rate per \$1,000 of insurance that is graded by the amount of insurance. As the amount of insurance increases, the final premium per \$1,000 decreases. The policy fee is intended to defray administrative expenses associated with the policy.

Policy loan

A loan made by a life insurance company to a policyowner on the security of the cash value of a policy.

Policyholder

(See Policyowner).

Policyowner

The person who owns an insurance policy. Also called the insured. In life insurance, the policyowner is usually the life insured, but not necessarily so. (See also Insured and Life insured and Policyholder).

Policy reserves

The funds that an insurance company holds specifically for the fulfillment of its policy obligations. Reserves are required by law to be so calculated that, together with future premium payments and interest earnings, they will enable the company to pay all future claims.

Population mortality table

An actuarial table that predicts mortality rates (number of deaths per thousand per year, by class of individual) based on the general population at large.

Pre-existing condition

A physical or mental condition of an insured person that exists prior to the issuance of the policy.

Pre-disability income

The average income of the insured prior to disability. Policies usually give a choice of periods to use for the average ranging from six months to the best two consecutive years in the last five years.

Preferred beneficiary

Prior to July 1, 1962, in the common law provinces, a beneficiary of a life insurance policy who was in the "preferred class" (spouse, children, grandchildren, parents of the policyowner). If a beneficiary in the preferred class was named, the policyowner was restricted in what he or she could do with respect to that policy.

Preferred risk

A person whose physical condition, occupation, mode of living and other characteristics indicate a prospect for longevity that is superior to that of average unimpaired lives of the same age. (See also Standard risk).

Preferred share (stock)

A class of share capital that entitles the owners to a stated dollar value per share in liquidation and a fixed dividend ahead of the company's common shares. Preferred shares usually have voting rights only when a stated number of dividends have been omitted.

Premium

The payment, or one of the periodic payments, a policyowner is required to make for an insurance policy. The policyowner's only obligation under an insurance contract is to pay the periodic premium.

Premium mode

The frequency (e.g., monthly) with which premiums are paid under a life insurance policy, in order to make up the equivalent annual premium.

Premium notice

Notice of premium due, sent by an insurer or one of its agencies to a policyowner.

Premium offset

A method of arranging for a participating policy to "pay its own future premiums" after a number of years. Applicable where policy dividends have been taken as paid-up additions. The current dividend is applied towards premium payment, with the required amount of accumulated paid-up additions surrendered to pay the balance. Assuming policy dividends continue, the premium offset procedure can be continued for an indefinite period. The procedure reduces the total sum that would otherwise be payable at death.

Premium reduction

The practice of using the annual dividend paid under a participating life insurance contract to pay a portion (or all) of the premium otherwise payable by the policyowner each year.

Premium taxes

A tax levied by the provincial governments on premiums paid on life insurance contracts. Usually calculated at a rate of about two per cent.

Prescribed annuity contract

Under an annuity described in the Income Tax Act as a prescribed annuity contract, the income (some capital plus interest) is calculated by a formula that apportions the capital element evenly over the expected payment period. This automatically levels out the (taxable) interest portion and thereby reduces the annuitant's tax liability in the early years when he or she may be in a higher tax bracket than later on in retirement. (Under a conventional annuity contract, the capital element in the early years is much smaller than the (taxable) interest element, which gradually declines and becomes minimal at the end of the repayment period).

Present value of future benefits

A mathematical calculation that estimates the value today of an amount payable in the future, allowing for a discount for lost earning power on the funds in the interim.

Principal

An individual who appoints another (an agent) to act on his or her behalf, usually in business transactions. A life insurance company would be an example of a principal employing agents to transact business on its behalf.

Principal residence

For income tax purposes, the property that a taxpayer “ordinarily inhabits” during the year and which the taxpayer elects to designate as his or her principal residence. Capital gains realized upon the disposition of a principal residence are exempt from taxation.

Principal sum

The payment specified in the policy. Normally the amount paid for accidental death, dismemberment or loss of sight. A fixed or definite amount payable for a specified loss.

Private corporation

A corporation generally owned by a small group (or as few as one) shareholders. The shares of a private corporation are not for sale to the general public and are not listed on a stock exchange.

Prorating

The reduction in the amount of benefits payable, if allowed by the policy, because the insured has changed to a more hazardous occupation, or because benefits payable by all his or her insurance exceeds his or her pre-disability earnings.

Public corporation

A corporation owned by a wide number of shareholders. The shares of a public corporation are freely available to the general public and frequently are listed on a stock exchange.

Qualifying period

The period, 30 days, 60 days, 90 days, etc., throughout which the insured must have been totally disabled in order to qualify for residual (proportionate) benefits. This is not the same as the “elimination period” or “waiting period,” but can occur at the same time.

Quick-pay

Under a universal life insurance policy, or a flexible-premium whole life insurance policy, the practice of paying greater than required premiums in the early years of the contract, so that the policyowner no longer has to make any premium contributions after a given date.

Rate of mortality

For a given class of individuals (e.g., male, non-smokers, aged 47), the number of people per thousand that are expected to die within the next 12 months.

Rated policy

Sometimes called an extra-risk policy, this is an insurance policy issued at a higher premium rate than standard.

(See also Substandard (impaired) risk)

Rebating

Granting the purchaser of a policy any form of inducement, favour or advantage not available to all under the standard policy terms. Rebating is an offence under the provincial insurance acts.

Recapture of capital cost allowance

The amount that must be included in a taxpayer's income if the taxpayer disposes of depreciable property for proceeds greater than the property's undepreciated capital cost.

Recurrence clause

A clause in disability policies specifying a period of time (usually six or 12 months) during which the recurrence of a disability is considered as being a continuation of the disability.

Redeemable preferred shares

Preferred shares of a corporation under the terms of which the shareholder has the right to compel the issuing corporation to buy back the shares, at a prescribed price and at a specified time.

Re-entry term

A renewable term insurance policy, under the terms of which the policyowner has the option to either renew the policy at a guaranteed (high) rate of premium or can elect to requalify medically and have the policy renewed at a much lower rate.

Reduced paid-up insurance

A form of paid-up insurance available as a non-forfeiture option when the insured ceases paying the planned premium. It provides insurance payable at the same time and in the same manner as the original policy, but for a reduced amount.

Reduction of benefits

Automatic reduction in coverage under certain specified conditions, e.g., the monthly benefits may be reduced by 50% while the insured ceases to be fully and gainfully employed away from home, or after the insured has reached age 60, 65, etc.

Refund of premiums

Under an RRSP, an amount paid out to the spouse or dependent child upon the death of the plan annuitant.

Registered life insurance

A life insurance policy that is registered as an RRSP and for which a portion of the premiums paid annually qualify as RRSP contributions.

Registered pension plan (RPP)

A group pension plan, registered with Revenue Canada, under which contributions qualify for a deduction from income for taxation purposes.

Registered retirement income fund (RRIF)

One of several RRSP post-maturity options available. Each year, it must pay out an amount at least equal to the fund's value at the beginning of the year multiplied by a percentage factor based on the age of the annuitant (or of the annuitant's spouse, if younger, if so desired). The fund must be registered with the Canada Revenue Agency.

RRIF minimum payment

The minimum amount (computed by formula) that must be paid out as income to the annuitant of an RRIF each year.

Registered retirement savings plan (RRSP)

A plan registered with Revenue Canada under section 146 of the Income Tax Act. Within prescribed limits, contributions from earned income are deductible for taxation purposes and the growth of the plan is tax-sheltered - a dual advantage of great significance in encouraging retirement savings. The plan must mature no later than the end of the year in which the owner attains age 69. Proceeds are taxable, but when taken as retirement income - when the owner's tax bracket is (hopefully) lower than during the earning years — the income tax impact is lessened. (See also Spousal RRSP).

RRSP over-contribution

An amount deposited to an RRSP as a contribution, but which is in excess of the taxpayer's allowable annual limit. Accumulated RRSP contributions in excess of \$2,000 are subject to a penalty tax of one per cent per month.

Rehabilitation benefit

Insurance companies will encourage claimants to be involved in approved rehabilitation programs. Even if a "rehab" program pays an income to the claimant it will not, usually, disqualify him or her from receiving benefits - benefits may be paid on a partial rather than a full basis but the reduction will unlikely be as much as the "rehab" income.

Reimbursement policy

A policy that provides benefits for actual expense incurred by the insured, subject to a maximum amount. The overhead expense policy is an example of a reimbursement policy.

Reinstatement

By the terms of most life insurance policies, the policyowner has the right to reinstate a lapsed policy within the specified period (usually two years) by furnishing satisfactory evidence of insurability and paying all outstanding premiums, plus interest thereon.

Relation of earnings to insurance

A "statutory condition" found in some disability income policies, states that if the coverage in effect, together with all other insurance (group and personal) payable to the insured, exceeds the claimant's prior income, then benefits payable under the contract will be reduced so that the total will not exceed the prior income. Similar to integration clause, which refers to public (government-sponsored) plans rather than private plans.

Renewable term insurance

Term life insurance that can be renewed at the end of the term, generally of one or five years' duration, at the policyowner's option and without evidence of insurability, for a limited number of successive terms. The premium usually increases at each renewal as the life insured's age increases and in accordance with a guaranteed premium rate schedule written into the policy at commencement.

Renewal

A re-establishment of a contract for a new policy term after the expiry of its term.

Replacement

The act of purchasing an individual life insurance contract as a consequence of which one or more individual contracts with a different insurer are rescinded, lapsed, surrendered, changed to paid-up insurance or extended term insurance, changed to reduce the benefits. (See also Twisting and Churning).

Representation

Statements made by an applicant on the application that he or she represents as being substantially true to the best of his or her knowledge and belief, but which are not warranted as exact in every detail.

Reserves

A sum set aside by an insurer to fulfill future claims. (See Policy reserves).

Revocable beneficiary

Any person designated as beneficiary, but not “irrevocably.” Such designation is subject to change at any time by the insured, without the consent of the beneficiary. (See also Irrevocable beneficiary).

Rider

Agreement attached to a policy by which the conditions of the policy are expanded, and additional coverage added, or a coverage or condition is waived. Loosely used to refer to any supplemental agreement attached to and part of the policy.

Risk

Technically, the degree or percentage of the likelihood that a given contingency will occur. The term is loosely used to designate a) an insured, or b) a peril insured against.

Rollover

Legal transfer of property from one registered vehicle or taxpayer to another without incurring an immediate income tax liability.

Rule of 72

A rule of thumb for estimating the number of years that it will take for a sum of capital to double at a given compound rate of interest. Divide the interest rate into the number 72 to obtain the time period.

Schedule

A list of specified amounts payable.

Schedule type policy

Includes a listing and a complete text of the provisions of each of several benefits, most of which are optional, and some of which may be omitted at the election of the applicant.

Secret profit

A prohibited activity involving a profit earned by an agent on a transaction, unknown to the agent’s principal.

Securities

A general term usually meaning (a) share, which represents ownership and therefore a form of equity, and (b) bonds, which represent debts owed by the issuer of the bonds to the purchasers. (See also Common stock, Preferred stock (share) and Bonds).

Segregated funds

Investment funds maintained by a life insurance company and fully segregated from the company's general investment funds, as required by law. They are the investment vehicles for variable contracts, the values of which will vary according to the market value of the assets held in the segregated funds

Self-insured group

A form of group insurance in which the group sponsor, not an insurance company, is financially responsible for paying claims made by insured group members. a group may be partially or fully self-insured. See also Administrative services only and Third-party administration.

Settlement options

The several ways, other than immediate payment in cash, in which the policyowner or beneficiary may choose to have life insurance policy benefits paid. The usual options are: (1) proceeds left on deposit to earn compound interest, (2) fixed installments for a period certain, (3) life income with a specified number of years' payment certain, (4) fixed installments for as long as the proceeds and interest will last.

Shareholder

An individual, corporation or trust that owns shares of stock (of any class) of a corporation.

Sickness

Illness not arising from accident or injury.

Sickness insurance

Insurance providing benefits in the event of sickness of the person insured.

Single need planning

A process whereby an agent focuses on just one, isolated requirement of a client (such as an outstanding mortgage balance) and provides product or other recommendations to resolve that one particular problem, without reference to the balance of the client's estate or financial plan.

Single premium

The lump sum required to cover the entire cost of a life insurance or annuity contract.

Small business corporation

A private corporation that is more than 50% owned by Canadian residents and that carries on active business in Canada.

Smoker

For life insurance purposes, an individual who has smoked cigarettes or used other tobacco products within the past 12 months. (See also Non-smoker).

Special class

See Substandard risk.

Spousal RRSP

An RRSP registered with Revenue Canada in the name of the taxpayer's spouse, who must be both the applicant and annuitant. The contributor-taxpayer is entitled to deduct contributions to the spousal RRSP within the limits prescribed by the Income Tax Act. The previously described attribution rules do not apply, unless cash is withdrawn from the plan (or from a RRIF to which spousal RRSP funds have been transferred) within three years of a deposit. A spousal RRSP plan can reduce a married couple's tax liabilities in retirement by the splitting of income.

Spouse

For tax purposes, a member of the opposite sex to whom one is legally married or with whom one has been living in a conjugal relationship for at least 12 months or with whom one is living and has had a child.

Standard or statutory provisions

A set of policy provisions prescribed by provincial laws, setting forth certain rights and obligations of both the insured and the insurer under an individual policy of insurance.

Standard risk

A person who, according to an insurer's underwriting standards, is entitled to buy insurance without extra rating or special restrictions.

Statutory conditions

Uniform conditions required by the insurance act to be part of each contract. Certain of these conditions may be omitted from the policy if the contract does not contain any provisions respecting the matters dealt with therein. Statutory conditions are for the protection of both the insured and the insurer.

Stock

(See Common stock (shares), Preferred share (stock)).

Stock insurance company

An insurance company with share capital, in which management is directed by a board elected partly by the shareholders and partly by the participating policyowners, if any. The shareholders share in any company profits.

Straight life

(See Whole life insurance).

Stripped bond

A bond that has had its interest coupons removed and that, therefore, bears no interest.

Substandard (impaired) risk

A risk that cannot meet the normal health requirements of a standard insurance policy. Protection is provided in consideration of a waiver, a special policy form, or a higher premium charge. Substandard risks may include those persons who engage in certain sports and persons who are specially rated because of undesirable lifestyles or health conditions. (See also Rated policy).

Suicide clause

Most policies provide that if the life insured commits suicide within a specified period (usually two years) after date of issue, the insurer's liability will be limited to a return of premiums paid.

Sum insured

The amount stated on the "face" (first page) of the policy that will be paid on the death of the life insured or at maturity of the policy. It does not include additional amounts payable under accidental death or other special provisions, or acquired through the application of policy dividends. Also called sum assured and face amount.

Supplementary major medical expense coverage

(See Extended health care insurance)

Surrender

To relinquish a policy. (See Cash surrender value and Lapsed policy)

Surrender charge

A back-end load levied at the time that an annuity or contract of life insurance is surrendered. Such charges are generally based on a percentage of the surrender value of the contract (annuity) or a multiple of the minimum required premium (life insurance).

Surrender value

(See Cash surrender value).

Survivorship life annuity

(See Joint life and (last) survivor annuity).

Taxable income

The income upon which income tax is required to be paid after an accounting of all allowable deductions, credits and exemptions.

Tax shelters

Specific forms of investment (e.g., RRSPs) that, because of some favourable tax treatment, are expected to produce returns beyond those normally associated with such investments. Some types of investment are exceptionally high risk and would not be attractive without favourable tax treatment.

Temporary insurance agreement

An agreement between an insurer and an applicant for insurance, provisionally providing insurance coverage from the date of application until the date of issue (or decline) of the actual insurance contract.

Term certain annuity

An annuity contract, under which the income payments are to continue for a predetermined, fixed period of time rather than for the life of the annuitant.

Term of policy

The period for which the policy runs, which is usually the period for which the premium has been paid in advance. In some instances, it may be for a year, even though the premium is paid on a semi-annual or other basis.

Term life insurance

Temporary life insurance payable on the death of the life insured, provided that death occurs within the specified period outlined in the policy.

Term to 100

A term insurance policy with level premium payments that provides insurance coverage to age 100 of the life insured. Most term to 100 policies go into “paid-up” status at age 100.

Terminal T-1 tax return

The last income tax return for a deceased taxpayer, covering the period from Jan.1 for the year of death until the date of death.

Testate

A person who dies having left a valid will.

Testator

The person making a will.

Third-party administration (TPA)

An organization that administers insurance benefits for a self-insured group but that accepts no responsibility for providing funds to pay claims.

Time value of money

An allowance for the after-tax earning power of a given sum of capital, over time. This adjustment will provide the present value or future value of a given sum.

Total disability

There are various definitions of “total disability” in common use, ranging from “unable to work at any occupation for remuneration or profit” through “unable to perform the important duties of your regular occupation” to “a disability resulting in the loss of at least 75% of earned income.” The actual definition in any case depends on the wording in the policy.

Total disability waiver of premium (TDWP)

A policy rider providing that if the life insured becomes totally disabled prior to a stated age (commonly 65) and remains so disabled for at least six (sometimes three) consecutive months, the insurer will waive the premiums as they fall due for as long as the life insured remains totally disabled. Any premiums paid during the waiting period usually are refunded. Some policies with this rider provide that if the life insured is still totally disabled at a stated age (e.g., 65), the policy will mature and pay the sum insured plus policy dividends, if any.

Travel accident policy

A limited contract covering only accidents while the insured person is traveling.

Treasury bill

A liquid, short-term (less than one year) debt security, issued by the federal government.

Trust

An arrangement in which property is held by a person or corporation (trustee) for the benefit of others (beneficiaries). The grantor (person who transfers the property to the trustee) gives legal title to the trustee, subject to the terms set forth in a trust agreement. Beneficiaries have equitable title to the trust property.

Trustee

A person or company holding the legal title to property for the benefit of another (beneficiary of the property).

Twisting

The statutory offence by an agent of directly or indirectly inducing a policyowner to surrender or lapse a policy with one insurer and replace with a policy with another insurer where such act is detrimental to the policyowner's interests. (See also Churning and Replacement).

Unallocated benefit

A reimbursement provision, usually for miscellaneous hospital and medical expenses, which does not specify how much will be paid for each type of treatment, examination, dressing or the like but only sets a maximum that will be paid for all such treatments.

Unbundled

A life insurance contract, under which the various elements (sum insured, premiums, cash value) are not related to each other in a predetermined ratio, fixed at the time of policy issue, but rather are a product of the performance of the policy over time.

Undepreciated capital cost (UCC)

For income tax purposes, the value of depreciable property, representing its original cost less the total of capital cost allowance (depreciation) claimed to date.

Underwriting

The process by which a life insurer determines whether or not, and on what basis, it will accept an application for insurance.

Unfair competition or practice

Certain deeds and acts considered to be unfair competition and practice in the life insurance industry are also unlawful in most jurisdictions in Canada. The provincial insurance acts provide penalties for such offences as rebating of premiums, replacement of policies under certain circumstances, and mis-representation. A Code of Professional Conduct published by The Financial Advisors Association of Canada provides guidance to its members regarding ethical practice.

Uniform Life Insurance Act

A theoretical act, adopted by the common law provinces as part of their provincial legislation, governing life insurance policies resident in their jurisdiction.

Unilateral contract

A contract that is only binding on one of the parties.

Universal life insurance policy

A life insurance policy in which premiums (less expense charges) are credited to a policy account from which periodic charges for life insurance coverage are deducted and to which interest or investment earnings are credited. Usually, the policyowner can vary the amount and timing of premium payments and change the amount of insurance (subject to underwriting).

Variable annuity

The variable annuity is similar to a fixed annuity (see earlier) in that payments will be made periodically to the annuitant, usually over the remaining years of his or her life. With the fixed annuity, however, the amount of each payment is guaranteed by the issuing company; the annuitant may well receive more than the guaranteed amount through dividends, but never less. Under the variable annuity, to the contrary, there is no guarantee of the amount of the payments. The payments fluctuate in accordance with the value of an account, usually invested primarily in common stocks. Thus, under the fixed annuity, the risk of investment loss is borne by the company, but under the variable annuity, this risk is shifted to the annuitant. The main attraction of the variable annuity is that its accumulation and distribution values tend to vary with the general economy- and thus (over the long term) may be expected to keep pace with inflation.

Variable contract

A life insurance or annuity contract whose reserve, or a part thereof, varies in amount depending on the market value of a specified group of assets held in a separate and distinct fund and which includes a provision in a life insurance contract under which policy dividends are deposited in such a fund. The benefits will vary according to investment performance. A variable contract must contain two main elements: (1) an insurance element (protection in event of death or an annuity option in event of survival); (2) a reserve (referred to above), commonly called the equity element.

Variable life

A hybrid product considered as life insurance and an equity product. It consists of permanent coverage; however, the cash value -which is not guaranteed, is invested usually in common stocks, bonds and money market funds. The premiums remain level. The death benefit varies with investment performance.

Vesting

In a registered pension plan, the employee's right to the employer's contributions made on his or her behalf, whether or not the employee continues to be a member of the plan. The period of membership before vesting occurs is not uniform across Canada, but in pension plans registered under the federal Pension Benefits Standards Act, it now occurs after two years' membership. Some provinces have legislated similar liberalized requirements.

Waiting period

The term "waiting period" commonly has two distinct meanings, depending on where it is used: 1) for both individual and group disability income contracts, it is used interchangeably with "elimination period." It is the period at the beginning of a disability (30 days, 90 days, etc.) for which no benefits are payable. It is a period of self-insurance, if you will. 2) For group insurance, "waiting period" is the period at the beginning of employment when an employee is not eligible for benefits; e.g., a group plan may give some benefits immediately but others, such as dental, only come into effect after a one-year waiting period.

Waiver

An agreement attached to a policy that exempts a certain condition or conditions from coverage. A common waiver would be for any disability resulting from spinal (back) conditions. Such waivers often state that they can be reviewed after three or some other number of years.

Waiver of premium disability benefit

A provision in disability income policies stating that after the elimination period (or some other stated time), no premiums will be required during continuation of disability. The policy may also refund any premiums paid during the elimination period. (See Total disability waiver of premium).

Warranties

Statements made on an application for insurance that are warranted to be true: that is, that they are exact in every detail as opposed to “representations.” Statements on applications for A&S insurance are rarely warranties unless fraud is involved.

Whole life insurance

A policy usually with level premiums and providing life insurance for the whole of life. Cash and other non-forfeiture values are provided usually after the policy has been in force for two years. Most frequently, premiums are payable throughout life but may be limited to a specified period, e. g., 20 years or to age 65. Also known as ordinary life and straight life. (See Limited payment life).

Will

A written instrument, executed in the form required by law, by which a person makes a disposition of personal assets and property to take effect upon his or her death.

Withholding tax

An amount of tax (based on a percentage) withheld from certain periodic or lump sum payments, as a reserve against tax that will eventually be payable by the taxpayer receiving the funds.

Workers' Compensation

A provincial insurance program, funded by employer payroll contributions that protects workers in the event of disability caused by job-related illness or injury.